

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

**\$10,000,000**  
**CITY OF MARTINEZ**  
**General Obligation Bonds**  
**Election of 2008, Series B**

**Dated: Date of Delivery**

**Due August 1 in the years shown on inside front cover**

**Issuance.** The general obligation bonds captioned above (the "Bonds") are being issued by the City of Martinez (the "City") under provisions of California Government Code, under a Resolution adopted by the City Council of the City (the "City Council") on February 15, 2012, and under a paying agent agreement dated as of March 1, 2012, by and between the City and U.S. Bank National Association, as paying agent (the "Paying Agent"). The Bonds were authorized at an election of the registered voters of the City held on November 4, 2008, at which more than two-thirds of the persons voting on the proposition voted to authorize the issuance and sale of not to exceed \$30,000,000 principal amount of general obligation bonds. The Bonds are the second series of bonds to be sold and issued under this authorization; the City issued its first series of bonds under the authorization on May 20, 2009, in the principal amount of \$15,000,000. See "THE BONDS - Authority for Issuance."

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

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

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

**Payments.** Interest on the Bonds accrues from the date of delivery and is payable semiannually on February 1 and August 1 of each year, commencing August 1, 2012. Payments of principal and interest on the Bonds will be paid by the Paying Agent to DTC for subsequent disbursement to DTC Participants, which will remit such payments to the Beneficial Owners of the Bonds. See "THE BONDS - Description of the Bonds."

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

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**Maturity Schedule**  
**(See inside cover)**

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

The Bonds will be sold at a competitive sale to be held on March 21, 2012, as set forth in the Official Notice of Sale. The Bonds will be offered when, as and if issued and accepted by the Underwriter, subject to the approval as to legality by Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel to the City, and subject to certain other conditions. Jones Hall is also serving as Disclosure Counsel to the City. Certain legal matters are being passed upon for the City by the City Attorney. It is anticipated that the Bonds, in book entry form, will be available for delivery by DTC in New York, New York, on or about April 4, 2012.

**MATURITY SCHEDULE  
(Base CUSIP†: 573394)**

**\$2,280,000 Serial Bonds**

| <b>Maturity<br/>(August 1)</b> | <b>Principal<br/>Amount</b> | <b>Interest<br/>Rate</b> | <b>Yield</b> | <b>Price</b> | <b>CUSIP†</b> |
|--------------------------------|-----------------------------|--------------------------|--------------|--------------|---------------|
| 2012                           | \$480,000                   | 4.00%                    | 0.350%       | 101.184      | AY9           |
| 2013                           | 290,000                     | 4.00                     | 0.500        | 104.615      | AZ6           |
| 2014                           | 265,000                     | 4.00                     | 0.750        | 107.476      | BA0           |
| 2015                           | 45,000                      | 4.00                     | 1.200        | 109.098      | BB8           |
| 2016                           | 40,000                      | 4.00                     | 1.500        | 110.429      | BC6           |
| 2017                           | 35,000                      | 4.00                     | 1.750        | 111.390      | BD4           |
| 2018                           | 40,000                      | 4.00                     | 2.000        | 111.824      | BE2           |
| 2019                           | 40,000                      | 4.00                     | 2.250        | 111.754      | BF9           |
| 2020                           | 45,000                      | 4.00                     | 2.450        | 111.606      | BG7           |
| 2021                           | 55,000                      | 4.00                     | 2.600        | 111.523      | BH5           |
| 2022                           | 65,000                      | 4.00                     | 2.750        | 111.166      | BJ1           |
| 2023                           | 75,000                      | 4.00                     | 2.900        | 109.751      | C BK8         |
| 2024                           | 85,000                      | 5.00                     | 3.000        | 117.641      | C BL6         |
| 2025                           | 95,000                      | 5.00                     | 3.100        | 116.673      | C BM4         |
| 2026                           | 105,000                     | 5.00                     | 3.200        | 115.716      | C BN2         |
| 2027                           | 115,000                     | 5.00                     | 3.300        | 114.768      | C BP7         |
| 2028                           | 125,000                     | 5.00                     | 3.400        | 113.829      | C BQ5         |
| 2029                           | 135,000                     | 5.00                     | 3.500        | 112.899      | C BR3         |
| 2030                           | 145,000                     | 5.00                     | 3.600        | 111.978      | C BS1         |

**\$7,720,000 Term Bonds**

\$695,000 5.000% Term Bond, due August 1, 2034, Yield: 3.700%, Price: 111.067% C  
CUSIP† No. 573394 BU6

\$915,000 4.125% Term Bond, due August 1, 2038, Yield: 4.125%, Price: 100.000%  
CUSIP† No. 573394 BV4

\$6,110,000 4.250% Term Bond, due August 1, 2042, Yield: 4.250%, Price: 100.000%  
CUSIP† No. 573394 BT9

<sup>c</sup>: Priced to the optional call on August 1, 2022, at par.

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

## GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

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

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

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

**Estimates and Projections.** Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget" or other similar words.

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE CITY DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THOSE FORWARD-LOOKING STATEMENTS IF OR WHEN ITS EXPECTATIONS, OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED OCCUR.

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

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

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

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

**Website.** The City maintains a website, which includes information about, among other things, topics described herein. However, the information maintained on the website is not a part of this Official Statement and should not be relied upon in making an investment decision with respect to the Bonds.

# **CITY OF MARTINEZ**

## **CITY COUNCIL**

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

## **OTHER ELECTED OFFICIALS**

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

## **CITY STAFF**

Philip A. Vince, *City Manager*  
Alan Shear, *Assistant City Manager*  
Cathy Spinella, *Finance Manager*  
Dave Scola, *Public Works Director*  
Tim Tucker, *City Engineer*

## **CITY ATTORNEY**

Walter & Pistole  
Sonoma, California

## **PROFESSIONAL SERVICES**

### **BOND AND DISCLOSURE COUNSEL**

Jones Hall, A Professional Law Corporation  
*San Francisco, California*

### **FINANCIAL ADVISOR**

Public Financial Management, Inc.  
*San Francisco, California*

### **BOND REGISTRAR, TRANSFER AGENT, AND PAYING AGENT**

U.S. Bank National Association  
*San Francisco, California*

## TABLE OF CONTENTS

|  |    |  |    |
|--|----|--|----|
| INTRODUCTION .....                             | 1  | Tax Rates .....                                | 17 |
| PLAN OF FINANCE.....                           | 3  | Tax Levies and Delinquencies .....             | 18 |
| Purpose of Issue.....                          | 3  | Major Taxpayers.....                           | 19 |
| Sources and Uses of Funds .....                | 3  | Direct and Overlapping Debt.....               | 19 |
| THE BONDS .....                                | 4  | CONSTITUTIONAL AND STATUTORY                   |    |
| Authority for Issuance .....                   | 4  | PROVISIONS AFFECTING CITY                      |    |
| Description of the Bonds.....                  | 4  | REVENUES AND APPROPRIATIONS..                  | 21 |
| Payment.....                                   | 5  | Article XIII A of the State Constitution ..... | 21 |
| Redemption.....                                | 5  | Legislation Implementing Article XIII A.....   | 21 |
| Registration, Transfer and Exchange of         |    | Article XIII B of the State Constitution ..... | 22 |
| Bonds .....                                    | 7  | Articles XIII C and XIII D of the State        |    |
| Defeasance.....                                | 8  | Constitution .....                             | 23 |
| DEBT SERVICE SCHEDULE .....                    | 10 | Proposition 1A; Proposition 22 .....           | 24 |
| SECURITY FOR THE BONDS .....                   | 11 | Possible Future Initiatives .....              | 24 |
| Ad Valorem Taxes .....                         | 11 | TAX MATTERS .....                              | 25 |
| Debt Service Fund .....                        | 11 | CONTINUING DISCLOSURE .....                    | 26 |
| Bond Service Fund .....                        | 12 | ABSENCE OF MATERIAL LITIGATION ...             | 26 |
| Limited Obligation .....                       | 12 | RATINGS.....                                   | 27 |
| PROPERTY TAXATION .....                        | 12 | FINANCIAL ADVISOR.....                         | 27 |
| Property Tax Collection Procedures.....        | 12 | UNDERWRITING .....                             | 27 |
| Taxation of State-Assessed Utility Property .. | 13 | EXECUTION.....                                 | 28 |
| Alternative Method of Tax Apportionment -      |    |  |    |
| Teeter Plan.....                               | 13 |  |    |
| Assessed Valuation .....                       | 14 |  |    |

|              |   |
|--------------|---|
| APPENDIX A - | GENERAL INFORMATION ABOUT THE CITY OF MARTINEZ AND THE COUNTY OF CONTRA COSTA |
| APPENDIX B - | CITY FINANCIAL INFORMATION  |
| APPENDIX C - | FISCAL YEAR 2010-11 COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE CITY        |
| APPENDIX D - | PROPOSED FORM OF OPINION OF BOND COUNSEL                                      |
| APPENDIX E - | FORM OF CONTINUING DISCLOSURE CERTIFICATE                                     |
| APPENDIX F - | DTC AND THE BOOK-ENTRY ONLY SYSTEM  |

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## OFFICIAL STATEMENT

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**\$10,000,000**  
**CITY OF MARTINEZ**  
**General Obligation Bonds**  
**Election of 2008, Series B**

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

### INTRODUCTION

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

**The City.** The City is located in Contra Costa County (the “**County**”), California (the “**State**”), approximately 30 miles northeast of San Francisco, and encompasses an area of approximately 12.5 square miles. The City was established in 1876 and is a general law city with a population of 35,958 persons as of January 1, 2011.

See “APPENDIX A - GENERAL INFORMATION ABOUT THE CITY OF MARTINEZ AND THE COUNTY OF CONTRA COSTA,” “APPENDIX B - CITY FINANCIAL INFORMATION” and “APPENDIX C - FISCAL YEAR 2010-11 COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE CITY,” for demographic and financial information regarding the City.

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

The Bonds are being issued under Chapter 4 (commencing with section 43600) of Division 4 of Title 4 of the California Government Code; under a Resolution adopted by the City Council of the City (the “**City Council**”) on February 15, 2012 (the “**Bond Resolution**”); and under a Paying Agent Agreement (the “**Paying Agent Agreement**”) dated as of March 1, 2012, by and between the City and U.S. Bank National Association, as paying agent (the “**Paying Agent**”).

The Bonds are the second series of bonds to be sold and issued under this authorization; the City issued its first series of bonds under the authorization (the “**Series A**”).

**Bonds**") on May 20, 2009, in the principal amount of \$15,000,000. See "THE BONDS - Authority for Issuance."

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

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

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

Interest on the Bonds accrues from the Dated Date and is payable semiannually on February 1 and August 1 of each year, commencing August 1, 2012. See "THE BONDS - Description of the Bonds."

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

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

**Changes Since Preliminary Official Statement.** In addition to pricing-related information, this Official Statement contains the following changes from the Preliminary Official Statement, dated March 14, 2012: a description of the March 14, 2012 decision of the CALPERS Board to decrease its discount rate. See "APPENDIX B - CITY FINANCIAL INFORMATION, Retirement System, CALPERS Discount Rate Adjustment."

## PLAN OF FINANCE

### Purpose of Issue

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

### Sources and Uses of Funds

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

#### Sources of Funds

|                                    |                        |
|------------------------------------|------------------------|
| Principal Amount of Bonds          | \$10,000,000.00        |
| <i>Plus</i> Original Issue Premium | 279,995.85             |
| <i>Less</i> Underwriter's Discount | <u>(198,183.70)</u>    |
| <b>Total Sources</b>               | <b>\$10,081,812.15</b> |

#### Uses of Funds

|                              |                        |
|------------------------------|------------------------|
| Deposit to Project Fund [1]  | \$ 9,870,000.00        |
| Deposit to Debt Service Fund | 81,812.15              |
| Costs of Issuance [2]        | <u>130,000.00</u>      |
| <b>Total Uses</b>            | <b>\$10,081,812.15</b> |

- [1] The City intends to invest the Project Fund in the Local Agency Investment Fund, an authorized investment.
- [2] Includes legal fees, financial advisor fees, rating agency fees, Paying Agent fees, printing expenses and other costs of issuance with respect to the Bonds.

## THE BONDS

### Authority for Issuance

The Bonds are issued under Chapter 4 (commencing with section 43600) of Division 4 of Title 4 of the California Government Code (the “**Act**”) and other applicable law; under a resolution adopted by the City Council on February 15, 2012; and under the Paying Agent Agreement.

The City received authorization at an election held on November 4, 2008, by an affirmative vote of 68.95% of the eligible voters within the City (the “**Authorization**”) to issue \$30,000,000 of general obligation bonds.

The Bonds are the second series of bonds to be sold and issued under the Authorization. On May 20, 2009, the City issued the Series A Bonds, which were the first series of bonds under the Authorization, in the principal amount of \$15,000,000. Following the issuance of the Bonds, the City will be authorized to issue additional bonds under the Authorization in a principal amount of up to \$5,000,000.

### Description of the Bonds

**Book-Entry Form.** The Bonds will be issued in book-entry form only, and will be initially issued and registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York (“**DTC**”).

Purchasers of the Bonds (the “**Beneficial Owners**”) will not receive physical certificates representing their interest in the Bonds. Payments of principal of and interest on the Bonds will be paid by the Paying Agent to DTC for subsequent disbursement to DTC Participants which will remit such payments to the Beneficial Owners of the Bonds.

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

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

**Interest.** Interest with respect to the Bonds is payable semiannually on February 1 and August 1 of each year (the “**Interest Payment Dates**”), commencing August 1, 2012.

Each Bond will bear interest from the Interest Payment Date next preceding the date of registration and authentication thereof unless (i) it is registered and authenticated prior to an Interest Payment Date, in which event it will bear interest from such date, or (ii) it is registered and authenticated prior to a Interest Payment Date and after the close of business on the fifteenth day of the month preceding such Interest Payment Date, in which event it will bear interest from such Interest Payment Date, or (iii) it is registered and authenticated prior to July 15, 2012, in which event it will bear interest from the date of original issuance and authentication of the Bonds; *provided*, however, that if at the time of authentication of a Bond, interest is in default thereon, such Bond will bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon.

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

**Denominations and Maturity.** The Bonds shall be issued in the denomination of \$5,000 each or any integral multiple of \$5,000. The Bonds mature on August 1 in the years and in the amounts set forth on the inside cover page of this Official Statement.

See the maturity schedule on the inside cover page hereof and “DEBT SERVICE SCHEDULE” below.

## Payment

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

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

## Redemption

**Optional Redemption.** The Bonds maturing on or before August 1, 2022 are not subject to redemption prior to their fixed maturity dates.

The Bonds maturing on or after August 1, 2023 are subject to redemption prior to their respective maturity dates, as designated by the City and, absent any such designation, in inverse order of maturities and by lot within a maturity from money provided at the option of the City, in each case on any date occurring on and after August 1, 2022, at a redemption price of par plus accrued but unpaid interest to the date of redemption, without premium.

**Mandatory Sinking Fund Redemption.** The Bonds maturing on August 1, 2034, are subject to mandatory sinking fund redemption in part, by lot, prior to their stated maturity date, on each August 1 on and after August 1, 2031, at a redemption price equal to 100% of the principal amount thereof called for redemption, plus accrued interest to the redemption date, without premium, as follows:

### **\$695,000 Term Bond Due August 1, 2034**

| Payment Date<br><u>(August 1)</u> | Payment<br><u>Amount</u> |
|-----------------------------------|--------------------------|
| 2031                              | \$155,000                |
| 2032                              | 170,000                  |
| 2033                              | 180,000                  |
| 2034 (maturity)                   | 190,000                  |

The Bonds maturing on August 1, 2038, are subject to mandatory sinking fund redemption in part, by lot, prior to their stated maturity date, on each August 1 on and after August 1, 2035, at a redemption price equal to 100% of the principal amount thereof called for redemption, plus accrued interest to the redemption date, without premium, as follows:

**\$915,000 Term Bond Due August 1, 2038**

| Payment Date<br><u>(August 1)</u> | Payment<br><u>Amount</u> |
|-----------------------------------|--------------------------|
| 2035                              | \$200,000                |
| 2036                              | 220,000                  |
| 2037                              | 240,000                  |
| 2038 (maturity)                   | 255,000                  |

The Bonds maturing on August 1, 2042, are subject to mandatory sinking fund redemption in part, by lot, prior to their stated maturity date, on each August 1 on and after August 1, 2039, at a redemption price equal to 100% of the principal amount thereof called for redemption, plus accrued interest to the redemption date, without premium, as follows:

**\$6,110,000 Term Bond Due August 1, 2042**

| Payment Date<br><u>(August 1)</u> | Payment<br><u>Amount</u> |
|-----------------------------------|--------------------------|
| 2039                              | \$ 275,000               |
| 2040                              | 1,820,000                |
| 2041                              | 1,945,000                |
| 2042 (maturity)                   | 2,070,000                |

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

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

Such notice will state the redemption date and the redemption price and, if less than all of the then outstanding Bonds are to be called for redemption, will designate the serial numbers of the Bonds to be redeemed by giving the individual number of each Bond or by stating that all Bonds between two stated numbers, both inclusive, or by stating that all of the Bonds of one or more maturities have been called for redemption, and will require that such Bonds be then

surrendered at the principal office of the Paying Agent for redemption at the said redemption price, giving notice also that further interest on such Bonds will not accrue from and after the redemption date.

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

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

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

## **Registration, Transfer and Exchange of Bonds**

*The following provisions regarding the registration, transfer and exchange of the Bonds apply only during any period in which the Bonds are not subject to DTC's book-entry system. While the Bonds are subject to DTC's book-entry system, their exchange and transfer will be effected through DTC and the DTC Participants and will be subject to the procedures, rules and requirements established by DTC. See APPENDIX F.*

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

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

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

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

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

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

### **Defeasance**

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

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

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

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

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

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

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

## DEBT SERVICE SCHEDULE

The following table shows the debt service schedules with respect to the Bonds and the Series A Bonds (assuming no optional redemptions).

| Year Ending<br>August 1 | Series B Bonds<br>Principal<br>Payment | Series B Bonds<br>Interest<br>Payment | Total Series B<br>Bonds Debt<br>Service | Series A<br>Bonds Debt<br>Service | Total                  |
|-------------------------|--|---------------------------------------|---|-----------------------------------|------------------------|
| 2012                    | \$480,000                              | \$140,211.09                          | \$620,211.09                            | \$908,143.76                      | \$1,528,354.85         |
| 2013                    | 290,000                                | 412,218.76                            | 702,218.76                              | 745,543.76                        | 1,447,762.52           |
| 2014                    | 265,000                                | 400,618.76                            | 665,618.76                              | 785,343.76                        | 1,450,962.52           |
| 2015                    | 45,000                                 | 390,018.76                            | 435,018.76                              | 803,543.76                        | 1,238,562.52           |
| 2016                    | 40,000                                 | 388,218.76                            | 428,218.76                              | 820,943.76                        | 1,249,162.52           |
| 2017                    | 35,000                                 | 386,618.76                            | 421,618.76                              | 842,543.76                        | 1,264,162.52           |
| 2018                    | 40,000                                 | 385,218.76                            | 425,218.76                              | 863,143.76                        | 1,288,362.52           |
| 2019                    | 40,000                                 | 383,618.76                            | 423,618.76                              | 887,743.76                        | 1,311,362.52           |
| 2020                    | 45,000                                 | 382,018.76                            | 427,018.76                              | 911,143.76                        | 1,338,162.52           |
| 2021                    | 55,000                                 | 380,218.76                            | 435,218.76                              | 933,343.76                        | 1,368,562.52           |
| 2022                    | 65,000                                 | 378,018.76                            | 443,018.76                              | 954,343.76                        | 1,397,362.52           |
| 2023                    | 75,000                                 | 375,418.76                            | 450,418.76                              | 978,506.26                        | 1,428,925.02           |
| 2024                    | 85,000                                 | 372,418.76                            | 457,418.76                              | 1,005,818.76                      | 1,463,237.52           |
| 2025                    | 95,000                                 | 368,168.76                            | 463,168.76                              | 1,030,968.76                      | 1,494,137.52           |
| 2026                    | 105,000                                | 363,418.76                            | 468,418.76                              | 1,058,856.26                      | 1,527,275.02           |
| 2027                    | 115,000                                | 358,168.76                            | 473,168.76                              | 1,089,143.76                      | 1,562,312.52           |
| 2028                    | 125,000                                | 352,418.76                            | 477,418.76                              | 1,117,056.26                      | 1,594,475.02           |
| 2029                    | 135,000                                | 346,168.76                            | 481,168.76                              | 1,151,306.26                      | 1,632,475.02           |
| 2030                    | 145,000                                | 339,418.76                            | 484,418.76                              | 1,182,556.26                      | 1,666,975.02           |
| 2031                    | 155,000                                | 332,168.76                            | 487,168.76                              | 1,215,806.26                      | 1,702,975.02           |
| 2032                    | 170,000                                | 324,418.76                            | 494,418.76                              | 1,245,806.26                      | 1,740,225.02           |
| 2033                    | 180,000                                | 315,918.76                            | 495,918.76                              | 1,282,556.26                      | 1,778,475.02           |
| 2034                    | 190,000                                | 306,918.76                            | 496,918.76                              | 1,320,556.26                      | 1,817,475.02           |
| 2035                    | 200,000                                | 297,418.76                            | 497,418.76                              | 1,359,556.26                      | 1,856,975.02           |
| 2036                    | 220,000                                | 289,168.76                            | 509,168.76                              | 1,390,512.50                      | 1,899,681.26           |
| 2037                    | 240,000                                | 280,093.76                            | 520,093.76                              | 1,421,181.26                      | 1,941,275.02           |
| 2038                    | 255,000                                | 270,193.76                            | 525,193.76                              | 1,456,268.76                      | 1,981,462.52           |
| 2039                    | 275,000                                | 259,675.00                            | 534,675.00                              | 1,492,593.75                      | 2,027,268.75           |
| 2040                    | 1,820,000                              | 247,987.50                            | 2,067,987.50                            | --                                | 2,067,987.50           |
| 2041                    | 1,945,000                              | 170,637.50                            | 2,115,637.50                            | --                                | 2,115,637.50           |
| 2042                    | 2,070,000                              | 87,975.00                             | 2,157,975.00                            | --                                | 2,157,975.00           |
| <b>Total</b>            | <b>\$10,000,000</b>                    | <b>\$10,085,173.85</b>                | <b>\$20,085,173.85</b>                  | <b>\$30,254,831.51</b>            | <b>\$50,340,005.36</b> |

## SECURITY FOR THE BONDS

### Ad Valorem Taxes

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

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

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

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

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

### Debt Service Fund

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

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

Agent on the next succeeding Interest Payment Date to the payment of principal of and interest on the Bonds.

### **Bond Service Fund**

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

### **Limited Obligation**

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

## **PROPERTY TAXATION**

### **Property Tax Collection Procedures**

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

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

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

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

### **Taxation of State-Assessed Utility Property**

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

### **Alternative Method of Tax Apportionment - Teeter Plan**

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

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

The *ad valorem* property tax to be levied to pay the interest on and principal of the Bonds is subject to the Teeter Plan. The City will receive 100% of the *ad valorem* property tax on secured property levied to pay the Bonds irrespective of actual delinquencies in the collection of the tax by the County.

The Teeter Plan is to remain in effect unless the Board of Supervisors of the County orders its discontinuance or unless, prior to the commencement of any fiscal year of the County (which commences on July 1), the Board of Supervisors receives a petition for its

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

**Assessed Valuation**

**Assessed Valuation History.** The table below shows a five-year history of the City's assessed valuation.

**Table 1  
CITY OF MARTINEZ  
Assessed Valuations of Taxable Property  
Fiscal Years 2007-08 to 2011-12**

| Fiscal<br>Year | Local Secured   | Utility   | Unsecured     | Total           |
|----------------|-----------------|-----------|---------------|-----------------|
| 2007-08        | \$4,339,782,741 | \$100,000 | \$164,185,518 | \$4,504,068,259 |
| 2008-09        | 4,400,436,279   | 100,000   | 178,155,012   | 4,578,691,291   |
| 2009-10        | 4,209,890,901   | 75,000    | 180,069,270   | 4,390,035,171   |
| 2010-11        | 4,152,110,175   | 75,000    | 173,574,992   | 4,325,760,167   |
| 2011-12        | 4,082,313,954   | 75,000    | 157,053,059   | 4,239,442,013   |

Source: *California Municipal Statistics, Inc.*

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

**Table 2  
CITY OF MARTINEZ  
Assessed Valuation and Parcels by Land Use  
Fiscal Year 2011-12**

| <b>Land Use</b>                 | <b>2011-12<br/>Secured<br/>Assessed<br/>Valuation (1)</b> | <b>% of<br/>Total</b> | <b>No. of<br/>Parcels</b> | <b>% of<br/>Total</b> |
|---------------------------------|---|-----------------------|---------------------------|-----------------------|
| <b>Non-Residential:</b>         |   |                       |                           |                       |
| Rural/Undeveloped               | \$ 13,314,421   | 0.33%                 | 20                        | 0.15%                 |
| Commercial                      | 254,089,533   | 6.22                  | 274                       | 2.08                  |
| Vacant Commercial               | 4,976,102   | 0.12                  | 32                        | 0.24                  |
| Industrial                      | 434,735,453   | 10.65                 | 80                        | 0.61                  |
| Vacant Industrial               | 1,761,892   | 0.04                  | 17                        | 0.13                  |
| Recreational                    | 3,399,170   | 0.08                  | 3                         | 0.02                  |
| Government/Social/Institutional | 18,149,626  | 0.44                  | 350                       | 2.66                  |
| Subtotal Non-Residential        | <u>\$730,426,197</u>                                      | <u>17.89%</u>         | <u>776</u>                | <u>5.90%</u>          |
| <b>Residential:</b>             |   |                       |                           |                       |
| Single Family Residence         | \$2,682,985,731   | 65.72%                | 9,723                     | 73.89%                |
| Condominium/Townhouse           | 419,565,418   | 10.28                 | 1,969                     | 14.96                 |
| 2-4 Residential Units           | 82,208,908  | 2.01                  | 299                       | 2.27                  |
| 5+ Residential Units/Apartments | 147,955,522   | 3.62                  | 72                        | 0.55                  |
| Vacant Residential              | 19,172,178  | 0.47                  | 320                       | 2.43                  |
| Subtotal Residential            | <u>\$3,351,887,757</u>                                    | <u>82.11%</u>         | <u>12,383</u>             | <u>94.10%</u>         |
| <b>Total</b>                    | <u>\$4,082,313,954</u>                                    | <u>100.005</u>        | <u>13,159</u>             | <u>100.00%</u>        |

(1) Local Secured Assessed Valuation; excluding tax-exempt property.

Source: California Municipal Statistics, Inc.

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

**Table 3  
CITY OF MARTINEZ  
Per Parcel 2011-12 Assessed Valuation  
of Single Family Homes**

| <b>Single Family Residential</b> | <b>No. of<br/>Parcels</b> | <b>2011-12<br/>Assessed Valuation</b> | <b>Average<br/>Assessed Valuation</b> | <b>Median<br/>Assessed Valuation</b> |
|----------------------------------|---------------------------|---------------------------------------|---------------------------------------|--------------------------------------|
|                                  | 9,723                     | \$2,682,985,731                       | \$275,942                             | \$266,951                            |

| <b>2011-12<br/>Assessed Valuation</b> | <b>No. of<br/>Parcels (1)</b> | <b>% of<br/>Total</b> | <b>Cumulative<br/>% of Total</b> | <b>Total<br/>Valuation</b> | <b>% of<br/>Total</b> | <b>Cumulative<br/>% of Total</b> |
|---------------------------------------|-------------------------------|-----------------------|----------------------------------|----------------------------|-----------------------|----------------------------------|
| \$0 - \$24,999                        | 16                            | 0.165%                | 0.165%                           | \$ 323,063                 | 0.012%                | 0.012%                           |
| \$25,000 - \$49,999                   | 265                           | 2.725                 | 2.890                            | 10,659,769                 | 0.397                 | 0.409                            |
| \$50,000 - \$74,999                   | 648                           | 6.665                 | 9.555                            | 41,258,013                 | 1.538                 | 1.947                            |
| \$75,000 - \$99,999                   | 412                           | 4.237                 | 13.792                           | 35,721,292                 | 1.331                 | 3.279                            |
| \$100,000 - \$124,999                 | 345                           | 3.548                 | 17.340                           | 38,979,547                 | 1.453                 | 4.731                            |
| \$125,000 - \$149,999                 | 335                           | 3.445                 | 20.786                           | 45,895,200                 | 1.711                 | 6.442                            |
| \$150,000 - \$174,999                 | 370                           | 3.805                 | 24.591                           | 60,311,477                 | 2.248                 | 8.690                            |
| \$175,000 - \$199,999                 | 538                           | 5.533                 | 30.124                           | 101,607,702                | 3.787                 | 12.477                           |
| \$200,000 - \$224,999                 | 701                           | 7.210                 | 37.334                           | 148,940,084                | 5.551                 | 18.028                           |
| \$225,000 - \$249,999                 | 787                           | 8.094                 | 45.428                           | 186,801,090                | 6.962                 | 24.991                           |
| \$250,000 - \$274,999                 | 643                           | 6.613                 | 52.042                           | 168,526,253                | 6.281                 | 31.272                           |
| \$275,000 - \$299,999                 | 600                           | 6.171                 | 58.212                           | 172,601,028                | 6.433                 | 37.705                           |
| \$300,000 - \$324,999                 | 706                           | 7.261                 | 65.474                           | 220,993,309                | 8.237                 | 45.942                           |
| \$325,000 - \$349,999                 | 659                           | 6.778                 | 72.251                           | 222,180,080                | 8.281                 | 54.223                           |
| \$350,000 - \$374,999                 | 685                           | 7.045                 | 79.297                           | 247,052,738                | 9.208                 | 63.431                           |
| \$375,000 - \$399,999                 | 366                           | 3.764                 | 83.061                           | 141,624,608                | 5.279                 | 68.710                           |
| \$400,000 - \$424,999                 | 332                           | 3.415                 | 86.475                           | 136,339,290                | 5.082                 | 73.791                           |
| \$425,000 - \$449,999                 | 258                           | 2.654                 | 89.129                           | 112,707,400                | 4.201                 | 77.992                           |
| \$450,000 - \$474,999                 | 269                           | 2.767                 | 91.896                           | 123,982,893                | 4.621                 | 82.613                           |
| \$475,000 - \$499,999                 | 168                           | 1.728                 | 93.623                           | 81,899,778                 | 3.053                 | 85.666                           |
| \$500,000 and greater                 | 620                           | 6.377                 | 100.000                          | 384,581,117                | 14.334                | 100.000                          |
| <b>Total</b>                          | <b>9,723</b>                  | <b>100.000%</b>       |                                  | <b>\$2,682,985,731</b>     | <b>100.000%</b>       |                                  |

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

## Tax Rates

The table below summarizes the total *ad valorem* tax rates levied by all taxing entities in Tax Rate Area 5-000 for each \$100 of assessed valuation during the fiscal years 2007-08 through 2011-12.

**Table 4**  
**CITY OF MARTINEZ**  
**Summary of Ad Valorem Tax Rates**  
**\$1 per \$100 of Assessed Valuation**  
**Fiscal Years 2007-08 to 2011-12**  
**(Tax Rate Area 5-000)**

| <b>Ad Valorem Tax</b>                   | <b>2007-08</b> | <b>2008-09</b> | <b>2009-10</b> | <b>2010-11</b> | <b>2011-12</b> |
|---|----------------|----------------|----------------|----------------|----------------|
| General Tax Rate                        | 1.0000         | 1.0000         | 1.0000         | 1.0000         | 1.0000         |
| City of Martinez                        | --             | --             | 0.0181         | 0.0347         | 0.0347         |
| Bay Area Rapid Transit District         | 0.0076         | 0.0090         | 0.0057         | 0.0031         | 0.0041         |
| East Bay Regional Park District         | 0.0080         | 0.0100         | 0.0108         | 0.0084         | 0.0071         |
| Martinez Unified School District        | 0.0557         | 0.0597         | 0.0619         | 0.0629         | 0.0608         |
| Contra Costa Community College District | 0.0108         | 0.0066         | 0.0126         | 0.0133         | 0.0144         |
| <b>Total All Property Tax Rate</b>      | <b>1.0821</b>  | <b>1.0853</b>  | <b>1.1091</b>  | <b>1.1224</b>  | <b>1.1211</b>  |
| <b>Total Land Only Tax Rate</b>         | <b>0.0039</b>  | <b>0.0041</b>  | <b>0.0048</b>  | <b>0.0049</b>  | <b>0.0051</b>  |

Source: California Municipal Statistics, Inc.

## Tax Levies and Delinquencies

The following table is a five year summary of *ad valorem* property tax levies, dollars delinquent and delinquency rates on property within the City.

Because the City currently participates in the Teeter Plan, the amount of *ad valorem* property taxes received by the City is equal to the amount levied rather than the amount collected by the County. See “- Alternative Method of Apportionment - Teeter Plan,” above.

**Table 5**  
**CITY OF MARTINEZ**  
**Total Tax Levies and Delinquencies**  
**(As of June 30)**

|         | <b>Secured<br/>Tax Charge <sup>(1)</sup></b> | <b>Amt. Del.<br/>June 30</b> | <b>% Del.<br/>June 30</b> |
|---------|--|------------------------------|---------------------------|
| 2006-07 | \$5,949,335.46                               | \$202,193.81                 | 3.40%                     |
| 2007-08 | 6,412,809.76                                 | 307,314.75                   | 4.79                      |
| 2008-09 | 6,482,659.05                                 | 258,981.75                   | 3.99                      |
| 2009-10 | 6,199,671.72                                 | 165,944.12                   | 2.68                      |
| 2010-11 | 6,120,405.86                                 | 105,109.09                   | 1.72                      |
|         |  |                              |                           |
|         | <b>Secured<br/>Tax Charge <sup>(2)</sup></b> | <b>Amt. Del.<br/>June 30</b> | <b>% Del.<br/>June 30</b> |
| 2009-10 | \$ 749,005.73                                | \$18,153.05                  | 2.42%                     |
| 2010-11 | 1,416,567.57                                 | 22,594.81                    | 1.60                      |

(1) 1% General Fund apportionment.

(2) City's general obligation bond debt service levy

Source: California Municipal Statistics, Inc.

## Major Taxpayers

The following table shows the twenty largest taxpayers in the City as determined by their secured assessed valuations for Fiscal Year 2011-12.

**Table 6**  
**CITY OF MARTINEZ**  
**Largest 2011-12 Local Secured Taxpayers**

| No. | Property Owner                      | Primary Land Use | 2011-12<br>Assessed Valuation | % of<br>Total (1) |
|-----|-------------------------------------|------------------|-------------------------------|-------------------|
| 1.  | Equilon Enterprises LLC             | Heavy Industrial | \$159,820,988                 | 3.91%             |
| 2.  | Pacific Atlantic Terminals LLC      | Heavy Industrial | 141,907,194                   | 3.48              |
| 3.  | Tesoro Refining & Marketing Co.     | Heavy Industrial | 41,582,836                    | 1.02              |
| 4.  | Shell Chemical LP                   | Heavy Industrial | 27,796,795                    | 0.68              |
| 5.  | Stauffer Chemical Company           | Heavy Industrial | 27,347,739                    | 0.67              |
| 6.  | Wal-Mart Real Estate Business Trust | Commercial       | 19,531,978                    | 0.48              |
| 7.  | Kenneth H. and Martha Hofmann       | Office Building  | 19,302,426                    | 0.47              |
| 8.  | Muir Station Center LLC             | Shopping Center  | 19,039,956                    | 0.47              |
| 9.  | KW Hidden Creek LLC                 | Apartments       | 18,991,509                    | 0.47              |
| 10. | Collier Village Oaks                | Shopping Center  | 18,973,698                    | 0.46              |
| 11. | Muirwood Square Investors           | Apartments       | 18,558,924                    | 0.45              |
| 12. | Swan Lake Apartments LP             | Apartments       | 15,606,606                    | 0.38              |
| 13. | The Center-Martinez                 | Light Industrial | 12,369,668                    | 0.30              |
| 14. | Balco Properties Ltd.               | Light Industrial | 11,835,350                    | 0.29              |
| 15. | Wickland Oil Company                | Industrial Park  | 10,942,760                    | 0.27              |
| 16. | Muir Creek Investors                | Apartments       | 10,165,481                    | 0.25              |
| 17. | BLAI LP                             | Apartments       | 10,106,887                    | 0.25              |
| 18. | Plum Tree                           | Apartments       | 9,926,507                     | 0.24              |
| 19. | Todd W. and Karen Sue Lockwood      | Apartments       | 8,638,831                     | 0.21              |
| 20. | Cranbrook Realty Investment         | Office Building  | <u>7,738,445</u>              | <u>0.19</u>       |
|     |                                     |                  | <u>\$610,184,578</u>          | <u>14.95%</u>     |

(1) 2011-12 Local Secured Assessed Valuation: \$4,082,313,954.  
Source: California Municipal Statistics, Inc.

## Direct and Overlapping Debt

Set forth below is a direct and overlapping debt report (the “**Debt Report**”) prepared by California Municipal Statistics, Inc. and effective as of February 1, 2012. The Debt Report is included for general information purposes only. The City has not reviewed the Debt Report for completeness or accuracy and makes no representation in connection therewith.

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

The contents of the Debt Report are as follows: (1) the first column indicates the public agencies which have outstanding debt as of the date of the Debt Report and whose territory overlaps the City; (2) the second column is the total dollar amount of obligations outstanding of each public agency identified in column 1; (3) the third column shows the percentage that the

City's assessed valuation represents of the total assessed valuation of each public agency identified in column 1; and (4) the fourth column is an apportionment of the dollar amount of each public agency's outstanding debt to property in the City, as determined by multiplying the total outstanding debt of each agency by the percentage of the City's assessed valuation represented in column 3.

**Table 7  
CITY OF MARTINEZ  
STATEMENT OF DIRECT AND OVERLAPPING BONDED DEBT  
(As of February 1, 2012)**

2011-12 Assessed Valuation: \$4,239,442,013

| <u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>                   | <u>% Applicable</u> | <u>Debt 2/1/12</u>   |     |
|--|---------------------|----------------------|-----|
| Bay Area Rapid Transit District  | 0.972%              | \$ 4,009,889         |     |
| East Bay Regional Park District  | 1.510               | 1,972,740            |     |
| Contra Costa Community College District                                  | 3.406               | 7,628,929            |     |
| Martinez Unified School District   | 48.993              | 24,789,754           |     |
| Mount Diablo Unified School District                                     | 5.955               | 18,524,520           |     |
| Mount Diablo Unified School District Community Facilities District No. 1 | 5.955               | 3,136,796            |     |
| <b>City of Martinez</b>  | <b>100.</b>         | <b>14,300,000</b>    | (1) |
| City of Martinez 1915 Act Bonds  | 100.                | 645,000              |     |
| <b>TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT</b>              |                     | <b>\$75,007,628</b>  |     |
| <br>   |                     |                      |     |
| <u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u>                         |                     |                      |     |
| Contra Costa County Certificates of Participation                        | 3.391%              | \$10,830,986         |     |
| Contra Costa County Pension Obligations                                  | 3.391               | 13,558,574           |     |
| Contra Costa Community College District Certificates of Participation    | 3.406               | 31,506               |     |
| <b>City of Martinez Certificates of Participation</b>                    | <b>100.</b>         | <b>500,000</b>       |     |
| Contra Costa Fire Protection District Pension Obligations                | 7.678               | 8,568,264            |     |
| <b>TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT</b>              |                     | <b>\$33,489,330</b>  |     |
| Less: Contra Costa County supported obligations                          |                     | 4,111,591            |     |
| <b>TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT</b>                |                     | <b>\$29,377,739</b>  |     |
| <br>   |                     |                      |     |
| <b>GROSS COMBINED TOTAL DEBT</b>   |                     | <b>\$108,496,958</b> | (2) |
| <b>NET COMBINED TOTAL DEBT</b>   |                     | <b>\$104,385,367</b> |     |

Ratios to 2011-12 Assessed Valuation:

|  |              |
|--|--------------|
| <b>Direct Debt (\$14,300,000)</b> .....                    | <b>0.34%</b> |
| <b>Combined Direct Debt (\$14,800,000)</b> .....           | <b>0.35%</b> |
| Total Direct and Overlapping Tax and Assessment Debt ..... | 1.77%        |
| Gross Combined Total Debt .....                            | 2.56%        |
| Net Combined Total Debt .....                              | 2.46%        |

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/11: \$0

(1) Excludes Bonds to be sold.

(2) Excludes tax and revenue anticipation notes, revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Source: California Municipal Statistics, Inc.

## **CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING CITY REVENUES AND APPROPRIATIONS**

Principal of and interest on the Bonds are payable from the proceeds of an *ad valorem* tax levied by the City for the payment thereof. See "THE BONDS - Security for the Bonds" above. Articles XIII A, XIII B, XIII C and XIII D of the State Constitution, Propositions 111, 218, 26, 1A and 22, and certain other provisions of law discussed below are included in this section to describe the potential effect of these Constitutional and statutory measures on the ability of the City to levy taxes and spend tax proceeds for operating and other purposes, and it should not be inferred from the inclusion of such materials that these laws impose any limitation on the ability of the City to levy taxes for payment of the Bonds. The tax levied by the City for payment of the Bonds was approved by the City's voters in compliance with Article XIII A and all applicable laws.

### **Article XIII A of the State Constitution**

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

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

### **Legislation Implementing Article XIII A**

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

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

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

### **Article XIII B of the State Constitution**

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

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

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

The City has never exceeded its appropriations limit.

## **Articles XIIC and XIID of the State Constitution**

**General.** On November 5, 1996, the voters of the State approved Proposition 218, known as the “Right to Vote on Taxes Act.” Proposition 218 adds Articles XIIC and XIID to the California Constitution and contains a number of interrelated provisions affecting the ability of the City to levy and collect both existing and future taxes, assessments, fees and charges.

On November 2, 2010, California voters approved Proposition 26, entitled the “Supermajority Vote to Pass New Taxes and Fees Act.” Section 1 of Proposition 26 declares that Proposition 26 is intended to limit the ability of the State Legislature and local government to circumvent existing restrictions on increasing taxes by defining the new or expanded taxes as “fees.” Proposition 26 amended Articles XIIC and XIID of the State Constitution. The amendments to Article XIIC limit the ability of the State Legislature to impose higher taxes (as defined in Proposition 26) without a two-thirds vote of the Legislature. The amendments to Article XIID define “taxes” that are subject to voter approval as “any levy, charge, or exaction of any kind imposed by a local government,” with certain exceptions.

**Taxes.** Article XIIC requires that all new local taxes be submitted to the electorate before they become effective. Taxes for general governmental purposes of the City (“general taxes”) require a majority vote; taxes for specific purposes (“special taxes”), even if deposited in the City’s General Fund, require a two-thirds vote.

**Property-Related Fees and Charges.** Article XIID also adds several provisions making it generally more difficult for local agencies to levy and maintain property-related fees, charges, and assessments for municipal services and programs. These provisions include, among other things, (i) a prohibition against assessments which exceed the reasonable cost of the proportional special benefit conferred on a parcel, (ii) a requirement that assessments must confer a “special benefit,” as defined in Article XIID, over and above any general benefits conferred, (iii) a majority protest procedure for assessments which involves the mailing of notice and a ballot to the record owner of each affected parcel, a public hearing and the tabulation of ballots weighted according to the proportional financial obligation of the affected party, and (iv) a prohibition against fees and charges which are used for general governmental services, including police, fire or library services, where the service is available to the public at large in substantially the same manner as it is to property owners.

**Reduction or Repeal of Taxes, Assessments, Fees and Charges.** Article XIIC also removes limitations on the initiative power in matters of reducing or repealing local taxes, assessments, fees or charges. No assurance can be given that the voters of the City will not, in the future, approve an initiative or initiatives which reduce or repeal local taxes, assessments, fees or charges currently comprising a substantial part of the City’s General Fund. If such repeal or reduction occurs, the City’s ability to pay debt service on the Bonds could be adversely affected.

**Burden of Proof.** Article XIIC provides that local government “bears the burden of proving by a preponderance of the evidence that a levy, charge, or other exaction is not a tax, that the amount is no more than necessary to cover the reasonable costs of the governmental activity, and that the manner in which those costs are allocated to a payor bear a fair or reasonable relationship to the payor’s burdens on, or benefits received from, the governmental activity.” Similarly, Article XIID provides that in “any legal action contesting the validity of a fee or charge, the burden shall be on the agency to demonstrate compliance” with Article XIID.

**Judicial Interpretation of Proposition 218.** The interpretation and application of Articles XIIC and XIID will ultimately be determined by the courts, and it is not possible at this time to predict with certainty the outcome of such determination.

**Impact on City's General Fund.** The City does not believe that any material source of General Fund revenue is subject to challenge under Proposition 218 or Proposition 26.

The approval requirements of Articles XIIC and XIID reduce the flexibility of the City to raise revenues for the General Fund, and no assurance can be given that the City will be able to impose, extend or increase the taxes, fees, charges or taxes in the future that it may need to meet increased expenditure needs.

## **Proposition 1A; Proposition 22**

**Proposition 1A.** Proposition 1A, proposed by the Legislature in connection with the State's fiscal year 2004-05 Budget, approved by the voters in November 2004 and generally effective in fiscal year 2006-07, provided that the State may not reduce any local sales tax rate, limit existing local government authority to levy a sales tax rate or change the allocation of local sales tax revenues, subject to certain exceptions. Proposition 1A generally prohibited the State from shifting to schools or community colleges any share of property tax revenues allocated to local governments for any fiscal year, as set forth under the laws in effect as of November 3, 2004. Any change in the allocation of property tax revenues among local governments within a county had to be approved by two-thirds of both houses of the Legislature.

Proposition 1A provided, however, that beginning in fiscal year 2008-09, the State may shift to schools and community colleges up to 8% of local government property tax revenues, which amount must be repaid, with interest, within three years, if the Governor proclaimed that the shift is needed due to a severe state financial hardship, the shift was approved by two-thirds of both houses and certain other conditions were met. The State could also approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county.

**Proposition 22.** Proposition 22, entitled "The Local Taxpayer, Public Safety and Transportation Protection Act," was approved by the voters of the State in November 2010. Proposition 22 eliminates or reduces the State's authority to (i) temporarily shift property taxes from cities, counties and special districts to schools, (ii) use vehicle license fee revenues to reimburse local governments for State-mandated costs (the State will have to use other revenues to reimburse local governments), (iii) redirect property tax increment from redevelopment agencies to any other local government, (iv) use State fuel tax revenues to pay debt service on State transportation bonds, or (v) borrow or change the distribution of State fuel tax revenues.

The City expects Proposition 22 to result in more stable revenues for the City.

## **Possible Future Initiatives**

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

## TAX MATTERS

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

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

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

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 Bond 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 Bonds to determine taxable gain upon disposition (including sale, redemption, or payment on maturity) of such Bond. The Tax Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of the Bonds who purchase the Bonds after the initial offering of a substantial amount of such maturity. Owners of such Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of purchasers who do not purchase 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 Bonds 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 Bond (said term being the shorter of the Bond'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 Bond for purposes of determining taxable gain or loss upon disposition. The amount of original issue premium on a Bond is amortized each year over the term to maturity of the Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). Amortized Bond premium is not deductible for federal income tax purposes. Owners of premium Bonds, 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 Bonds.

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

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

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

### **CONTINUING DISCLOSURE**

The City will covenant in its continuing disclosure certificate for the benefit of the holders and beneficial owners of the Bonds to provide certain financial information and other operating data relating to the City on an annual basis and to provide notice of certain enumerated events as required by Section (b)(5)(i) of Securities and Exchange Commission Rule 15c2-12 under the Securities Exchange Act of 1934, as amended (the “**Rule**”). The specific nature of the information to be contained in the annual report or the notices of enumerated events is contained in the form of Continuing Disclosure Certificates attached as APPENDIX E. These covenants have been made in order to assist the Underwriter in complying with the Rule.

The City has had no instance in the previous five years in which it failed to comply in all material respects with any previous continuing disclosure obligation under the Rule.

Any failure by the City to comply with the provisions of its continuing disclosure certificate will not constitute a default under the Resolution or the Paying Agent Agreement (although Bondholders will have any remedy available at law or in equity as provided in the applicable continuing disclosure certificate). Nevertheless, such a failure to comply must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Bonds.

### **ABSENCE OF MATERIAL LITIGATION**

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

## RATINGS

Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("**S&P**"), has assigned the Bonds a rating of "AA+."

This rating reflects only the view of S&P, and an explanation of the significance of this rating, and any outlook assigned to or associated with this rating, should be obtained from S&P at the following address: Standard & Poor's, 25 Broadway, New York, New York 10004.

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

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

## FINANCIAL ADVISOR

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

## UNDERWRITING

Under the terms of a competitive bid held on March 21, 2012, Citigroup Global Markets Inc. (the "**Underwriter**") has agreed to purchase the Bonds at a price of \$10,081,812.15 (which is equal to the aggregate principal amount of the Bonds (\$10,000,000.00), plus an original issue premium of \$279,995.85 and less an Underwriter's discount of \$198,183.70). The Underwriter will purchase all of the Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the "Official Notice of Sale," including the approval of certain legal matters by counsel and certain other conditions.

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

**EXECUTION**

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

**CITY OF MARTINEZ**

By: \_\_\_\_\_ /s/ Philip A. Vince  
City Manager

## APPENDIX A

### 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

| <b>Calendar<br/>Year</b> | <b>City of<br/>Martinez</b> | <b>County of<br/>Contra Costa</b> | <b>State of<br/>California</b> |
|--------------------------|-----------------------------|-----------------------------------|--------------------------------|
| 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 9.3% in December 2011, down from a revised 9.5% in November 2011, and below the year-ago estimate of 10.8%. This compares with an unadjusted unemployment rate of 10.9% for California and 8.3% for the nation during the same period. The unemployment rate was 9.3% in Alameda County, and 9.3% 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 <sup>(1)</sup>               | 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> <sup>(2)</sup> |           |           |           |           |           |
| 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 <sup>(3)</sup>              | 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<br>Buying Income<br>(000's Omitted) | Median Household<br>Effective Buying<br>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

| <b>Employers</b>                       | <b>Number of Employees</b> | <b>% of Total City Employment</b> |
|--|----------------------------|-----------------------------------|
| Contra Costa County <sup>(1)</sup>     | 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                               |
| <b>Total</b>                           | <b>12,762</b>              | <b>59.4%</b>                      |

(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)**

| <b><u>Employer Name</u></b>          | <b><u>Location</u></b> | <b><u>Industry</u></b>                   |
|--------------------------------------|------------------------|--|
| Bayer Health Care Pharmaceuticals    | 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 Corporation                  | 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 Medical Center | Martinez               | Hospitals                                |
| Department of Veterans Affairs       | Martinez               | Clinics                                  |
| Doctor's Medical Center              | San Pablo              | Hospitals                                |
| John Muir Health Physical Rehab.     | Concord                | Physical Therapists                      |
| John Muir Medical Center             | 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 Center    | San Ramon              | Hospitals                                |
| Shell Oil Prod.                      | Martinez               | Oil Refiners (Mfrs)                      |
| St Mary's College of California      | 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.*

## 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        |
| <br>                       |                |                |                |                |                |
| 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      |
| <br>                       |                |                |                |                |                |
| <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        |
| <br>                       |                  |                  |                  |                  |                  |
| 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      |
| <br>                       |                  |                  |                  |                  |                  |
| <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.

## APPENDIX B

### CITY FINANCIAL INFORMATION

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

#### **Accounting Practices**

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

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

#### **Financial Statements**

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

The following table shows the statement of revenues, expenditures and changes in fund balances for the City for fiscal years 2008-09 through 2010-11. The audited financial statements for the year ended June 30, 2011 are attached as APPENDIX C to this Official Statement.

**CITY OF MARTINEZ**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**As of June 30 For Fiscal Years 2008-09 through 2010-11**

|  | Audited<br>Actual,<br>2008-09 | Audited<br>Actual,<br>2009-10 | Audited<br>Actual,<br>2010-11 |
|--|-------------------------------|-------------------------------|-------------------------------|
| <b>REVENUES</b>  |                               |                               |                               |
| Taxes  | \$15,901,834                  | \$15,602,345                  | \$15,809,271                  |
| Licenses, permits and fees   | 534,486                       | 428,192                       | 497,920                       |
| Intergovernmental  | 751,540                       | 580,881                       | 663,488                       |
| Charges for services   | 716,173                       | 562,189                       | 470,550                       |
| Fines and forfeits   | 354,942                       | 344,133                       | 404,547                       |
| Use of money and property  | 311,508                       | 119,075                       | 87,647                        |
| Miscellaneous  | 599,727                       | 595,517                       | 704,851                       |
| <i>Total Revenues</i>  | 19,170,210                    | 18,232,332                    | 18,638,274                    |
| <b>EXPENDITURES</b>  |                               |                               |                               |
| Current:   |                               |                               |                               |
| General government   | 1,327,384                     | 1,324,418                     | 1,312,555                     |
| Nondepartmental services   | 1,156,191                     | 816,510                       | 1,712,090                     |
| Administrative services  | 757,298                       | 725,585                       | 775,525                       |
| Public works   | 3,773,961                     | 3,693,564                     | 3,627,781                     |
| Community & economic development   | 2,803,324                     | 2,564,028                     | 2,186,809                     |
| Police   | 9,618,937                     | 9,861,956                     | 9,886,525                     |
| Capital outlay   | --                            | 49,488                        | 37,536                        |
| <i>Total Expenditures</i>  | 19,437,095                    | 19,035,549                    | 19,538,821                    |
| Excess of Revenue over Expenditures  | (266,885)                     | (803,217)                     | (900,547)                     |
| Other Financing Sources (Uses)   |                               |                               |                               |
| Transfers in   | 72,724                        | --                            | --                            |
| Transfers out  | (638,058)                     | (22,605)                      | (667,096)                     |
| <i>Total Other Financing Sources (Uses)</i>  | (565,334)                     | (22,605)                      | (667,096)                     |
| Special Item:  |                               |                               |                               |
| Advance to Martinez Unified School District  | --                            | (500,000)                     | --                            |
| Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses | (832,219)                     | (1,325,822)                   | (1,567,643)                   |
| Beginning Fund Balances  | 10,659,565                    | 9,827,346                     | 8,501,524                     |
| Ending Fund Balances   | \$9,827,346                   | \$ 8,501,524                  | \$ 6,933,881                  |

Source: City of Martinez, Comprehensive Annual Financial Reports for fiscal years 2008-09, 2009-10 and 2010-11.

## **Budget Process**

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

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

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

The two-year budget is prepared by fund, function, and department. The City's department heads may make transfers of appropriations within their respective departments. The City Manager is authorized to revise the budget so long as the total revisions in any single budget year do not exceed 1% of the budget, and provided that sufficient revenues are available to offset such revisions. City Council approval is required for additional appropriation from fund balances or new revenue sources. The legal level of budgetary control is at the department level.

## General Fund Budget

The City's comparative budgets for fiscal years 2010-11 and 2011-12 are set forth in the following table.

### CITY OF MARTINEZ Comparative Budgets For Fiscal Years 2010-11 and 2011-12

|   | Final<br>Budget,<br>2010-11 | Audited<br>Actual,<br>2010-11 | Variance with<br>Final 2010-11<br>Budget | Amended<br>Budget<br>2011-12 |
|---|-----------------------------|-------------------------------|--|------------------------------|
| <b>REVENUES</b>   |                             |                               |  |                              |
| Taxes   | \$15,809,261                | \$15,809,271                  | \$ 10                                    | \$15,959,727                 |
| Licenses, permits, and fees   | 446,655                     | 497,920                       | 51,265                                   | 460,010                      |
| Intergovernmental   | 674,235                     | 663,488                       | (10,747)                                 | 581,660                      |
| Charges for services  | 499,406                     | 470,550                       | (28,856)                                 | 473,010                      |
| Fines and forfeits  | 351,158                     | 404,547                       | 53,389                                   | 365,054                      |
| Use of money and property   | 121,496                     | 87,647                        | (33,849)                                 | 122,408                      |
| Miscellaneous   | 681,511                     | 704,851                       | 23,340                                   | 559,312                      |
| <i>Total Revenues</i>   | 18,583,722                  | 18,638,274                    | 54,552                                   | 18,521,181                   |
| <b>EXPENDITURES</b>   |                             |                               |  |                              |
| Current:  |                             |                               |  |                              |
| General government  | 1,346,025                   | 1,312,555                     | 33,470                                   | 1,162,873                    |
| Nondepartmental services  | 1,736,947                   | 1,712,090                     | 24,857                                   | 1,066,863                    |
| Administrative services   | 794,907                     | 775,525                       | 19,382                                   | 758,701                      |
| Public works  | 3,826,293                   | 3,627,781                     | 198,512                                  | 3,505,914                    |
| Community & economic development  | 2,209,915                   | 2,186,809                     | 23,106                                   | 2,039,202                    |
| Police  | 9,936,618                   | 9,886,525                     | 50,093                                   | 9,985,637                    |
| Capital outlay  | 37,536                      | 37,536                        | --                                       | --                           |
| <i>Total Expenditures</i>   | 19,888,241                  | 19,538,821                    | 349,420                                  | 18,519,190                   |
| Excess of Revenues Over Expenditures  | (1,304,519)                 | (900,547)                     | 403,972                                  | 1,991                        |
| Other Financing Sources (Uses)  |                             |                               |  |                              |
| Transfers in  | --                          | --                            |  | --                           |
| Transfers (out)   | (667,096)                   | (667,096)                     |  | --                           |
| Total other financing sources (uses)  | (667,096)                   | (667,096)                     |  | --                           |
| Excess (Deficiency) of Revenues and Other<br>Sources Over Expenditures and Other Uses | (\$1,971,615)               | (1,567,643)                   | \$403,972                                | \$1,991                      |
| Beginning Fund Balances   |                             | 8,501,524                     |  |                              |
| Ending Fund Balances  |                             | \$6,933,881                   |  |                              |

Source: City of Martinez, Comprehensive Annual Financial Report for fiscal year 2010-11 and City of Martinez 2011-12 and 2012-13 Biennial Budget.

## **Impact of State Budget on City Revenues**

The State's financial condition and budget policies affect communities and local public agencies throughout California. Through the State budget process, the State can enact legislation that significantly impacts the source, amount and timing of the receipt of revenues by local agencies, including the City, often to the detriment of such local agencies. Approximately 73% of the City's General Fund revenues for its Fiscal Year 2010-11 consisted of sales tax and other payments collected by the State and passed through to local governments or property tax collected by the County and allocated to local governments pursuant to State law. Approximately 74% of the budgeted General Fund revenues of the City for Fiscal Year 2011-12 are expected to come from such sources.

To the extent that the State budget process results in reduced revenues to the City in any fiscal year, the City will be required to make adjustments to its budget for that fiscal year. The State's Fiscal Year 2010-11 and 2011-12 budgets each contained a number of measures that impact the finances of local agencies adversely.

### ***Information on Current State Economic Difficulties and Budget.***

Certain information about the State budgeting processes, economic challenges faced by the State and the State Budget is available through several State of California sources. A convenient source of information is the State Treasurer's website, where recent reoffering circulars for State bonds are posted. The references to internet websites shown below are shown for reference and convenience only; the information contained within the websites has not been reviewed by the City and is not incorporated herein by reference.

- The California State Treasurer Internet home page at [www.treasurer.ca.gov](http://www.treasurer.ca.gov), under the heading "Bond Information", posts various State of California reoffering circulars, many of which contain a summary of the current State Budget, past State Budgets, and the impact of those budgets on local governments in the State.

- The California State Treasurer's Office Internet home page at [www.treasurer.ca.gov](http://www.treasurer.ca.gov), under the heading "Financial Information", posts the State's audited financial statements. In addition, the Financial Information section includes the State's Rule 15c2-12 filings for State bond issues. The Financial Information section also includes the "Overview of the State Economy and Government, State Finances, State Indebtedness, Litigation" from the State's most current reoffering circular, dated as of December 1, 2011, which discusses the State budget and its impact on local agencies in the State.

- The California Department of Finance's Internet home page at [www.dof.ca.gov](http://www.dof.ca.gov), under the heading "California Budget", includes the text of proposed and adopted State Budgets.

- The State Legislative Analyst's Office ("LAO") prepares analyses of the proposed and adopted State budgets. The analyses are accessible on the Legislative Analyst's Internet home page at [www.lao.ca.gov](http://www.lao.ca.gov) under the heading "Products."

*The State has not entered into any contractual commitment with the City or the owners of the Bonds to provide State budget information to the City or the owners of the Bonds. Although the City believes the State sources of information listed above are reliable, the City assumes not responsibility for the accuracy of the State budget information set forth or referred to herein.*

**State Budget and its Impact on the City.** The following information concerning State Budgets and potential impacts on the City have been obtained from publicly available information from the State Department of Finance, the State Treasurer and the California Legislative Analyst Office websites. The estimates and projections provided below are based upon various assumptions, which may be affected by numerous factors, including future economic conditions in the State and the nation, and there can be no assurance that the estimates will be achieved. For further information and discussion of factors underlying the State's projections, see the aforementioned websites. The City believes such information to be reliable, however, the City takes no responsibility as to the accuracy or completeness thereof and has not independently verified such information.

Adoption of Annual State Budget. According to the State Constitution, the Governor of the State (the "**Governor**") must propose a budget to the State Legislature no later than January 10 of each year. Under an initiative constitutional amendment approved by the State's voters on November 2, 2010 as "Proposition 25", a final budget (the "**State Budget**") must be adopted by a majority vote of each house of the Legislature no later than June 15, although this deadline has been routinely breached in the past. Any tax increase provision of such final budget shall continue to require approval by a two-thirds majority vote of each house of the State Legislature. The budget becomes law upon the signature of the Governor, who may veto specific line items of expenditure.

When the State Budget is not adopted on time, portions of each city's and local agency's State funding are affected differently. Under the rule of *White v. Davis* (also referred to as *Jarvis v. Connell*), a State Court of Appeal decision reached in 2002, funds for State programs cannot be disbursed by the State Controller until that time unless the expenditure is (i) authorized by a continuing appropriation found in statute, (ii) mandated by the Constitution (such as appropriations for salaries of elected state officers), or (iii) mandated by federal law (such as payments to State workers at no more than minimum wage). The State Controller has posted guidance as to what can and cannot be paid during a budget impasse at its website: [www.sco.ca.gov](http://www.sco.ca.gov). Should the Legislature fail to pass the budget or emergency appropriation before the start of any fiscal year, the City might experience delays in receiving certain expected revenues. The City is authorized to borrow temporary funds to cover its annual cash flow deficits, and as a result of the White decision, the City might find it necessary to increase the size or frequency of its cash flow borrowings, or to borrow earlier in the fiscal year. The City does not expect the White decision to have any long-term effect on its operating budgets.

The Budget Process. The State's fiscal year begins on July 1 and ends on June 30. According to the State Constitution, the Governor must propose a budget to the State Legislature no later than January 10 of each year for the next fiscal year (the "**Governor's Budget**"). Under State law, the annual proposed Governor's Budget cannot provide for projected expenditures in excess of projected revenues and balances available from prior fiscal years. Following the submission of the Governor's Budget, the California State Legislature (the "**Legislature**") takes up the proposal.

Under the State Constitution, money may be drawn from the Treasury only through an appropriation made by law. The primary source of the annual expenditure authorizations is the Budget Act as approved by the Legislature and signed by the Governor. Under an initiative constitutional amendment approved by the State's voters on November 2, 2010 as "Proposition 25", a final budget must be adopted by a majority vote of each house of the Legislature no later than June 15, although this deadline has been routinely breached in the past. Any tax increase

provision of such final budget shall continue to require approval by a two-thirds majority vote of each house of the State Legislature. The budget becomes law upon the signature of the Governor, who may reduce or eliminate specific line items in the Budget Act or any other appropriations bill without vetoing the entire bill. Such individual line item vetoes are subject to override by a two-thirds majority vote of each House of the Legislature.

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

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

Tax Shifts and Triple Flip. Assembly Bill No. 1755 (“**AB 1755**”), introduced March 10, 2003 and substantially amended June 23, 2003, requires the shifting of property taxes between redevelopment agencies and schools. On July 29, 2003, the Assembly amended Senate Bill No. 1045 to incorporate all of the provisions of AB 1755, except that the Assembly reduced the amount of the required the shift away from the Education Revenue Augmentation Fund (“**ERAF**”) to \$135 million. Legislation commonly referred to as the “Triple Flip,” was approved by the voters on March 2, 2004, as part of a bond initiative formally known as the “California Economic Recovery Act.” This act authorized the issuance of \$15 billion in bonds to finance the 2002-03 and 2003-04 State budget deficits, which are payable from a fund established by the redirection of tax revenues through the “Triple Flip.” Under the “Triple Flip”, one-quarter of local governments’ 1% share of the sales tax imposed on taxable transactions within their jurisdiction are redirected to the State. In an effort to eliminate the adverse impact of the sales tax revenue redirection on local governments, the legislation then redirects property taxes in the ERAF to local governments. Because the ERAF monies were previously earmarked for schools, the legislation provides for schools to receive other State general fund revenues. The swap of sales taxes for property taxes will terminate once the deficit financing bonds are repaid, which is currently expected to occur by 2016.

State Economic Challenges, Prior Year State Budgets and Related Events. As noted above, the City’s budget has, generally, been revised after the delivery of delayed State Budgets to reflect necessary changes in budgeted revenues and expenditures. Delays in the delivery of State budgets cause an element of uncertainty for the City and its Finance Department. Delayed payments from the State to the City, which are more common during periods in which the State faces economic challenges, also subject the City to additional risk, possibly causing the City to increase the size or frequency of its cash flow borrowings, or to borrow earlier in the fiscal year, with concurrent, market-contingent, borrowing costs for the City.

Since the beginning of 2010, the nation and the State have been gradually recovering from the worst recession since the Great Depression. National economic output has grown slowly as has personal income in both the State and the nation, and job growth has resumed. However, because of the magnitude of the economic displacement resulting from the recession, the State continues to face significant financial challenges, and related budgetary stresses. Exacerbating the State’s challenges, as the State entered the recession, annual revenues generally were less than annual expenses, resulting in a “structural” budget deficit. This structural deficit was due in part to overreliance on temporary budgetary remedies in prior State

Budget years, including one-time revenues, internal borrowing, payment deferrals, accounting shifts and expenditure reduction proposals that did not materialize.

Moreover, in recent years, the State's then-seated Governors and State Legislatures have repeatedly failed to deliver a timely State budget. The Governor signed the 2010-11 Budget on October 8, 2010, the latest budget in the State's history. Prior to signing this 2010 State Budget, and as a consequence of the State's ongoing budget deficit and financial challenges, Governor Arnold Schwarzenegger undertook several extraordinary and controversial fiscal measures. On July 1, 2010, Governor Schwarzenegger reduced over 200,000 employees' pay to the federal minimum wage until the then-ongoing budget impasse ended. The State Controller refused to pay employees at this minimum wage level, and, on July 16, 2010, a Sacramento County Superior Court judge denied the Governor's administration's request for a temporary restraining order that would have forced the State Controller to begin such payment.

Thereafter, on July 28, 2010, Governor Schwarzenegger declared a financial state of emergency and ordered 150,000 State workers to take three furlough days per month. On August 23, 2010, in an effort to conserve cash and delay the need to issue State promissory notes for payment of the State's accounts, State officials elected to delay payments of \$2.5 billion per month to the State's public school districts, for the months of September through December 2010. This occurred after a prior \$2.5 billion deferral in July 2010.

On August 18, 2010, the California Supreme Court issued a stay of a temporary restraining order of the Alameda County Superior Court issued, which would have prohibited the Governor from imposing the three furlough days on State workers. As a result of the stay, furloughs of State workers were to continue until arguments in a larger case regarding their legality could be heard. On August 25, 2010, the Sacramento County Superior Court scheduled a hearing for November 2010 to consider the merits of the State Controller's refusal to lower pay. Despite all of these extraordinary actions and events, the 2010 legislative session ended on August 31, 2010 with all then-proposed budget plans failing to be approved by the Legislature, on party-line votes.

On October 4, 2010, the California Supreme Court upheld the Governor's authority to furlough State workers when there is no budget in place. The Legislature passed the \$87.5 billion 2010-11 Budget on the morning of October 8, 2010, over 100 days late, and Governor Schwarzenegger signed it that night, exercising his line-item veto authority to reduce spending by \$963 million in order to raise the reserve level from \$375 million to \$1.3 billion. Total 2010-11 State Budget expenditure reductions were \$8.4 billion, assuming federal funds of \$5.4 billion and other solutions of almost \$5.5 billion. The 2010-11 State Budget included pension reform measures, suspension of the Proposition 98 minimum guaranty to provide \$49.7 billion in spending on K-14 Education in 2010-11 with related settle-up measures, personnel cost reductions from savings from recent agreements with unions and reductions and the extension of a temporary suspension of businesses' ability to use net operating losses to reduce tax liabilities.

In light of such a tumultuous 2010 State Budget process, on November 2, 2010, State voters approved Propositions 22, 25 and 26 of 2010. Proposition 22 amended the State's Constitution to prohibit the State, even during a period of severe fiscal hardship, from delaying the distribution of tax revenues for transportation, or local government projects and services. Proposition 22 also prevents the State from temporarily shifting property taxes from cities, counties and special districts to schools, as in the ERAF program. Proposition 22 is intended to,

among other things, stabilize local government revenue sources by restricting the State's control over local property taxes.

Proposition 25 lowered the vote threshold for lawmakers to pass the State Budget from two-thirds to a simple majority. Proposition 26 requires a two-thirds affirmative vote in the State Legislature and local governments to pass many fees, levies, charges and tax revenue allocations that under previous rules could be enacted by a simple majority vote.

2011-12 State Budget. Set forth below is a summary of the 2011-12 State Budget and budget process.

*Initial LAO Report on Fiscal Year 2011-12; Legislature Called into Special Session on Budget Deficit.* In their initial report for Fiscal Year 2011-12, the LAO forecasted that the State's general fund revenues and expenditures would show a budget deficit of \$25.4 billion, consisting of a \$6.1 billion projected deficit for Fiscal Year 2010-11 and a \$19 billion gap between projected revenues and spending for Fiscal Year 2011-12. The LAO projected that the State will continue to face annual budget problems of approximately \$20 billion each year through Fiscal Year 2015-16, and recommended that the Legislature initiate a multi-year approach to solving the State's recurring structural budget deficit, addressing permanent revenue and expenditure actions each year, together with temporary budget solutions, until the structural deficit is eliminated. On December 6, 2010, lame-duck Governor Schwarzenegger declared a fiscal emergency and called the new Legislature into special session to address the anticipated 2010-11 general fund deficit.

*2011-12 Proposed Budget Submitted by Governor Brown to Legislature.* On January 3, 2011, Edmund G. Brown Jr. was sworn in as Governor and warned that his budget plan would include severe cuts to State spending. On January 10, 2011, Governor Brown submitted his 2011-12 Proposed Budget to the Legislature. The 2011-12 Proposed Budget acknowledged a \$26.4 billion budget deficit, consisting of an \$8.2 billion deficit that would remain at the end of Fiscal Year 2010-11 (absent budgetary action), and an estimated \$17.2 billion shortfall between current-law revenues and expenditures in 2011-12, with a proposed reserve of \$1 billion. The 2011-12 Proposed Budget relied on a plan to submit to the voters at a special election in June 2011 a 5-year extension of the temporary sales tax, income tax, and vehicle license fee increases and maintaining a lower dependent exemption credit that was set to expire on June 30, 2011. The 2011-12 Proposed Budget also included \$8.2 billion in one-time savings and borrowing. Those savings and borrowings included \$1.8 billion in borrowing from special funds, \$1.7 billion in property tax shifts, shifting \$1.0 billion in Proposition 10 reserves to fund children's programs, and \$0.9 million from Proposition 63 moneys to fund community mental health services. The Governor proposed to restructure the state-local relationship by shifting funding and responsibility to local government for certain services, resulting in a shift of an aggregate amount of \$5.9 billion in State program costs to counties. The Governor also proposed eliminating redevelopment agencies.

The 2011-12 Proposed Budget included expenditure reductions that touched nearly every area of the State budget. Proposed reductions included cuts of \$1.7 billion to Medi-Cal, \$1.5 billion to California's welfare-to-work program, \$1 billion to the University of California and California State University, \$750 million to the Department of Developmental Services, and \$580 million to state operations and employee compensation. Although the Governor's revenue proposals resulted in a \$2 billion increase in the Proposition 98 minimum funding guarantee for schools above the current-law level, the 2011-12 Proposed Budget would have resulted in a

small funding decline for K- 12 and more significant reductions for community colleges and child care programs.

The Governor called the Legislature to refer the proposed re-instatement of temporary tax increases described above to a statewide special election in June 2011, in an attempt to gain voter approval for the Governor's proposed increases. However, on March 31, 2011, the deadline for initiating such a special election passed without an agreement in the Legislature about whether to put such a re-instatement measure on the ballot.

*January 12, 2011 LAO Report.* An LAO report dated January 12, 2011 stated that the 2011-12 Proposed Budget estimates were reasonable, and the proposed multiyear and ongoing solutions showed great promise of making substantial improvements to the State's overall budget health. However, the LAO report recognized that the Governor's realignment and redevelopment proposals were extremely ambitious, implicating many legal, financial and policy issues, and that \$12 billion of the Governor's proposed solutions were dependent upon voter approval in June 2011.

*March 2011 Legislative Action.* The Governor's proposed June 2011 special election was not approved. However, the Legislature passed a package of bills resulting in \$11 billion in cuts and other solutions, including \$5.5 billion in cuts to health and human services, \$1.2 billion in cuts to the University of California and California State University systems, \$2.2 billion in transportation debt service and other reductions, \$531 million in revenue proposals and \$2.8 billion in loans and transfers and other solutions.

*May Revision.* Under California law, in May of each year the Governor issues a revised budget with changes he or she can support, based on the debate, analysis and changes in the economic forecasts (the "**May Revision**"). On May 16, 2011, Governor Brown issued his proposed May Revision of the State Budget. The May Revision reflected an assumed \$6.6 billion in new state revenues over the current and budget years (\$3.3 billion each year). In January 2011, the Governor had projected that, absent such solutions, budget gaps averaging more than \$20 billion would continue for the next four years. By the time of the 2011-12 May Revision, these projected deficits had been reduced to around \$10 billion per year through fiscal year 2014-15, as a result of permanent expenditure reductions enacted in March 2011. The Governor called for the Legislature to adopt \$11 billion in new solutions to rebuild a modest reserve. The Governor planned to use almost all of the \$6.6 billion in new revenues to reduce the need for some targeted tax extensions and to start paying down the State's \$35 billion in debt.

The May Revision proposed that the Legislature act by the end of June 2011 to approve and the voters ratify in November 2011 the extension of current sales tax and vehicle license fee rates and the dependent credit exemption level for five years. If these tax extensions were approved, the budget provides an additional \$3 billion to schools in 2011-12. This \$3 billion was over and above the 2011-12 \$49.4 billion Proposition 98 guarantee and funding level approved by the Legislature in March 2011. It was approximately \$1 billion above the \$51.3 billion funding level included in the Governor's January budget. However, the Governor proposed that \$2.85 billion of the \$3 billion go toward eliminating deferrals, not toward increased revenue limit funding. Additional revenues generated by the tax extensions would fund a major realignment of public safety programs.

The Governor proposed that the remaining savings from revenue increases and future revenue growth above current program funding be dedicated to paying off the State's \$35 billion

in debt. Under the Governor's proposal, at least \$29 billion in deferrals and debt would be paid off by Fiscal Year 2014-15. The Governor's May Revision removed the proposed income tax extension and his proposal to eliminate the enterprise tax credit. The Governor continued to push for the elimination of redevelopment agencies.

*May 19, 2011 LAO Report.* The LAO's May 19, 2011 report on the Governor's May Revision concludes that the Governor's budget estimates in the May Revision were based on reasonable assumptions. However, the LAO notes, school districts, counties and the State faced uncertainty as to funding levels in the fiscal year because the Governor's revenue assumptions rely on the extension of temporary increases in personal income tax, sales and use tax and vehicle license fees to be approved by the voters. The LAO deemed the Governor's proposals worthy of legislative consideration, noting that in past budgets the State was unable to make significant inroads into its underlying operating shortfall due to a reliance on one-time and short-term solutions. In 2011, an estimated \$6.6 billion improvement in state tax collections, and \$13 billion in budgetary solutions already adopted by the Legislature, put the State in the position to dramatically reduce its budget problem in coming years.

*Budget Bills Passed by Legislature; Vetoed by Governor.* On June 15, 2011, the Legislature, with Democrats representing a majority thereof, passed a series of bills, including two budget bills without Republican support. On June 16, 2011, Governor Brown vetoed both budget bills. A series of trailer bills to the budget bills, including a set of bills that would redirect funds away from or terminate the existence of redevelopment agencies (ABX1 27 and ABX1 26, respectively), were passed by the Legislature and signed by the Governor.

*June 28, 2011 Legislative Action.* On June 28, 2011, the Legislature passed an \$86 billion General Fund State Budget which closed the State's remaining \$9.6 billion deficit. The 2011-12 Budget relied on \$4 billion of additional revenue, which if not realized, will automatically trigger further cuts to universities, welfare, and schools. The 2011-12 Budget is also premised on \$2.8 billion in deferrals to K-12 schools and community colleges and \$1.7 billion in a controversial plan to direct funds away from redevelopment agencies pursuant to ABX1 27. The University of California and California State University funding allocations have been cut by \$150 million each, and state courts also faced significant cuts. \$650 million in new revenues was anticipated to come from enforcement of sales taxes collected by online merchants, rural fire fees, and a \$12 car registration fee increase. Governor Brown signed the budget on June 30, 2011.

The complete 2011-12 State Budget is available from the California Department of Finance website at [www.dof.ca.gov](http://www.dof.ca.gov). The City can take no responsibility for the continued accuracy of this internet address or for the accuracy, completeness or timeliness of information posted there, and such information is not incorporated herein by such reference. The information referred to above should not be relied upon in making an investment decision with respect to the Bonds.

*Changes in 2011-12 State Budget; Trigger Cuts; Redevelopment.* As noted above, on May 16, 2011, at the time the Governor issued the May revision of his proposed 2011-12 budget, the Governor asked the State Legislature to act by the end of June 2011 and the voters to ratify in November 2011 the extension of then-current sales tax and vehicle license fee rates and the dependent credit tax exemption level for the following five years. These tax extensions were neither submitted to the voters nor approved. On December 13, 2011, Governor Brown announced that the State will cut nearly \$1 billion from the 2011-12 Budget, as triggered by a \$2.2 billion shortfall in projected revenue. The mid-year cuts are to be made in education,

school busing, child care, health programs, public safety and library programs. The California State University and University of California systems, In-Home Supportive Services and the Department of Developmental Services each will see their budgets slashed by \$100 million.

Also as also noted above, the 2011-12 State Budget included a set of bills that provided for \$1.7 billion in additional payments from communities with redevelopment agencies to fund school expenditures (ABX1 27), that restricted redevelopment agency actions to create new debt (ABX1 26), and that then will dissolve them (ABX1 26). Under the legislation, communities had until October 2011 to opt into the payments under ABX1 27, or the redevelopment agencies became subject to the dissolution provisions of ABX1 26. On July 18, 2011, *California Redevelopment Assoc. v. Matosantos* was filed in the first instance in the California Supreme Court. In this action, the California Redevelopment Association (“**CRA**”) requested the Court to nullify ABX1 26 and ABX1 27 (principally on the grounds that the bills violate Proposition 22 of the State Constitution) and to stay the effectiveness of the two bills. On December 29, 2011, the Supreme Court issued its decision in this case, ruling that ABX1 26 was constitutional and ABX1 27 was not. Redevelopment agencies presently face a deadline of February 1, 2012 to cease operations and dismantle, and no additional payments from communities with redevelopment agencies to fund school expenditures are constitutionally permissible. The CRA, together with the California League of Cities, counties and cities, are lobbying the Legislature to delay the February 2012 deadline and to consider legislation permitting a new operating structure for redevelopment that allows the State to receive pass-through tax revenue and redevelopment agencies to continue to exist. As a consequence of the *California Redevelopment Assoc. v. Matosantos* decision, both the 2011-12 State Budget and the City's Budget for Fiscal Year 2011-12 may be revised.

The execution of 2011-12 State Budget may be affected by national and State economic conditions and other factors, possibly causing the revenue projections made in the 2011-12 State Budget to fall short. The City cannot predict the impact that the 2011-12 State Budget, or subsequent budgets, will have on its own finances and operations. Additionally, the City cannot predict the accuracy of any projections made in the State's Fiscal Year 2011-12 State Budget.

2012-13 State Budget. Set forth below is a summary of the 2012-13 State Budget and budget process.

*Initial LAO Report on Fiscal Year 2012-13.* In their initial report for Fiscal Year 2012-13, the LAO forecasted that the State's general fund revenues and expenditures would show a budget deficit of \$12.8 billion, consisting of a \$3 billion projected deficit for Fiscal Year 2011-12 and a \$9.8 billion gap between projected revenues and spending for Fiscal Year 2012-13. A significant decrease in the State general fund budget deficit from the prior year was calculated assuming that \$2 billion of trigger cuts to various state programs contained in the provision of the 2011-12 budget will be implemented and maintained through the forecast period. The LAO projected that the State will continue to face annual operating shortfalls of between \$8 billion and \$9 billion per year in 2013-14 and 2014-15, and then such shortfalls will decline gradually to about \$5 billion in 2016-17. The LAO noted that the remaining work of eliminating the State's persistent, annual deficit will require more difficult cuts in expenditures and/or increases in revenues, and it recommended that the Legislature and the Governor (i) strive to eliminate the State's ongoing annual budget deficit this year or over the course of the next few years (ii) then focus efforts upon the serious long-term fiscal issues of the State's accumulated budgetary obligations and unfunded retirement liabilities.

*2012-13 Proposed Budget Submitted by Governor Brown to Legislature.* On January 5, 2012, Governor Brown submitted his 2012-13 Proposed Budget to the Legislature. The 2012-13 Proposed Budget acknowledged a \$9.2 billion budget deficit, consisting of an \$4.1 billion deficit that would remain at the end of Fiscal Year 2012-13 (absent budgetary action), and a \$5.1 billion shortfall between current-law revenues and expenditures in 2012-13, with a proposed reserve of \$1.1 billion. The 2012-13 Proposed Budget relies on a plan to submit to the voters at a regular election in November 2012 a \$6.9 billion tax increase, including a higher rate for personal income over \$250,000 and a half-cent sales tax hike. If the voters do not approve such revenue-raising measures, the 2012-13 Proposed Budget specifies \$5.4 billion in additional trigger cuts affecting funding for each of: schools and community colleges (\$4.8 billion cut, likely eliminating three weeks of instruction from the school year), the University of California and California State University (\$200 million cut), State courts (\$125 million cut, equivalent to court closures of three days per month), Parks and Recreation and Fish and Game (number of safety officers and lifeguards decreased), Forestry and Fire Prevention (substantial reduction in firefighting capability and emergency air response program, closure of fire stations), Department of Water (flood control programs cut) and Department of Justice (law enforcement programs reduced).

The 2012-13 Proposed Budget includes additional expense reducing measures as follows: Changes to CalWORKs and subsidized child care to, among other things, reduce assistance to families not meeting work requirements. (\$1.4 billion reduction), merging service delivery for those who are eligible for both Medi-Cal and Medicare (\$842 million reduction), eliminating In-Home Supportive Services in shared living arrangements. (\$164 million reduction), eliminating supplemental funding for schools associated with the elimination of the sales tax on gasoline (\$544 million reduction), reducing grants for students of private institutions (\$302 million reduction), suspending state mandates on local governments (\$828 million reduction) and expanding the alternative custody program for female prison inmates (millions of dollars reduced in future years). The 2012-13 also includes continuation of the use of weight fees to offset future State general fund costs connected with transportation expenses (\$350 million savings) and a one-time shift of monies from the State's Unemployment Compensation Disability Fund to pay the federal government for interest costs on the State's outstanding Unemployment Insurance loan.

Additionally, concurrently with the 2012-13 Proposed Budget, the Governor has proposed a constitutional amendment, to be submitted to the voters at the November 2012 general election, to secure funding for local governments so they can provide public services recently shifted to them under the State's "realignment" plan. Voter approval of such an amendment might give the State less budget flexibility, but could also strengthen local support for current and additional realignment.

*January 11, 2012 LAO Report.* An LAO report dated January 11, 2012 stated that the 2012-13 Proposed Budget were reasonable, and either of (i) the proposed multiyear tax increases and significant reductions in social services and subsidized child care programs or (ii) larger cuts, aimed largely at schools, move the State budget much closer to balance over the next several years. However, the LAO noted that its revenue estimates—including estimates of state revenue gains from the Governor's proposed tax raising initiatives—are lower than the Governor's and that if LAO estimates are correct, the Legislature will have to pursue billions of dollars more in budget-balancing solutions. The LAO was supportive of major restructuring of the school finance system, community college categorical funding, and education mandates, but suggested that alternatives to reforms in the CalWORKs program should be considered. The LAO further encouraged caution in setting the size of the trigger cuts; determining the specific

education reductions to impose; and designing tools to help schools, community colleges, and universities respond to the trigger cuts.

*February 17, 2012 LAO Report.* An LAO report dated February 27, 2012 found California's economy to be clearly improving in many ways, including employment growth. However, significant impediments block the State's path to a more robust recovery from the economic downturn. Predicting State revenues has also become more difficult due to recent weakness in income tax payments accompanied by speculation concerning a future bonanza of tax revenues due to the possible initial public offering of stock by Facebook, Inc. The LAO report predicts that the Legislature and the Governor will have to identify additional budgetary solutions to bring the 2012-13 State spending plan into balance; the amount of such solutions will depend on how economic improvement affects the Proposition 98 minimum guarantee for schools and community colleges and on analysis of tax payments received in April 2012 (when those become due).

Future State Budgets. The City cannot predict what actions will be taken in future years by the State Legislature and Governor to address the State's then-current or future budget deficits, whether they will be similar to those actions proposed or undertaken in prior State Budget years, and the nature of length of future State Budget negotiation processes. Future State Budgets will be affected by national and state economic conditions and other factors over which the City has no control. To the extent that the State Budget process results in reduced revenues to the City, the City will be required to make adjustments to its budget. Decreases in such revenues may have an adverse impact on the City's ability to pay the Bonds.

### **Vehicle License Fees**

Vehicle license fees ("**VLF**") imposed for the operation of vehicles on state highways are collected by the State Department of Motor Vehicles. VLFs were historically assessed in the amount of two percent of a vehicle's depreciated market value for the privilege of operating a vehicle on the State's public highways. Beginning in 1999, the VLF paid by vehicle owners was offset (or reduced) to the effective rate of 0.65 percent.

In connection with the offset of the VLF, the State Legislature authorized appropriations from the State General Fund to "backfill" the offset so that local governments, which receive all of the vehicle license fee revenues, would not experience any loss of revenues. The legislation that established the VLF offset program also provided that if there were insufficient State General Fund moneys to fully "backfill" the VLF offset, the percentage offset would be reduced proportionately (i.e., the license fee payable by drivers would be increased) to assure that local governments would not be underfunded.

In June 2003, the State Director of Finance ordered the suspension of VLF offsets due to a determination that insufficient State General Fund moneys would be available for this purpose, and, beginning in October 2003, the VLF paid by vehicle owners were restored to the two percent level. However, the offset suspension was rescinded by the Governor on November 17, 2003, and State offset payments to local governments resumed.

As part of the 2004 Budget Act negotiations, an agreement was made between the State and local government officials (the "**State-local agreement**") under which the VLF rate was permanently reduced from two percent to 0.65 percent. In order to protect local governments, the reduction in VLF revenue to cities and counties from this rate change was replaced by an increase in the amount of property tax they receive. Under the State-local agreement, for Fiscal

Years 2004-05 and 2005-06 only, the replacement property taxes that cities and counties receive were reduced by \$700 million. Commencing in Fiscal Year 2004-05, local governments began to receive their full share of replacement property taxes, and those replacement property taxes now enjoy constitutional protection against certain transfers by the State due to the approval of Proposition 1A at the November 2004 election.

### **Insurance and Self-Insurance Programs**

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

The MPA’s liability program provides coverage for bodily injury, property damage, personal injury, errors and omissions, and employment practices. Claims are administered in-house. The pooled coverage limit, per occurrence, is \$1 million with excess coverage through a combination of pooling and reinsurance of up to \$29 million. The City has a deductible of up to \$10,000 per claim.

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

### **Labor Relations**

The City has three recognized bargaining units which represent its employees.

- The Martinez Police Officers’ Association represents sworn police officers. Its contract with the City will expire on June 30, 2015.
- The Martinez Police Non-Sworn Employee’s Association represents other police staff of the City. Its contract with the City will expire on June 30, 2015.
- The Laborers’ 324 represents various miscellaneous classifications of City staff. Its contract with the City will expire on June 30, 2015.

The City’s management and confidential employees are unrepresented and covered under the Management Compensation Plan, which will expire on June 30, 2015.

### **Retirement System**

**Plan Description.** The City contributes to the California Public Employees’ Retirement System (“**CALPERS**”), an agent multiple employer defined benefit pension plan which acts as a common investment and administrative agent for its participating member employers. CALPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. The City’s employees participate in separate Safety (police), Miscellaneous (all other), and Miscellaneous Joint Facilities Agency Employee Plans. Benefit provisions under the Plans are established by

State statute and City ordinance. Benefits are based on years of credited service, equal to one year of full time employment. Funding contributions for the Plans are determined annually on an actuarial basis as of June 30 by CALPERS; the City must contribute these amounts. The City's labor contracts require it to pay employee contributions as well as its own.

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

|      |             |
|------|-------------|
| 2009 | \$2,034,625 |
| 2010 | 2,182,534   |
| 2011 | 2,255,321   |

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 3.25%. 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. The City has taken the following actions with respect to these former Plans:

- 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 Side Fund liability by making a lump sum contribution of \$631,914.
- For the Safety Plan, the City is currently evaluating a plan to satisfy its unfunded Side Fund liability by issuing pension obligation bonds, the proceeds of which will be used to make a lump sum contribution. *Although the City Council has adopted a resolution authorizing the issuance of pension obligation bonds for this purpose, there can be no assurance that the City will issue all or any portion of these bonds. If not issued, the City will be required to contribute to the Side Fund through an addition to its normal contribution rates over the next 11 years.*

**CALPERS Discount Rate Adjustment.** On March 14, 2012, the CALPERS Board voted to reduce its discount rate, which rate is attributable to its expected price inflation and investment rate of return (net of administrative expenses), from 7.75% to 7.5%. As a result of such discount rate decrease, among other things, (i) the amounts of CALPERS member state

and schools employer contributions will increase by 1.2 to 1.6% for Miscellaneous plans and 2.2 to 2.4% for Safety plans beginning Fiscal Year 2012-13 and (ii) the amounts of CALPERS member public agency contributions will increase by 1 to 2% for Miscellaneous plans and 2 to 3% for Safety plans beginning Fiscal Year 2013-14.

**Other Post-Employment Benefits**

**Plan Description.** The City provides health care benefits for retired employees and spouses through the City’s health care premium reimbursement plan (the “**Reimbursement Plan**”). Substantially all of the City’s employees may become eligible for the Reimbursement Plan if they reach the normal retirement age and have a minimum ten years of service while working for the City. Those employees who are hired after January 1, 2007, receive 85% reimbursement if they reach the normal retirement age and have a minimum ten years of service while working for the City. Currently, 41 retirees meet the eligibility requirements and receive Reimbursement Plan benefits. The Reimbursement Plan benefits are accrued by employees as follows:

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

Additionally, the City provides the option of postretirement health benefits to sworn Police Personnel through the Public Employees’ Retirement System (“**CALPERS**”) in lieu of the Reimbursement Plan. The City covers 100% of the cost for beneficiaries who retired prior to January 1, 2005. Those employees who retire after January 1, 2005 pay a percentage of the cost increase. Currently, 40 retirees meet the eligibility requirements and are either receiving Reimbursement Plan benefits or health benefits paid directly by the City to CALPERS.

For the year ending June 30, 2011, the City paid a total of \$705,820 for the cost of retiree health care benefits.

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

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

**Funding Progress and Funded Status.** Generally accepted accounting principles (“GAAP”) permits contributions to be treated as OPEB assets and deducted from the Actuarial Accrued Liability when such contributions are placed in an irrevocable trust or equivalent arrangement.

During the fiscal year ended June 30, 2011, the City contributed the ARC amounting to \$934,000 to CERBT which represented 9.0% 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.

### **Outstanding and Proposed Debt**

On March 11, 2003, the City issued Certificates of Participation in the amount of \$7,795,000 (the “COPs”) to refund and retire the City’s outstanding “1992 City Hall Refurbishment Certificates of Participation” and the City water enterprise’s “1993 Water System Improvements Certificates of Participation.” Interest and principal payments on the COPs are partially payable from lease revenues on the City’s city hall building and partially payable from net revenues derived from the operation of the City’s water system.

As of January 1, 2012, the outstanding principal portion of the COPs that is payable from the City’s General Fund (the refunded portion of the 1992 City Hall Refurbishment Certificates of Participation) was \$500,000. The portion of the COPs payable from the City’s General Fund matures on December 1, 2013.

On May 5, 2009, the City issued General Obligation Bonds in the amount of \$15,000,000 (the “Series A Bonds”) to finance the costs of acquiring and constructing parks, library improvements, and pool and safety improvements within the City. Interest and principal payments are payable from ad valorem property tax levied by the City and collected by the County. As of January 1, 2012, the outstanding principal amount of the Series A Bonds was \$14,300,000. The final maturity of the Series A Bonds is February 1, 2039.

On November 16, 2011, the City Council adopted a resolution authorizing the issuance of pension obligation bonds to satisfy the unfunded Side Fund liability of the City’s safety employees. See “– Retirement System – Pension Plan Benefits” above. *However, these bonds have not been issued to date, and there can be no assurance that the City will issue all or any portion of these bonds.*

## Sales Tax

The City receives a portion of the sales and use tax levied by the State on retail sales occurring in the City. In 2011-12, revenues from the sales tax are estimated to amount to \$4,247,416, representing about 22.9% of total general fund revenues and 12.0% of total City revenues. Sales tax revenue, including the sales tax in-lieu, is the City General Fund's second largest individual revenue source and is highly variable depending upon the economy.

A sales tax is imposed on retail sales or consumption of personal property. The tax rate is established by the State Legislature. As of the date hereof, the aggregate tax rate in the State is 6.25%. Additionally, the State has many special taxing jurisdictions (districts), which are funded by a sales and use tax rate that in addition to the standard statewide rate. The County has two such districts which each add an additional 0.50% on taxable transactions within the City. The State collects and administers the tax, and makes distributions on taxes collected within the City as follows:

### CITY OF MARTINEZ Sales Tax Rates

|   |             |
|---|-------------|
| State (General Fund) .....                  | 5.00%       |
| State (Local Revenue Fund) .....            | 0.50        |
| State (Local Public Safety Fund) .....      | 0.50        |
| State (Fiscal Recovery Fund) .....          | 0.25        |
| City and County Operations .....            | 0.75        |
| County Transportation Funds .....           | 0.25        |
| Contra Costa Transportation Authority ..... | 0.50        |
| Bay Area Rapid Transit District .....       | <u>0.50</u> |
| Total .....                                 | 8.25%       |

*Source: California State Board of Equalization.*

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

## Commercial Activity

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 and 2010 is not comparable to that of prior years.

Total taxable sales during calendar year 2010 in the City were reported to be \$407,237,000 a 21.33% increase over the total taxable sales of \$335,651,000 reported during 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.

### CITY OF MARTINEZ Taxable Transactions (Dollars in Thousands)

| Year                | Retail Permits<br>on July 1 | Retail Stores<br>Taxable<br>Transactions | Total Permits on<br>July 1 | Total Outlets<br>Taxable<br>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 <sup>(1)</sup> | 589                         | 239,362                                  | 868                        | 335,651                                  |
| 2010 <sup>(1)</sup> | 609                         | 238,421                                  | 897                        | 407,237                                  |

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

Total taxable sales during calendar year 2010 in the County were reported to be \$11,953,846,000, a 0.06% increase over the total taxable sales of \$11,883,049,000 reported 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.

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

| Year                | Retail Permits<br>on July 1 | Retail Stores<br>Taxable<br>Transactions | Total Permits on<br>July 1 | Total Outlets<br>Taxable<br>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 <sup>(1)</sup> | 14,045                      | 8,473,578                                | 21,395                     | 11,883,049                               |
| 2010                | 14,423                      | 8,716,393                                | 21,784                     | 11,953,846                               |

(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).

**APPENDIX C**

**FISCAL YEAR 2010-11 COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE CITY**

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City of  
**MARTINEZ**  
California



**Comprehensive  
Annual Financial Report  
for the  
Fiscal Year Ended  
June 30, 2011**

**CITY OF MARTINEZ, CALIFORNIA  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED JUNE 30, 2011**



**Prepared by**

**ADMINISTRATIVE SERVICES DEPARTMENT**

**CITY OF MARTINEZ, CALIFORNIA**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FOR THE YEAR ENDED JUNE 30, 2011**

**Prepared by**  
**ADMINISTRATIVE SERVICES DEPARTMENT**

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CITY OF MARTINEZ

Comprehensive Annual Financial Report  
For the Year Ended June 30, 2011

Page

**INTRODUCTORY SECTION:**

Table of Contents ..... i

Letter of Transmittal ..... v

Key Personnel ..... xiv

Organization Chart ..... xv

Location Map ..... xvi

GFOA Award ..... xvii

**FINANCIAL SECTION:**

*Independent Auditor’s Report on Basic Financial Statements* ..... 1

*Management’s Discussion and Analysis* ..... 3

*Basic Financial Statements:*

Government-wide Financial Statements:

Statement of Net Assets ..... 16

Statement of Activities ..... 17

Fund Financial Statements:

Governmental Funds:

Balance Sheet ..... 20

Reconciliation of the Governmental Funds – Fund Balances  
with the Governmental Activities Statement of Net Assets ..... 21

Statement of Revenues, Expenditures, and Changes in Fund Balances ..... 22

Reconciliation of the Net Change in Fund Balances - Total Governmental  
Funds with the Change in Governmental Net Assets ..... 23

Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual:

General Fund ..... 24

CITY OF MARTINEZ

Comprehensive Annual Financial Report  
For the Year Ended June 30, 2011

Page

**FINANCIAL SECTION (Continued):**

*Basic Financial Statements (Continued)*

Proprietary Funds:

|   |    |
|---|----|
| Statement of Net Assets .....                                       | 26 |
| Statement of Revenues, Expenses and Changes in Fund Net Assets..... | 27 |
| Statement of Cash Flows.....  | 28 |

Fiduciary Funds:

|  |    |
|--|----|
| Statement of Fiduciary Net Assets .....            | 30 |
| Statement of Changes in Fiduciary Net Assets ..... | 31 |

|                                    |    |
|------------------------------------|----|
| Notes to Financial Statements..... | 33 |
|------------------------------------|----|

**Supplemental Information:**

*Non-major Governmental Funds:*

|   |    |
|---|----|
| Combining Balance Sheets .....  | 68 |
| Combining Statement of Revenues, Expenditures, and Changes<br>in Fund Balances .....                    | 70 |
| Combining Schedule of Revenues, Expenditures, and Changes<br>in Fund Balances - Budget and Actual ..... | 72 |

*Internal Service Funds:*

|   |    |
|---|----|
| Combining Statement of Net Assets.....  | 78 |
| Combining Statement of Revenues, Expenses and Changes in Fund Net Assets..... | 79 |
| Combining Statement of Cash Flows .....                                       | 80 |

*Fiduciary Funds:*

|   |    |
|---|----|
| Statement of Changes in Assets and Liabilities – All Agency Funds ..... | 82 |
|---|----|

CITY OF MARTINEZ

Comprehensive Annual Financial Report  
For the Year Ended June 30, 2011

|  | <u>Page</u> |
|--|-------------|
| <b>STATISTICAL SECTION:</b>  |             |
| Net Assets by Component .....  | 85          |
| Changes in Net Assets .....  | 86          |
| Fund Balances of Governmental Funds .....                            | 88          |
| Changes in Fund Balance of Governmental Funds.....                   | 90          |
| Assessed and Estimated Actual Value of Taxable Property .....        | 92          |
| Property Tax Rates.....  | 93          |
| Water System Revenue.....  | 94          |
| Principal Property Tax Payers .....                                  | 95          |
| Property Tax Levies and Collections .....                            | 96          |
| Ratio of Outstanding Debt by Type.....                               | 97          |
| Computation of Direct and Overlapping Debt.....                      | 98          |
| Computation of Legal Bonded Debt Margin .....                        | 99          |
| Revenue Bond Coverage, Water Fund Certificates of Participation..... | 100         |
| Demographic and Economic Statistics.....                             | 101         |
| Principal Employers.....   | 102         |
| Full-Time Equivalent City Government Employees by Function .....     | 103         |
| Operating Indicators by Function/Program.....                        | 104         |
| Capital Asset Statistics by Function/Program.....                    | 106         |

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November 2, 2011

**Honorable Mayor and Council Members**

We are pleased to present the City of Martinez' Comprehensive Annual Financial Report for the fiscal year ended June 30, 2011. The Administrative Services Department is responsible for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to fairly set forth the financial position and results of operations of the City measured by the financial activity of its funds. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

The City of Martinez is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act Amendments of 1996 and the U.S. Office of Management and Budget's Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*. Information related to this single audit, including a schedule of expenditures of federal awards, the independent auditor's reports on internal controls and compliance with applicable laws and regulations, and a schedule of findings and questioned costs are included in a separately issued single audit report.

The City has included in its basic financial statements all funds and entities over which the City Council has control, including the City and the Martinez Public Improvement Corporation (please see Note 1A to the Financial Statements for full description). Control by or dependence on the City was determined on the basis of budget adoption, outstanding debt secured by revenues, general obligations of the City, or receipt of significant subsidies from the City. The City Council also serves as the Board of the Martinez Public Improvement Corporation.

**City Overview**

Established in 1876, Martinez is the County seat of Contra Costa County. It is located along the Sacramento and San Joaquin rivers in the central part of the County. The City's roots can be traced to the late 1840's, when it served as a ferryboat transit point across the Carquinez straits on the way to the gold fields. By the time of its incorporation, Martinez had evolved into one of the area's most significant trading posts and shipping ports. Today, the City covers 12.5 square miles and has approximately 35,958 residents. As one of California's first towns, Martinez retains a strong sense of history and family. The renowned naturalist John Muir made Martinez his home for nearly a quarter century and in 1914, the year of Muir's death, the legendary baseball great Joe DiMaggio was born here. One of the unique aspects of Martinez is its architecture. Many of the downtown shops still retain their early 20<sup>th</sup> century look and charm, with some homes dating back more than 125 years.

The City operates under the Council-Manager form of government. The City Manager is responsible for the efficient implementation of Council policy and the effective administration of all City government affairs. The City is organized into four departments reporting directly to the City Manager. They are Administrative Services, Community and Economic Development, Police and Public Works.

### **Governmental Structure, Local Economic Condition and Outlook**

The City provides a full range of services including police protection, community and economic development, recreation activities, parks and street maintenance, water utilities and general administration.

The City's General Fund supports most of these services. It is the primary reporting fund for general government operations of the City of Martinez. It accounts for all financial resources not required by law or administrative action to be accounted for in another fund. The General Fund is the City's largest operating fund.

General Fund revenues totaled \$18,638,274 in Fiscal Year 2010-11, an increase of 2.2% from the prior fiscal year. All categories, but charges for services and use of money & property, had increases. The largest increases were in Taxes of \$206,926 (primarily in Sales Tax), and Miscellaneous of \$109,334, due to an insurance rebate. Taxes totaling \$15,809,271 represented approximately 85% of total General Fund revenues, with \$6,413,918 (or 34% of the General Fund revenues) coming from Property Taxes. Other revenue sources comprising the remaining 15% of General Fund revenues included Licenses, Permits and Fees; Intergovernmental; Charges for Services; Fines and Forfeits; Use of Money and Property; and Miscellaneous. General Fund expenditures totaled \$19,538,821 and transfers out totaled \$667,096 in Fiscal Year 2010-11. Actual expenditures were \$349,420 less than budgeted expenditures, with an additional \$32,924 in encumbrances. The General Fund ended Fiscal Year 2010-11 with an unassigned fund balance of \$4.3 million with \$1 million designated for unforeseen circumstances.

The City's enterprise operations consist of the Parking Services, Water System, and Marina Services funds. Revenue to the Parking Services Fund is primarily generated from meter collections and parking permits, and expenditures represent enforcement and collection activities. The City's only parking district is the main downtown area. The Martinez Water System provides a reliable supply of high quality potable water in sufficient quantity to meet the needs of Martinez residents and businesses. The safety of the water and the health of the community are ensured through the use of advanced technology, proper water treatment, water quality analysis, treatment plant maintenance, backflow prevention, and maintenance of the water distribution system. The water system operates much in the same way as a private business. Revenues generated by the Martinez Water System are deposited into the Water System Fund. A private contractor operates the full-service Martinez Marina, with oversight by City staff and the Parks, Recreation, Marina and Cultural Commission (PRMCC). The City is working to establish a long-term lease arrangement to provide for the marina's financial stability and ensure that the facility is available for the enjoyment of marina users, residents and visitors for years to come.

The outlook for Martinez is affected by the larger economies. The depths of the recent recession that began in December 2007 were not fully realized until June 2009, according to statistical data of the nation's economic activity evaluated by the National Bureau of Economic Research. Despite almost two years of improving economic activity (measured by the nation's Gross Domestic Product), fundamental concerns remain. The most recent national unemployment data released by the Bureau of Labor Statistics indicated that 13.9 million Americans were unemployed for a rate of 9.2% in June 2011, with almost half of those (6.3 million) considered long-term unemployed for a period of 27 weeks or longer.

The latest data released by the US Bureau of Economic Analysis revealed that the GDP increased at an annual rate of just 1.0% in the second quarter of 2011, up from the marginal 0.4% increase seen in the first quarter of 2011. Not surprising, state and local government spending continued to decline. This latest rash of poor economic news has stoked fears of a double-dip recession. Many of the fundamental problems that compounded the recession, such as tightness in the credit markets following the housing market collapse, persist with no clear end in sight. As was almost uniformly predicted by leading economists, the duration and severity of the national economic crisis – the likes of which had not been seen since the Great Depression of the 1930's – was so widespread and impactful that true and lasting recovery will be measured in years and not months.

The economy in California continues to struggle. As is often the case, California's economy leads the nation during the boom times, but often lags behind during recessionary periods and the resultant aftermath. The June 2011 figures from the California Economic Development Department showed the State's unemployment rate at 12.1%, and the rate is not projected to dip below double digits until 2013 according to the UCLA Anderson Forecast. The County's unemployment rate for the same period was 11.0, with the City's rate trending slightly lower at 8.9%. As a point of reference, the County's unemployment rate for the entire year of calendar 2007 was at or below 5%, and the City's annualized rate was 3.7%. True economic recovery at the national, state and local levels is not expected until the rate drops well below 10%.

The East Bay continues to struggle with the housing slowdown. After the precipitous falls to housing values in 2008 and 2009, median home sales prices stabilized overall to some degree, but fluctuated both up and down throughout the majority of 2010, with any increases minimal at best. The median home sale value in Martinez increased 1.8% from the first to second quarters of 2011, but still declined 14.3% in the second quarter of 2011 compared to the same period a year ago (from \$345,991 to \$296,646). As a point of reference, the median home sale value in Martinez in June 2008 was \$415,000. The number of foreclosed properties in Martinez through the second quarter of 2011 was 172, up 21.9% for the same period of 2010, and a sign that the local housing market has not yet reached the stability needed to begin a lasting upward trend.

Martinez, like most local agencies, faces considerable challenges in the near term as financial conditions have affected most of its major revenue sources including property and sales taxes, and development fees. The City must also deal with its financial obligations for retirement and other post employment benefits (OPEB), as well as ever-escalating healthcare costs, while trying to maintain current service levels. To help meet these and other budgetary challenges, the City

strives to develop and diversify its economy in ways that will increase revenues and embrace its heritage. The downtown area historically accounts for only around 5% of the City's total sales tax revenues. Revitalization of the downtown and marina areas is crucial to the City's long-term economic health.

### **Major Initiatives and Objectives**

***Public Safety.*** In an effort to expand our Community Policing efforts and improve police-citizen interaction, the City's Police Department implemented a Neighborhood Policing Initiative that calls for each patrol officer to address issues and take responsibility for one of twenty four geographic neighborhoods. This approach will be continuously evaluated and include citizen feedback. Another significant milestone will occur in the coming fiscal year, when the Department completes a major communications project which will allow for interoperability throughout the region. The project will require the purchase of "P25" portable and mobile radios and will be completed through a combination of grant support and other funding already reserved for the project.

***Measure H Projects.*** The residents of Martinez approved a \$30 million Measure H Parks, Pool and Library Bond measure in November 2008, and \$15 million in bonds were issued in May 2009. The first projects supported by this bond included construction of the new municipal swimming pool; renovation and expansion of the City library; and numerous upgrades to Holiday Highlands, Hidden Lakes, Hidden Valley, and Waterfront parks.

The Rankin Aquatic Center project was completed in July 2011. This project, supported through a Council-designated allocation of \$6 million in Measure H funds, included the complete demolition of the site and the construction of a play pool and recreational pool; pool house building with equipment rooms and administrative spaces; decking and miscellaneous site and frontage improvements. The City reopened the pool on July 23, 2011 and achieved record participation rates through the end of the pool season in September. The pool reopens in May 2012, and in the interim, the City will look at ways to further market the pool to a wider audience and bring in additional revenue to help support the increased costs of the new facility.

The Library Renovation and Expansion project was completed in August 2011 at a cost of just under \$2 million in Council-designated Measure H funding. The project included the installation of an elevator to both make the area ADA-accessible and improve circulation. A community meeting room was added to the lower level, along with research and reading spaces. The enhanced facility has received glowing reviews since reopening.

A variety of other parks projects funded through Measure H are underway, including construction at Holiday Highlands Park and Rankin Park which will involve ADA compliance, playground, and turf improvements. Similar improvements planned for Hidden Lakes Park, Hidden Valley Park, and Waterfront Park and expected to commence this fiscal year.

***General Plan Update.*** The City of Martinez is in the process of updating its General Plan, the comprehensive, long-term plan for the physical development of the City. Much of the City's existing General Plan was adopted in 1973. After more than three and half decades of use, it is appropriate to re-evaluate the scope and content of the City's General Plan, which exists as the

community's statement of its fundamental values and as a shared vision for its future development. The General Plan is intended to articulate how the citizens of Martinez view the community, both now and in the future, and where the community stands on current and future planning and development issues. A Task Force similar to the one assembled for the recent update to the City's Housing Element was formed to oversee the development of a new General Plan. The Task Force, which represents the different interests and geographic areas of the City, participated in four public workshops in Fall 2010 to develop a working vision for the General Plan Update. The Task Force generally meets every month and will do so until the draft updated General Plan has been completed.

Simultaneously, the City has been hosting a series of workshops and tours designed to "refresh" the vision for Downtown Martinez. This series is part of the General Plan Update process and will identify the choices, trade-offs, priorities, and strategic actions required for the Downtown to prosper in the 21st Century. The series was organized in response to the large number of comments received about Downtown Martinez during the first round of community outreach for the Update conducted last fall. The community feels that making the Downtown a more successful gathering place and commercial center should be a top priority. The primary purpose for this effort is to reach out to the community and pertinent stakeholders to hear their thoughts and ideas on how to help transform Downtown Martinez and realize its full potential as a community destination.

***Economic Development.*** The City evaluated its options with respect to the two large concrete structures it owns across from the Amtrak/Intermodal Station (known as the "Zocchi" buildings). The City entered into Letters of Intent with two private development organizations for reuse of the buildings as indoor court and turf field recreational facilities in May/June 2011, and completed an environmental analysis in August 2011. Next steps will be a public hearing with the Planning Commission in October 2011 to permit recreational uses in the Light Industrial area, and finalizing the leases with the developers. Successful development of the facilities could have a significant and positive impact on downtown businesses that would serve the clientele.

The City is working with a private developer on options for the 630 Court Street property, a cornerstone location in the City's downtown held in escrow by the City. An adjacent property located at 610 Court Street, owned by Contra Costa County, may become surplus property in the near future and an attractive option for private development. The City's Economic Development Subcommittee will continue to meet regularly to discuss the City's role in the development of the two properties, and to facilitate negotiations with prospective developers to attract restaurant, retail, and office space.

The City Council worked on an "Economic Stimulus Package" in late FY 2009-10 and into FY 2010-11. This program is designed to encourage commercial and residential development by reducing development impact and building permit fees over an 18 month timeframe. The program will also reduce building permit fees for unreinforced masonry (URM) projects; commercial tenant improvements; and non-URM rehabilitation projects during the eligibility period, which runs through March 2012.

The City is using the new government access “City Channel” as a means to promote economic development in Martinez, and has enlisted the Chamber of Commerce and Main Street Martinez to provide promotional content. An example of this type of promotional programming is the 10-minute spot on the local farmers’ markets that began airing in September 2011. The City is also expanding its use of digital media for marketing through its website and social media outlets.

***Transportation Improvements.*** The Marina Vista Streetscape project was designed and constructed to include new paver sidewalks; sidewalk bulb outs; decorative energy-efficient LED streetlights; handicap ramps; bicycle lanes; and landscaping. The final task will be to complete the undergrounding of overhead utilities later this fiscal year. The project limits are along Marina Vista from Berrellesa Street to the junction with Escobar Street.

Other key transportation projects on the horizon include the preliminary design of the Court Street Overcrossing Project to provide emergency access from the City’s waterfront over the railroad tracks to Escobar Street, and the design and reconstruction of the Intermodal parking lot north of the railroad tracks to accommodate overflow Amtrak parking.

***Alhambra Valley Annexation Project.*** The City is proceeding with the process to annex a portion of the unincorporated County located to the southwest of the City’s jurisdictional boundary known as Alhambra Valley. Including this area in the City will have a beneficial impact on property tax generation. The annexation proposal was reviewed by the City’s Planning Commission in August 2010 (the last of three public hearings on the matter) and approved by the City Council in December 2010. The requisite tax sharing agreement with Contra Costa County is being finalized, and the annexation will be brought before the Contra Costa County Local Agency Formation Commission (LAFCO) in the near future for consideration.

***North Pacheco Annexation Project.*** The City is also in the process of annexing a portion of unincorporated County land adjacent to the City’s eastern edge located north of the Highway 4/Interstate 680 junction along Pacheco Boulevard to the BNSF railroad trestle. This area serves as a gateway to Martinez and could facilitate economic revitalization and visual improvement once annexed. The project was reviewed by the City’s Planning Commission and approved by the City Council in January 2011. The requisite tax sharing agreement with Contra Costa County is being finalized, and the annexation will be brought before the Contra Costa County Local Agency Formation Commission (LAFCO) in the near future for consideration.

***New Government Access Channel.*** The City launched its new government access “City Channel” in June 2011. The channel is a joint venture among the cities of Martinez, Pleasant Hill and Clayton, and operated by Contra Costa Television (CCTV). Programming alternates among the member cities, with specific time slots reserved for the playback of the various city meetings. Program content initially consisted of bulletin board announcements of City services and events, with additional video content beyond the playback of the Council meetings interspersed within the City’s dedicated programming blocks as the member cities develop more content. As was previously mentioned, the City is excited to use this medium as a means to promote economic development in Martinez and has enlisted the Chamber of Commerce and Main Street Martinez to provide promotional content for the channel.

***Climate Action Plan/Sustainability Programs.*** The City made significant progress in 2010-11 implementing its Climate Action Plan. The City upgraded its electric vehicle (EV) charging stations at three sites in the downtown area from 120V to 240V to accommodate the rapidly-growing market for electronic vehicles, such as the Nissan Leaf and Chevy Volt, capable of inter-city transportation on major highways and freeways. The City also completed installation of 114 energy efficient LED lights in the downtown area using \$150,800 in Federal grant funding. The LED's will require 40% to 50% less energy consumption and save the City approximately \$15,800 each year.

Another key initiative was when the City partnered with Contra Costa County's Department of Conservation and Development to conduct a public workshop in June 2011 to promote the "Energy Upgrade California in Contra Costa" program. This program provides homeowners with rebates of up to \$9,000 in combined PG&E and County funding for qualifying projects such as insulation, ducts, furnaces and air-conditioning to improve a home's energy efficiency. The City arranged for taping of the workshop presentation, which is now being aired on the City Channel. Rebroadcast of the workshop will continue until the program expires in March 2012.

The City also successfully secured, as a condition of the 10 year franchise extension granted to the City's solid waste and recycling hauler Allied Waste Systems, dedicated funding of \$25,000 per year for its diversion reporting (i.e. AB939/SB1016) and Climate Action Plan programs. This funding is guaranteed until 2023 and will help support expansion of the City's sustainability efforts.

## **Financial Information**

***Accounting System and Budgeting Controls.*** In developing and evaluating the City's accounting system, consideration is given to the accuracy of internal accounting control. Internal accounting controls are designed to provide reasonable assurance regarding the safeguarding of assets against loss from unauthorized use or disposition, the accuracy and reliability of accounting data and the adherence to prescribed managerial policy.

The City maintains extensive budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the biennial appropriated budget approved by City Council. Activities of all government and business type funds are included in the biennial appropriated budget. The budgetary level of control, the level at which expenditures cannot legally exceed the appropriated amount, for the operating budget is at the department level. For the capital improvement budget, the level of control is at the individual capital improvement project. The City also utilizes the encumbrance system as a management control to assist in controlling expenditures. All appropriations lapse at year-end; however, encumbrances and appropriations for unfinished capital and other projects are reviewed and, when warranted, reappropriated as part of the following year's budget.

As a recipient of federal, state, and county financial assistance for a variety of projects or programs, the City is responsible for ensuring that an adequate control structure is in place to comply with applicable laws and regulations related to those projects or programs. This internal

control structure is subject to periodic evaluation by management and the finance staff of the City.

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

The General Long-term Obligations Account Group provides accounting control over the principal of the City's general long-term debt. This debt will be repaid only out of governmental funds, but is not accounted for in these funds because this debt does not require an appropriation or expenditure in this accounting period. The City's long-term obligations are reported in the Statement of Net Assets.

Proprietary Fund (Enterprise and Internal Service) long-term debt is maintained in the proprietary fund that will repay the debt because the City accounts for these funds on a full-accrual basis in a manner similar to that of commercial operations.

Bond premiums, discounts, and issuance costs are recognized during the period of issuance for governmental fund types. Bond proceeds are reported as another financing source net of the applicable premium or discount. Issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures. For proprietary fund types, the bond premiums, discounts, and issuance costs are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs are reported as deferred charges. The City's primary General Long-term Obligations consist of Certificates of Participation from 1992, which was refunded in March of 2003. This debt is explained in detail in Note 7 to the Financial Statements.

***Cash Management Policies and Practices.*** The City's investment policy is to minimize credit and market risks while maintaining an optimal yield in its portfolio. Bank deposits are either insured by the Federal Government or collateralized. All collateral deposits were held either by the City or its agent in the City's name. Idle cash is primarily invested in the State of California Local Agency Investment Fund (LAIF).

***Risk Management.*** The City is a member of the Municipal Pooling Authority (MPA) a Joint Powers Agency that covers general liability losses up to \$29 million. The City has a deductible of up to \$10,000 per claim. The City's Safety Program, Property Insurance, and Workers' Compensation reporting are all coordinated through the MPA.

Please refer to the Management Discussion and Analysis (MD&A) and the notes to the financial statements for additional information. The City has refrained from duplicating information.

### **Other Information**

***Independent Audit.*** State statutes require an annual audit by independent certified public accountants. The City selected the accounting firm of Maze and Associates for these services. The auditor's opinion letter has been made a part of this report.

**Awards.** The Government Finance Officer's Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Martinez for its comprehensive annual financial report for the fiscal year ended June 30, 2010. This was the tenth consecutive award the City has received from GFOA. In order to be awarded a Certificate of Achievement, a City must publish an easily readable and efficiently organized comprehensive annual financial report. This report satisfied both Generally Accepted Accounting Principles and applicable legal requirements.

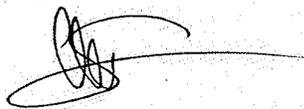
A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program requirements.

The CSMFO Board of Directors determined in 2006 to return to the original intent of its awards program, which allows submissions from agencies who are participating in the CAFR review program for the first time or from agencies that do not participate in the rigorous GFOA program. Since the City submits its CAFR to GFOA for award consideration, it is no longer eligible to participate in the CSMFO award program.

### **Acknowledgements**

The preparation of this Comprehensive Annual Financial Report is the result of the hard work and dedicated efforts of the staff in the Administrative Services Department. Special thanks to the Finance Division, in particular, Cathy Spinella, Finance Manager; Kristine Sosa, Accountant; and to Michael Chandler, Senior Management Analyst, for their efforts in preparing this report. I would also like to thank the City Council and the City Manager for their support in planning and directing the financial operations of the City.

Respectfully submitted,



Alan Shear  
Assistant City Manager

**City of Martinez Key Personnel**

**June 30, 2011**

**City Council**

Rob Schroder, Mayor

Janet Kennedy, Vice Mayor

Lara Delaney, Councilmember

Michael Menesini, Councilmember

Mark Ross, Councilmember

**Council Appointees**

Philip Vince, City Manager

Alan H. Shear, Assistant City Manager

Gary D. Peterson, Chief of Police

**Elected Officials**

Gary Hernandez, City Clerk

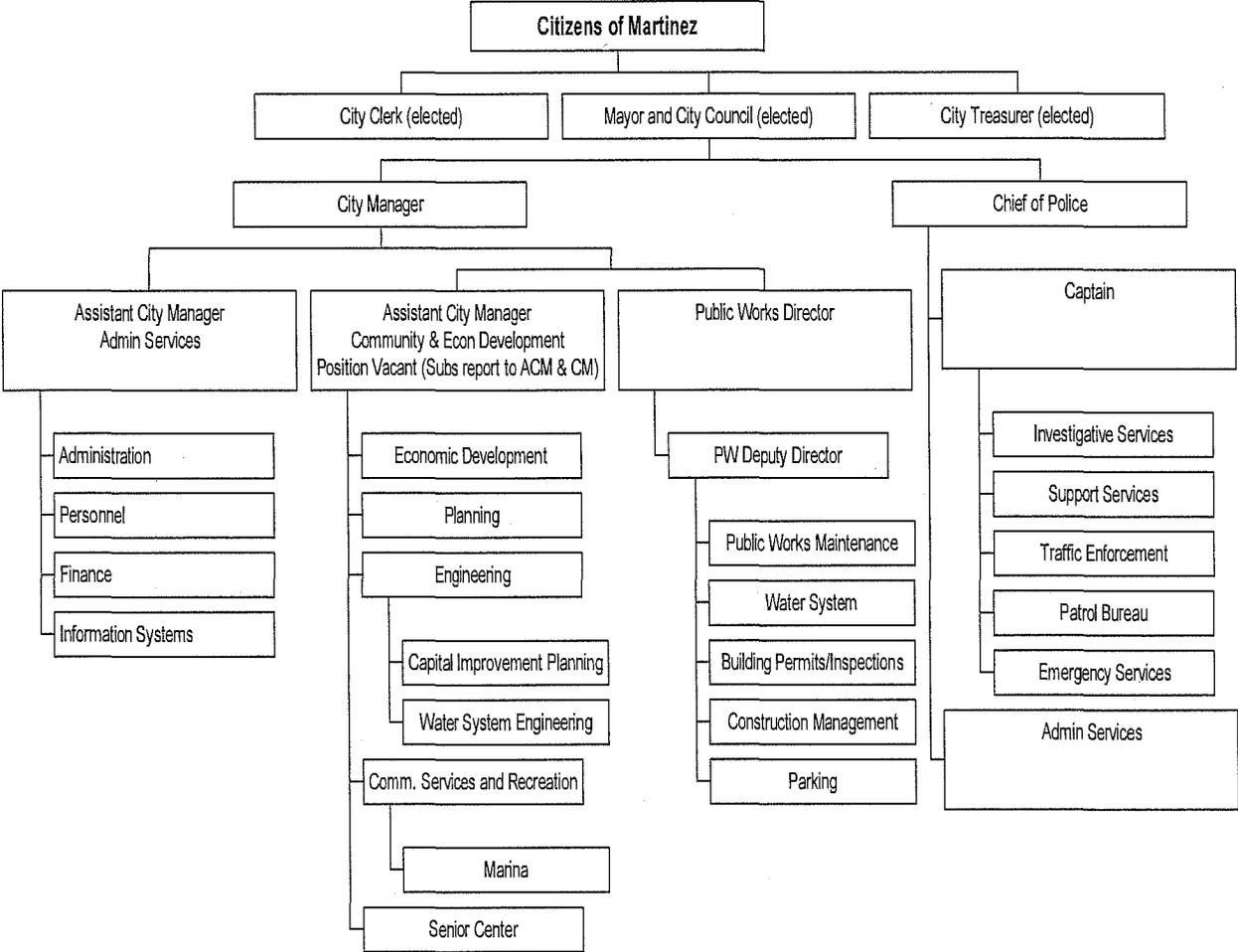
Carolyn Robinson, City Treasurer

**City Staff**

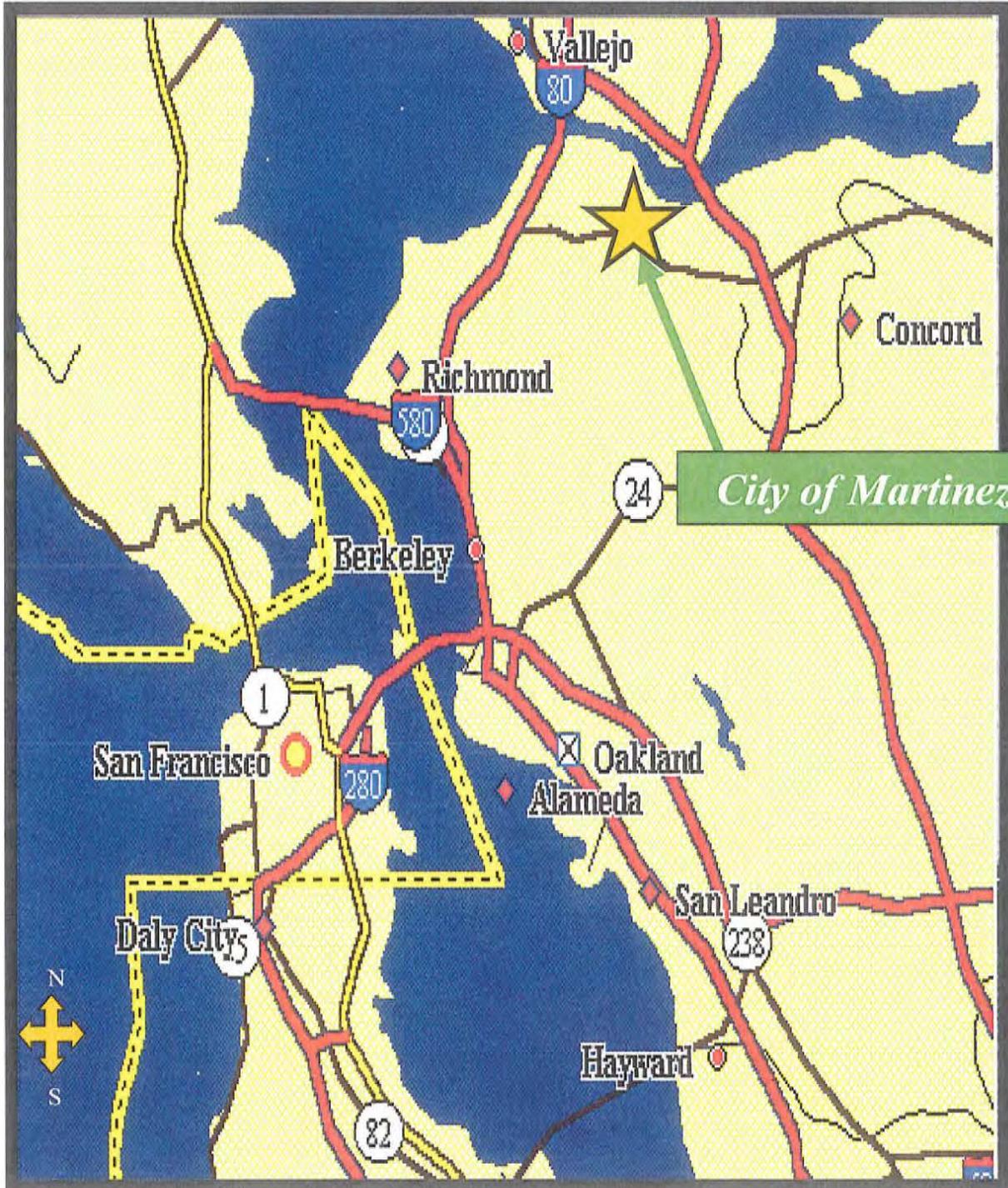
Cathy Spinella, Finance Manager

David Scola, Public Works Director

# CITY OF MARTINEZ



# AREA MAP



# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Martinez  
California

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2010

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

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## INDEPENDENT AUDITOR'S REPORT ON BASIC FINANCIAL STATEMENTS

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

We have audited the accompanying basic financial statements of the governmental activities, business-type activities, each major fund and aggregate remaining fund information of the City of Martinez, California, as of June 30, 2011 and for the year then ended, as listed in the table of contents. These basic financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly in all material respects the financial position of the governmental activities, business-type activities, each major fund and aggregate remaining fund information of the City of Martinez at June 30, 2011 and the respective changes in financial position and cash flows, where applicable there of, and the respective budgetary comparisons listed as part of the basic financial statements for the year then ended, in conformity with principles generally accepted accounting in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 9, 2011 on our consideration of the City of Martinez's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

As of July 1, 2010, the City adopted the provisions of Governmental Accounting Standards Board Statement Number 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*. As discussed in Note 10.B. to the financial statements, the provisions of this statement affect the classification of fund balances reported in the financial statements.

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

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

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

*Mage & Associates*

September 9, 2011

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Martinez Financial Statements are issued in the format prescribed by the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). This discussion and analysis of the City's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2011. Please read it in conjunction with the accompanying transmittal letter, the Basic Financial Statements and the accompanying notes to the financial statements.

### **FINANCIAL HIGHLIGHTS**

Financial highlights of the year include the following:

#### **City-wide Activities:**

- The City's total net assets were \$104,282,228 at June 30, 2011, up \$1,424,258 from the prior year. Of this total, \$65,515,613 were Governmental assets and \$38,766,615 were Business-type assets.
- Total City revenues were \$36,843,877 in Fiscal Year 2011. General Revenues, which result from both Governmental and Business-type Activities, totaled \$17,512,353. Program Revenues from the Governmental Activities were \$8,988,235, and Program Revenues from the Business-type Activities were \$10,343,289.
- Total City expenses were \$35,419,619 in Fiscal Year 2011. Program Expenses from the Governmental Activities were \$24,485,545 and Program Expenses from the Business-type Activities were \$10,934,074.

#### **General Fund Activities:**

- General Fund revenues of \$18,638,274 in Fiscal 2011 represented an increase of \$405,942 from the prior year. General Fund expenditures, including transfers, of \$20,205,917 in Fiscal 2011 represented an increase of \$1,147,763 over the prior year expenditures.
- General Fund balance of \$6,933,881 at June 30, 2011 was \$1,567,643 lower than Fiscal 2010's fund balance of \$8,501,524.

### **OVERVIEW OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT**

This Comprehensive Annual Financial Report is in six parts:

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

## THE BASIC FINANCIAL STATEMENTS

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

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

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

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

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

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

### *The City-wide Financial Statements*

The Statement of Net Assets and the Statement of Activities present information about the following:

- *Governmental Activities*—All of the City's basic services are considered to be governmental activities, including general government; community and economic development; public safety; public works; recreation, parks, and community services; public improvements; building inspection and code enforcement; planning and zoning; and general administration services. These services are supported by general City revenues such as taxes, and by specific program revenues such as mitigation/impact fees.
- *Business-type Activities*—The City's three enterprise activities, Parking Services, Water System, and Marina Services, are reported here. Unlike governmental services, these services are supported through user fees based on the amount of the service they use.

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

### ***Fund Financial Statements***

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

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

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

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

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

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

### ***Fiduciary Statements***

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

## FINANCIAL ACTIVITIES OF THE CITY AS A WHOLE

This analysis focuses on the net assets and changes in net assets of the City as a whole. Tables 1, 2 and 3 focus on the City's Governmental Statement of Net Assets and Statement of Activities, while Table 4, 5 and 6 focus on the City's Business-type Statement of Net Assets and Statement of Activities that follow.

### Governmental Activities

**Table 1**  
**Governmental Net Assets at June 30, 2011**

|   | Governmental Activities |                      |
|---|-------------------------|----------------------|
|   | 2011                    | 2010                 |
| Cash and investments                    | \$ 25,020,622           | \$ 31,284,644        |
| Other assets                            | 8,186,543               | 7,786,616            |
| Capital assets                          | 52,179,035              | 44,602,743           |
| <b>Total Assets</b>                     | <b>85,386,200</b>       | <b>83,674,003</b>    |
| Long-term debt outstanding              | 15,395,000              | 15,965,000           |
| Other Liabilities                       | 4,475,587               | 3,877,118            |
| <b>Total Liabilities</b>                | <b>19,870,587</b>       | <b>19,842,118</b>    |
| Net assets:                             |                         |                      |
| Invested in capital assets, net of debt | 46,268,501              | 43,328,577           |
| Restricted                              | 13,524,459              | 17,697,648           |
| Unrestricted                            | 5,722,653               | 2,805,660            |
| <b>Total Net Assets</b>                 | <b>\$ 65,515,613</b>    | <b>\$ 63,831,885</b> |

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. For the City, net assets increased \$1,683,728 in 2011 to \$65,515,613. The change of Net Assets is reflected in the Statement of Activities shown in Table 2 and is explained below:

- Cash and investments of \$25,020,622 is comprised of \$14,340,524 available for operations and \$10,680,098 restricted for debt service and Measure H capital projects which came from bond proceeds. The decrease of \$6,264,022 from the prior year was due to the general fund expenses exceeding revenues and capital improvements spending revenue received in prior years, which includes \$6 million of bond projects.
- Other assets at \$8,186,543 increased by \$399,927 due primarily in intergovernmental receivables.
- Capital assets increased \$7,576,292, net of depreciation charges, due primarily in infrastructure due to street reconstruction and Measure H park projects.
- Long-term debt declined \$570,000 as no new debt was issued in 2011 and principal payments were made to reduce existing debt.

- Other liabilities increased \$598,469 due mostly to an increase in accounts payable of \$808,040 reflecting higher capital project payables at year end and offset by a reduction in development deposits of \$197,269.
- Net assets invested in capital assets, net of related debt of \$46,268,501 represents the City's investment in capital assets net of amounts borrowed to finance that investment.
- Restricted net assets totaled \$13,524,459 at June 30, 2011 with \$10,940,067 for capital project; \$1,312,460 for debt service; and \$1,271,932 for special revenue projects.
- Unrestricted net assets are normally the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants or other legal requirements. Unrestricted net assets were \$5,722,653 at June 30, 2011.

Table 2 presents the revenues and expenses for the City as a whole, which are elements in the changes in governmental net assets that increased \$1,683,728 in Fiscal Year 2011.

**Table 2**  
**Changes in Governmental Net Assets for the Year Ended June 30, 2011**

|                                       | Governmental Activities    |                              |
|---------------------------------------|----------------------------|------------------------------|
|                                       | 2011                       | 2010                         |
| <b>Expenses</b>                       |                            |                              |
| General government                    | \$ 1,888,212               | \$ 1,860,433                 |
| Administrative Services               | 871,985                    | 695,828                      |
| Public works                          | 4,222,074                  | 3,842,513                    |
| Community & economic development      | 6,024,757                  | 6,725,653                    |
| Police                                | 10,665,218                 | 10,616,620                   |
| Interest on LTD                       | 813,299                    | 584,615                      |
| Total expenses                        | <u>24,485,545</u>          | <u>24,325,662</u>            |
| <b>Revenues</b>                       |                            |                              |
| Program revenues:                     |                            |                              |
| Charges for services                  | 1,645,625                  | 1,542,819                    |
| Operating contributions & grants      | 3,034,131                  | 2,414,403                    |
| Capital grants                        | 4,308,479                  | 2,124,450                    |
| Total program revenues                | <u>8,988,235</u>           | <u>6,081,672</u>             |
| General revenues:                     |                            |                              |
| Property tax                          | 6,413,918                  | 6,440,055                    |
| Sales tax                             | 3,216,371                  | 2,890,078                    |
| VLF Property tax swap                 | 2,516,117                  | 2,553,503                    |
| Franchise Fees                        | 1,356,952                  | 1,355,211                    |
| Other taxes                           | 2,257,290                  | 2,363,498                    |
| Intergovernmental                     | 238,498                    | 178,083                      |
| Investment earnings                   | 123,304                    | 187,135                      |
| Miscellaneous                         | 1,259,193                  | 893,942                      |
| General revenues                      | <u>17,381,643</u>          | <u>16,861,505</u>            |
| Total revenues                        | <u>26,369,878</u>          | <u>22,943,177</u>            |
| Change in net assets before transfers | <u>1,884,333</u>           | <u>(1,382,485)</u>           |
| Transfers                             | <u>(200,605)</u>           | <u>(16,605)</u>              |
| <b>Change in net assets</b>           | <b><u>\$ 1,683,728</u></b> | <b><u>\$ (1,399,090)</u></b> |

Expenses are defined by governmental function and were \$24,485,545 in Fiscal 2011, up \$159,883 from the prior year. General government increased \$27,779; Administrative Services increased by \$176,157 and Public Works by \$379,561 due to the payoff of a pension liability in 2011; Community and Economic Development expenses decreased by \$700,896, which is reflective of a decrease in staffing, primarily the Assistant City Manager of Economic Development and a decrease in design and planning in capital projects. Police increased by \$48,598; and Interest on long term debt increased by \$228,684 due to a larger interest payment on the bond issued in 2009.

Program revenues totaled \$8,988,235 or 34.09% of total revenues for Fiscal Year 2011, up \$2,906,563 from 2010. The City's program revenues include developer fees, plan check fees, building inspections, traffic fines, recreation fees, police fees, grants, assessment revenues, and other charges for services. Program revenues are categorized in three groups: Charges for Services of \$1,645,625 which are intended to help cover the expenses incurred in providing a variety of City services; Operating Contributions and Grants of \$3,034,131, which is attributable to special revenue funds such as Gas Tax, Measure J and police services; and Capital Grants of \$4,308,479, which includes federal, state and local funding. The large increase is in Capital Grants due to Federal funding on a major street project.

General revenues are not allocable to programs but are used to pay for the net cost of government services. General revenues totaled \$17,381,643 or 65.91% of total revenues, up \$520,138 from Fiscal 2010. Table 2 shows that \$15,760,648 or 90.67% of general revenues came from taxes and the balance of \$1,620,995 or 9.33% came from intergovernmental, investment earnings and miscellaneous.

Table 3 presents the net (expense) or revenue of each of the City's governmental activities. Net expense is defined as total program costs less the program revenues generated by those specific activities. In the City's case, net expenses (meaning expenses less program revenues) were reduced by an average of 37%.

**Table 3  
Governmental Activities**

|                                      | Net (Expense) Revenue<br>From Services |                              |
|--------------------------------------|--|------------------------------|
|                                      | 2011                                   | 2010                         |
| <b>Governmental Activities:</b>      |  |                              |
| General government                   | (1,798,946)                            | (1,765,898)                  |
| Administrative Services              | (801,185)                              | (695,828)                    |
| Public works                         | (3,640,102)                            | (3,243,371)                  |
| Community & economic development     | 1,215,303                              | (2,224,480)                  |
| Police                               | \$ (9,659,081)                         | \$ (9,729,798)               |
| Interest on long term debt           | (813,299)                              | (584,615)                    |
| <b>Total Governmental Activities</b> | <b><u>\$(15,497,310)</u></b>           | <b><u>\$(18,243,990)</u></b> |

As is clear in Table 3 above, the City's program revenues do not approach the cost of program expenses. This table shows how dependent the City is on taxes to pay for City services.

## Business-type Activities

**Table 4**  
**Business-type Net Assets at June 30, 2011**

|   | Business-type Activities |                      |
|---|--------------------------|----------------------|
|   | 2011                     | 2010                 |
| Cash and investments                    | \$ 14,538,282            | \$ 13,621,620        |
| Other assets                            | 1,554,180                | 1,610,249            |
| Capital assets                          | 35,852,256               | 37,631,541           |
| <b>Total Assets</b>                     | <b>51,944,718</b>        | <b>52,863,410</b>    |
| Long-term debt outstanding              | 11,988,497               | 12,527,215           |
| Other Liabilities                       | 1,189,606                | 1,310,110            |
| <b>Total Liabilities</b>                | <b>13,178,103</b>        | <b>13,837,325</b>    |
| Net assets:                             |                          |                      |
| Invested in capital assets, net of debt | 23,863,759               | 25,104,326           |
| Restricted                              | 7,941,902                | 7,148,988            |
| Unrestricted                            | 6,960,954                | 6,772,771            |
| <b>Total Net Assets</b>                 | <b>\$ 38,766,615</b>     | <b>\$ 39,026,085</b> |

As shown in Table 4, the net assets of Business-type activities totaled \$38,766,615 at June 30, 2011, a decrease of \$259,470 from the prior year.

**Table 5**  
**Changes in Business-type Net Assets**

|                                       | 2011                | 2010                |
|---------------------------------------|---------------------|---------------------|
| <b>Expenses</b>                       |                     |                     |
| Water System                          | \$ 9,891,686        | \$ 10,200,676       |
| Marina Services                       | 558,512             | 388,591             |
| Parking Services                      | 483,876             | 451,488             |
| Total expenses                        | 10,934,074          | 11,040,755          |
| <b>Revenues</b>                       |                     |                     |
| Program revenues:                     |                     |                     |
| Charges for services                  | 10,343,289          | 10,474,096          |
| Operating contributions & grants      | 0                   | 0                   |
| Capital grants                        | 0                   | 0                   |
| Total program revenues                | 10,343,289          | 10,474,096          |
| General revenues:                     |                     |                     |
| Taxes                                 | 67,403              | 61,579              |
| Investment earnings                   | 63,307              | 82,093              |
| Miscellaneous                         | 0                   | 19,387              |
| General revenues                      | 130,710             | 163,059             |
| Total revenues                        | 10,473,999          | 10,637,155          |
| Change in net assets before transfers | (460,075)           | (403,600)           |
| Transfers                             | 200,605             | 16,605              |
| <b>Change in net assets</b>           | <b>\$ (259,470)</b> | <b>\$ (386,995)</b> |

Table 5 shows that the Business-type activities expenses were \$10,934,074 in Fiscal Year 2011. A large amount of the \$106,681 decrease from Fiscal Year 2010 in the Water System was offset by an increase in expenses in Marina and parking.

Total Business-type activities revenues of \$10,473,999 before transfers were down \$163,156 in Fiscal 2011, with decreases in both program revenues of \$130,807 and general revenues of \$32,349.

**Table 6**  
**Business-type Activities**

|                                       | Net (Expense) Revenue<br>From Services |                     |
|---------------------------------------|--|---------------------|
|                                       | 2011                                   | 2010                |
| <b>Business-type Activities:</b>      |  |                     |
| Water System                          | \$ (144,829)                           | \$ (370,328)        |
| Marina Services                       | (330,753)                              | (143,434)           |
| Parking Services                      | (115,203)                              | (52,897)            |
| <b>Total Business-type Activities</b> | <b>\$ (590,785)</b>                    | <b>\$ (566,659)</b> |

## THE CITY'S FUND FINANCIAL STATEMENTS

### Governmental Funds

At June 30, 2011, the City's governmental funds reported a combined fund balance of \$22,915,689, a decrease of \$6,214,214 compared to the prior year. The General Fund decreased by \$1,567,643. Capital Improvements decreased by \$479,332 and Measure H decreased by \$5,978,169. These decreases were offset by an increase of \$1,810,930 in Non-major Funds.

### ANALYSES OF MAJOR GOVERNMENTAL FUNDS

#### General Fund

General Fund revenues increased \$405,942 this fiscal year. The increase is comprised of the following: \$206,926 in Taxes; \$69,728 in Licenses, Permits and Fees; \$82,607 in Intergovernmental; \$60,414 in Fines and Forfeitures; and, \$109,334 in Miscellaneous. These increases were offset by a decline in Charges for Services of \$91,639 and Use of Money of \$31,428.

General Fund expenditures increased \$503,272 from Fiscal 2010 to a total of \$19,538,821, but were less than originally budgeted. Transfers out of the General Fund increased \$644,491 in Fiscal 2011 to \$667,096. This increase was attributable to a transfer of \$450,000 for the future purchase of police radio equipment for a multi-county wide communication project and \$184,000 to the Marina Fund for an engineering consultant.

At the end of Fiscal Year 2011 the fund balance for the City's General Fund was \$6,933,881, a decrease of \$1,567,643 over last year.

Final expenditures for the General Fund at year-end were \$349,420 below budget; however, the fiscal year ended with encumbrances of \$32,924. Budget amendments and supplemental appropriations of \$836,079 were made during the year for unanticipated expenditures after adoption of the original budget. Total appropriations came in at \$19,888,241.

At June 30, 2011, the General Fund balance was comprised of \$539,571 in nonspendable and restricted; \$2,071,135 in assigned; and \$4,323,175 in unassigned, of which \$1,000,000 was designated by Council for contingencies due to unforeseen occurrences referred to in Note 10D of the financial statements. Only the unassigned \$3,323,175 portion represents available liquid resources.

### **Measure H Fund**

The Measure H Fund accounts for the bond proceeds of \$15,000,000 received in 2009. The Fund is budgeted on a project length basis and therefore is not comparable on an annual basis.

The only revenue received was investment earnings of \$64,286. The expenses of \$6,042,455 were based on project activity, mostly on the pool and library reconstruction.

### **Capital Improvement Fund**

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

Revenue received in Fiscal 2011 included funding for projects from Contra Costa Transportation Authority in the amount of \$147,167; State grants of \$441,217; Federal grants of \$1,407,642; and Federal Stimulus of \$754,866. Another \$435,218 in funding came from net transfers from Gas Tax revenue and Local J funds and \$6,400 in rent. Total revenue received, including net transfers, was \$3,174,741. This is an increase of \$851,010 over the prior year end is primarily from grants received in 2011 for a major street project. This also caused an increase in the expenditures of \$882,763 from Fiscal 2010.

### **Other Governmental Funds**

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

### **Internal Service Funds**

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

- *Equipment Replacement Fund*—Costs for the Equipment Replacement Fund are considered to be “direct costs” that are readily identifiable with a specific service. The Equipment Replacement Fund charges departments' equipment and vehicle rates based on value and overall maintenance costs.
- *Management Information System (MIS) Fund*—Costs for the MIS Fund are considered to be “indirect costs” that are not easily associated with a specific service. These costs are distributed by both number of computer workstations and overall use of technology.

## **Enterprise Funds**

Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the City is that the costs and expenses, including depreciation, of providing goods or services to the general public on a continuing basis, are financed or recovered primarily through user charges; or (b) when the City has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The City's Enterprise Funds include Parking Services, Water System, and Marina Services and are described as follows:

- *Parking Services*—Parking Services Fund revenue is generated from parking meters and parking permits. Operating revenues decreased by \$29,918, in Fiscal 2011 to a total of \$368,673. Operating expenses increased by \$34,922 to \$484,068. Non-operating revenues increased slightly, by \$258 to \$59,324. Net assets decreased by \$56,071 to \$1,249,207. The Parking Services Fund's fiscal year end unrestricted Net Assets were \$749,742.
- *Water System*—The Water System Fund is financed and operated in a manner similar to that of a private business. Net assets of the Water System Fund decreased \$69,915 in Fiscal 2011. Overall operating revenues decreased by \$83,491, and operating expenses decreased by \$261,796. Non-operating expenses decreased by \$12,974, and non-operating revenues decreased by \$16,782 due to lower investment earnings. As of June 30, 2011, the Fund's Net Assets were \$40,154,825, with \$25,332,961 invested in capital assets, \$465,666 restricted for debt service and \$7,351,236 restricted for capital projects. Only \$7,004,962 of the Fund's Net Assets was unrestricted at the close of Fiscal 2011. Due to the age of the Water System, significant investments will be required in future years to update water lines and equipment and enhance security.
- *Marina Services*—Marina Fund revenues include lease payments, charges for services, property taxes, and State grants for capital improvement projects. Operating revenues increased by \$17,398 and operating expenses increased \$172,158 in 2011. The Fund's Net Assets decreased by \$134,323.

## **CAPITAL ASSETS**

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

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

At the end of Fiscal 2011, Governmental Activities and Business-type Activities had invested in a broad range of capital assets, net of depreciation, in the amounts of \$52,179,035 and \$35,852,256, respectively, as shown in Table 7 on the following page.

**Table 7**  
**Capital Assets at Year-end**

|  | <u>June 30, 2011</u>        | <u>June 30, 2010</u>        |
|--|-----------------------------|-----------------------------|
| <b><i>Governmental Activities</i></b>  |                             |                             |
| Land                                   | \$ 16,002,732               | \$ 16,002,732               |
| Construction in progress               | 9,813,702                   | 8,391,086                   |
| Building and improvements              | 5,445,017                   | 5,924,584                   |
| Equipment                              | 6,053,494                   | 5,705,731                   |
| Infrastructure                         | 48,215,074                  | 40,103,936                  |
| Less accumulated depreciation          | <u>(33,350,984)</u>         | <u>(31,525,326)</u>         |
| <b>Totals</b>                          | <b><u>\$ 52,179,035</u></b> | <b><u>\$ 44,602,743</u></b> |
| <b><i>Business-Type Activities</i></b> |                             |                             |
| Land                                   | \$ 1,665,154                | \$ 1,665,154                |
| Construction in progress               | 1,336,215                   | 1,919,026                   |
| Building and improvements              | 18,406,459                  | 18,269,930                  |
| Equipment                              | 1,841,366                   | 1,841,368                   |
| Infrastructure                         | 88,299,973                  | 87,608,173                  |
| Less accumulated depreciation          | <u>(75,696,911)</u>         | <u>(73,672,110)</u>         |
| <b>Totals</b>                          | <b><u>\$ 35,852,256</u></b> | <b><u>\$ 37,631,541</u></b> |

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

## **DEBT ADMINISTRATION**

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

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs (other than those paid for by the Enterprise Funds). In March 2003, the City issued Certificates of Participation (COPs) in the amount of \$2,200,000 to refund and retire the outstanding 1992 proceeds that were used to finance the rehabilitation and expansion of the Martinez City Hall. In May 2009, the City issued General Obligation Bonds in the amount of \$15,000,000 to finance the costs of acquiring and constructing parks, library improvements, and pool and safety improvements.

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

The table on the following page represents the City's debt as of June 30, 2011.

**Table 8  
Outstanding Debt**

|  | <u>June 30, 2011</u>        | <u>June 30, 2010</u>        |
|--|-----------------------------|-----------------------------|
| <b>Governmental Activity Debt</b>                        |                             |                             |
| <i>General Long-Term Debt</i>                            |                             |                             |
| 2003 Certificates of Participation                       | \$ 735,000                  | \$ 965,000                  |
| 2003 Certificates of Participation                       | 14,660,000                  | 15,000,000                  |
| <b>Total governmental activity debt</b>                  | <b><u>\$ 15,395,000</u></b> | <b><u>\$ 15,965,000</u></b> |
| <br>   |                             |                             |
| <b>Business-Type Activity Debt</b>                       |                             |                             |
| <i>Water Fund Long-Term Debt</i>                         |                             |                             |
| 1999 Water System Improvements                           | \$ 4,635,000                | \$ 4,820,000                |
| 2003 Refinancing Project                                 | 3,125,000                   | 3,460,000                   |
| Total principal  | <u>\$ 7,760,000</u>         | <u>\$ 8,280,000</u>         |
| <br>   |                             |                             |
| <i>Marina Long-term Debt, including accrued interest</i> |                             |                             |
| 1960 State of California                                 | \$ 2,537,014                | \$ 2,515,114                |
| 1973 State of California                                 | 273,536                     | 285,058                     |
| 1978 State of California                                 | 141,884                     | 146,556                     |
| 1982 State of California                                 | 345,573                     | 353,506                     |
| 1985 State of California                                 | 930,490                     | 946,981                     |
| Total Marina Fund debt                                   | <u>\$ 4,228,497</u>         | <u>\$ 4,247,215</u>         |
| <b>Total business-type activity debt</b>                 | <b><u>\$ 11,988,497</u></b> | <b><u>\$ 12,527,215</u></b> |

## **SPECIAL ASSESSMENT DISTRICT DEBT**

A special assessment district in the City has also issued debt to finance infrastructure and facilities construction for that district. No special assessment debt was issued in Fiscal Year 2011.

At June 30, 2011, a total of \$730,000 in special assessment district debt was outstanding, issued by one special assessment district. This debt is secured only by special assessments on the real property in the district issuing the debt and is not the City's responsibility, although the City does act as the district's agent in the collection and remittance of assessments.

## **ECONOMIC OUTLOOK AND MAJOR INITIATIVES**

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

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

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

**CITY OF MARTINEZ**

**STATEMENT OF NET ASSETS  
AND STATEMENT OF ACTIVITIES**

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

The Statement of Net Assets reports the difference between the City's total assets and the City's total liabilities, including all the City's capital assets and all its long-term debt. The Statement of Net Assets focuses the reader on the composition of the City's net assets, by subtracting total liabilities from total assets.

The Statement of Net Assets summarizes the financial position of all the City's Governmental Activities in a single column, and the financial position of all the City's Business-Type Activities in a single column; these columns are followed by a Total column that presents the financial position of the entire City.

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

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

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

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

**CITY OF MARTINEZ**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2011**

|   | <u>Governmental<br/>Activities</u> | <u>Business-Type<br/>Activities</u> | <u>Total</u>         |
|---|------------------------------------|-------------------------------------|----------------------|
| <b>ASSETS</b>                                     |                                    |                                     |                      |
| Cash and investments (Note 3):                    |                                    |                                     |                      |
| Available for operations                          | \$14,340,524                       | \$14,072,616                        | \$28,413,140         |
| Restricted  | 10,680,098                         | 465,666                             | 11,145,764           |
| Receivables (net of allowance for uncollectible): |                                    |                                     |                      |
| Accounts and other                                | 400,674                            | 1,279,662                           | 1,680,336            |
| Intergovernmental                                 | 2,514,237                          |                                     | 2,514,237            |
| Interest  | 46,320                             |                                     | 46,320               |
| Loans receivable (Note 5)                         | 521,252                            | 22,920                              | 544,172              |
| Internal balances (Note 4B)                       | 507,953                            | (507,953)                           |                      |
| Prepays and inventory (Note 1H)                   | 13,107                             |                                     | 13,107               |
| Bond issuance costs, net of amortization          |                                    | 759,551                             | 759,551              |
| Net OPEB Asset (Note 12)                          | 4,183,000                          |                                     | 4,183,000            |
| Capital assets (Note 6):                          |                                    |                                     |                      |
| Land and construction in progress                 | 25,816,434                         | 3,001,369                           | 28,817,803           |
| Depreciable assets, net                           | 26,362,601                         | 32,850,887                          | 59,213,488           |
| <b>Total Assets</b>                               | <b>85,386,200</b>                  | <b>51,944,718</b>                   | <b>137,330,918</b>   |
| <b>LIABILITIES</b>                                |                                    |                                     |                      |
| Accounts payable                                  | 1,747,597                          | 478,209                             | 2,225,806            |
| Accrued wages and benefits                        | 659,709                            | 62,831                              | 722,540              |
| Deposits  | 391,922                            | 93,039                              | 484,961              |
| Unearned revenue                                  | 138,911                            | 342,907                             | 481,818              |
| Claims payable due within one year (Note 15)      | 80,000                             |                                     | 80,000               |
| Accrued interest                                  |                                    | 40,303                              | 40,303               |
| Accrued compensated absences (Note 1G):           |                                    |                                     |                      |
| Due within one year                               | 75,000                             | 25,000                              | 100,000              |
| Due in more than one year                         | 1,382,448                          | 147,317                             | 1,529,765            |
| Long-term debt (Notes 7 and 8):                   |                                    |                                     |                      |
| Due within one year                               | 595,000                            | 580,765                             | 1,175,765            |
| Due in more than one year                         | 14,800,000                         | 11,407,732                          | 26,207,732           |
| <b>Total Liabilities</b>                          | <b>19,870,587</b>                  | <b>13,178,103</b>                   | <b>33,048,690</b>    |
| <b>NET ASSETS (Note 10)</b>                       |                                    |                                     |                      |
| Invested in capital assets, net of related debt   | 46,268,501                         | 23,863,759                          | 70,132,260           |
| Restricted for:                                   |                                    |                                     |                      |
| Capital projects                                  | 10,940,067                         |                                     | 10,940,067           |
| Debt service                                      | 1,312,460                          | 465,666                             | 1,778,126            |
| Special revenue projects                          | 1,271,932                          | 7,476,236                           | 8,748,168            |
| <b>Total Restricted Net Assets</b>                | <b>13,524,459</b>                  | <b>7,941,902</b>                    | <b>21,466,361</b>    |
| Unrestricted                                      | 5,722,653                          | 6,960,954                           | 12,683,607           |
| <b>Total Net Assets</b>                           | <b>\$65,515,613</b>                | <b>\$38,766,615</b>                 | <b>\$104,282,228</b> |

See accompanying notes to financial statements

CITY OF MARTINEZ  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2011

| Functions/Programs                          | Expenses            | Program Revenues     |                                    | Net (Expense) Revenue and Changes in Net Assets |                         | Total               |
|---|---------------------|----------------------|------------------------------------|---|-------------------------|---------------------|
|   |                     | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions                | Governmental Activities |                     |
| <b>Governmental Activities:</b>             |                     |                      |                                    |   |                         |                     |
| General government                          | \$1,888,212         | \$26,863             | \$14,464                           | \$47,939  | (\$1,798,946)           | (\$1,798,946)       |
| Administrative services                     | 912,678             | 49,145               | 21,655                             |   | (841,878)               | (841,878)           |
| Public works                                | 4,181,381           | 580,520              | 1,452                              |   | (3,599,409)             | (3,599,409)         |
| Community & economic development            | 6,024,757           | 547,115              | 2,432,405                          | 4,260,540                                       | 1,215,303               | 1,215,303           |
| Police                                      | 10,665,218          | 441,982              | 564,155                            |   | (9,659,081)             | (9,659,081)         |
| Interest on long-term debt                  | 813,299             |                      |                                    |   | (813,299)               | (813,299)           |
| <b>Total Governmental Activities</b>        | <b>24,485,545</b>   | <b>1,645,625</b>     | <b>3,034,131</b>                   | <b>4,308,479</b>                                | <b>(15,497,310)</b>     | <b>(15,497,310)</b> |
| <b>Business-type Activities:</b>            |                     |                      |                                    |   |                         |                     |
| Water system                                | 9,891,686           | 9,746,857            |                                    |   |                         | (\$144,829)         |
| Marina services                             | 558,512             | 227,759              |                                    |   |                         | (330,753)           |
| Parking services                            | 483,876             | 368,673              |                                    |   |                         | (115,203)           |
| <b>Total Business-type Activities</b>       | <b>10,934,074</b>   | <b>10,343,289</b>    |                                    |   |                         | <b>(590,785)</b>    |
| <b>Total</b>                                | <b>\$35,419,619</b> | <b>\$11,988,914</b>  | <b>\$3,034,131</b>                 | <b>\$4,308,479</b>                              | <b>(15,497,310)</b>     | <b>(590,785)</b>    |
| <b>General revenues:</b>                    |                     |                      |                                    |   |                         |                     |
| Property taxes                              |                     |                      |                                    |   | 6,413,918               | 6,413,918           |
| Sales taxes                                 |                     |                      |                                    |   | 3,216,371               | 3,216,371           |
| VLF Property Tax Swap                       |                     |                      |                                    |   | 2,516,117               | 2,516,117           |
| Franchise fees                              |                     |                      |                                    |   | 1,356,952               | 1,356,952           |
| Other taxes                                 |                     |                      |                                    |   | 2,257,290               | 67,403              |
| Intergovernmental, unrestricted             |                     |                      |                                    |   | 238,498                 | 238,498             |
| Investment earnings                         |                     |                      |                                    |   | 123,304                 | 63,307              |
| Miscellaneous                               |                     |                      |                                    |   | 1,259,193               | 1,259,193           |
| Transfers (Note 4A)                         |                     |                      |                                    |   | (200,605)               | 200,605             |
| <b>Total general revenues and transfers</b> |                     |                      |                                    |   | <b>17,181,038</b>       | <b>331,315</b>      |
| <b>Change in Net Assets</b>                 |                     |                      |                                    |   | <b>1,683,728</b>        | <b>(259,470)</b>    |
| <b>Net Assets-Beginning</b>                 |                     |                      |                                    |   | <b>63,831,885</b>       | <b>39,026,085</b>   |
| <b>Net Assets-Ending</b>                    |                     |                      |                                    |   | <b>\$65,515,613</b>     | <b>\$38,766,615</b> |

See accompanying notes to financial statements

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## **FUND FINANCIAL STATEMENTS**

Major funds are defined generally as having significant activities or balances in the current year.

## **MAJOR GOVERNMENTAL FUNDS**

The funds described below are determined to be major funds by the City in Fiscal 2011. Individual non-major funds may be found in the Supplemental Section.

### **GENERAL FUND**

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

### **MEASURE H FUND**

Accounts for the \$15,000,000 of General Obligation Bonds issued in May 2009. These funds are to finance the costs of acquiring and constructing parks, library improvements, and pool and safety improvements.

### **CAPITAL IMPROVEMENTS**

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

CITY OF MARTINEZ  
GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2011

|  | General            | Measure<br>H       | Capital<br>Improvements | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|--|--------------------|--------------------|-------------------------|--------------------------------|--------------------------------|
| <b>ASSETS</b>                              |                    |                    |                         |                                |                                |
| Cash and investments (Note 3):             |                    |                    |                         |                                |                                |
| Available for operations                   | \$7,086,331        |                    | \$1,524,748             | \$3,204,865                    | \$11,815,944                   |
| Restricted                                 |                    | \$9,484,466        |                         | 1,195,632                      | 10,680,098                     |
| Receivables:                               |                    |                    |                         |                                |                                |
| Accounts                                   | 388,925            |                    |                         | 11,749                         | 400,674                        |
| Intergovernmental                          | 695,445            |                    | 1,188,177               | 630,615                        | 2,514,237                      |
| Interest                                   | 33,789             | 12,531             |                         |                                | 46,320                         |
| Loans receivable (Note 5)                  | 259,242            |                    | 262,010                 |                                | 521,252                        |
| Prepays and inventory (Note 1H)            | 13,107             |                    |                         |                                | 13,107                         |
| Advances to other funds (Note 4B)          | 521,866            |                    |                         |                                | 521,866                        |
| <b>Total Assets</b>                        | <b>\$8,998,705</b> | <b>\$9,496,997</b> | <b>\$2,974,935</b>      | <b>\$5,042,861</b>             | <b>\$26,513,498</b>            |
| <b>LIABILITIES</b>                         |                    |                    |                         |                                |                                |
| Accounts payable                           | \$560,169          | \$917,564          | \$207,559               | \$36,792                       | \$1,722,084                    |
| Accrued wages and benefits                 | 644,433            |                    |                         | 3,173                          | 647,606                        |
| Claims payable (Note 15)                   | 80,000             |                    |                         |                                | 80,000                         |
| Deposits                                   | 382,069            |                    |                         | 9,853                          | 391,922                        |
| Advance to other funds (Note 4B)           |                    |                    |                         | 48,017                         | 48,017                         |
| Deferred revenue                           | 398,153            |                    | 262,010                 | 48,017                         | 708,180                        |
| <b>Total Liabilities</b>                   | <b>2,064,824</b>   | <b>917,564</b>     | <b>469,569</b>          | <b>145,852</b>                 | <b>3,597,809</b>               |
| <b>FUND BALANCES</b>                       |                    |                    |                         |                                |                                |
| Fund balance (Note 10)                     |                    |                    |                         |                                |                                |
| Nonspendable                               | 536,597            |                    |                         |                                | 536,597                        |
| Restricted                                 | 2,974              | 8,579,433          | 836,977                 | 4,945,026                      | 14,364,410                     |
| Assigned                                   | 2,071,135          |                    | 1,668,389               |                                | 3,739,524                      |
| Unassigned                                 | 4,323,175          |                    |                         | (48,017)                       | 4,275,158                      |
| <b>Total Fund Balances</b>                 | <b>6,933,881</b>   | <b>8,579,433</b>   | <b>2,505,366</b>        | <b>4,897,009</b>               | <b>22,915,689</b>              |
| <b>Total Liabilities and Fund Balances</b> | <b>\$8,998,705</b> | <b>\$9,496,997</b> | <b>\$2,974,935</b>      | <b>\$5,042,861</b>             | <b>\$26,513,498</b>            |

See accompanying notes to financial statements

CITY OF MARTINEZ  
 Reconciliation of the  
 GOVERNMENTAL FUNDS – FUND BALANCES  
 with the  
 GOVERNMENTAL ACTIVITIES STATEMENT OF NET ASSETS  
 JUNE 30, 2011

|   |                     |
|---|---------------------|
| Total fund balances reported on the governmental funds balance sheet  | \$22,915,689        |
| <p>Amounts reported for Governmental Activities in the Statement of Net Assets<br/>         are different from those reported in the Governmental Funds above because of the following:</p>   |                     |
| <b>CAPITAL ASSETS</b>   |                     |
| Capital assets used in Governmental Activities are not current assets or financial resources and therefore are not reported in the Governmental Funds.  | 51,242,981          |
| <b>ALLOCATION OF INTERNAL SERVICE FUND NET ASSETS</b>   |                     |
| <p>Internal Service Funds are not governmental funds. However, they are used by management to charge the costs of certain activities, such as insurance and central services and maintenance to individual governmental funds. The net current assets of the Internal Service Funds are therefore included in Governmental Activities in the following line items in the Statement of Net Assets.</p> |                     |
| Cash and investments  | 2,524,580           |
| Internal balances   | 34,104              |
| Capital assets  | 936,054             |
| Accounts payable  | (25,513)            |
| Accrued liabilities   | (12,103)            |
| Accrued compensated absences  | (49,797)            |
| <b>ACCRUAL OF NON-CURRENT REVENUES AND EXPENSES</b>   |                     |
| Revenues which are deferred on the Fund Balance Sheets because they are not available currently are taken into revenue in the Statement of Activities.  | 569,269             |
| <b>LONG-TERM ASSETS AND LIABILITIES</b>   |                     |
| <p>The assets and liabilities below are not due and payable in the current period and therefore are not reported in the Funds:</p>  |                     |
| Long-term debt  | (15,395,000)        |
| Non-current portion of compensated absences   | (1,407,651)         |
| Net OPEB asset  | 4,183,000           |
|   | 4,183,000           |
| <b>NET ASSETS OF GOVERNMENTAL ACTIVITIES</b>  | <b>\$65,515,613</b> |

See accompanying notes to financial statements

CITY OF MARTINEZ  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2011

|  | General            | Measure<br>H       | Capital<br>Improvements | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|--|--------------------|--------------------|-------------------------|--------------------------------|--------------------------------|
| <b>REVENUES</b>  |                    |                    |                         |                                |                                |
| Taxes  | \$15,809,271       |                    |                         |                                | \$15,809,271                   |
| Special assessments  |                    |                    |                         | \$2,110,101                    | 2,110,101                      |
| Licenses, permits, and fees                                  | 497,920            |                    | \$39,385                |                                | 537,305                        |
| Intergovernmental  | 663,488            |                    | 2,750,893               | 2,122,183                      | 5,536,564                      |
| Charges for services   | 470,550            |                    |                         |                                | 470,550                        |
| Fines and forfeits   | 404,547            |                    |                         | 25,046                         | 429,593                        |
| Use of money and property                                    | 87,647             | \$64,286           | 9,873                   | 10,921                         | 172,727                        |
| Miscellaneous  | 704,851            |                    |                         | 576,627                        | 1,281,478                      |
| <b>Total Revenues</b>  | <b>18,638,274</b>  | <b>64,286</b>      | <b>2,800,151</b>        | <b>4,844,878</b>               | <b>26,347,589</b>              |
| <b>EXPENDITURES</b>  |                    |                    |                         |                                |                                |
| Current:   |                    |                    |                         |                                |                                |
| General government   | 1,312,555          |                    |                         |                                | 1,312,555                      |
| Nondepartmental services                                     | 1,712,090          |                    |                         |                                | 1,712,090                      |
| Administrative services                                      | 775,525            |                    |                         | 40,693                         | 816,218                        |
| Public works   | 3,627,781          |                    |                         |                                | 3,627,781                      |
| Community & economic development                             | 2,186,809          | 6,482              | 770,578                 | 1,199,019                      | 4,162,888                      |
| Police   | 9,886,525          |                    |                         | 127,347                        | 10,013,872                     |
| Debt service (Note 7):                                       |                    |                    |                         |                                |                                |
| Principal  |                    |                    |                         | 570,000                        | 570,000                        |
| Interest and fiscal charges                                  |                    |                    |                         | 813,299                        | 813,299                        |
| Capital outlay   | 37,536             | 6,035,973          | 2,883,495               | 375,491                        | 9,332,495                      |
| <b>Total Expenditures</b>                                    | <b>19,538,821</b>  | <b>6,042,455</b>   | <b>3,654,073</b>        | <b>3,125,849</b>               | <b>32,361,198</b>              |
| <b>EXCESS (DEFICIENCY) OF REVENUES<br/>OVER EXPENDITURES</b> | <b>(900,547)</b>   | <b>(5,978,169)</b> | <b>(853,922)</b>        | <b>1,719,029</b>               | <b>(6,013,609)</b>             |
| <b>OTHER FINANCING SOURCES (USES)</b>                        |                    |                    |                         |                                |                                |
| Transfers in (Note 4A)                                       |                    |                    | 435,218                 | 527,819                        | 963,037                        |
| Transfers (out) (Note 4A)                                    | (667,096)          |                    | (60,628)                | (435,918)                      | (1,163,642)                    |
| <b>Total Other Financing Sources (Uses)</b>                  | <b>(667,096)</b>   |                    | <b>374,590</b>          | <b>91,901</b>                  | <b>(200,605)</b>               |
| <b>NET CHANGE IN FUND BALANCES</b>                           | <b>(1,567,643)</b> | <b>(5,978,169)</b> | <b>(479,332)</b>        | <b>1,810,930</b>               | <b>(6,214,214)</b>             |
| <b>BEGINNING FUND BALANCES</b>                               | <b>8,501,524</b>   | <b>14,557,602</b>  | <b>2,984,698</b>        | <b>3,086,079</b>               | <b>29,129,903</b>              |
| <b>ENDING FUND BALANCES</b>                                  | <b>\$6,933,881</b> | <b>\$8,579,433</b> | <b>\$2,505,366</b>      | <b>\$4,897,009</b>             | <b>\$22,915,689</b>            |

See accompanying notes to financial statements

CITY OF MARTINEZ  
 Reconciliation of the  
 NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS  
 with the Change in  
 GOVERNMENTAL NET ASSETS  
 FOR THE YEAR ENDED JUNE 30, 2011

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

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS (\$6,214,214)

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

CAPITAL ASSETS TRANSACTIONS

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.

|   |             |
|---|-------------|
| The capital outlay expenditures are therefore added back to fund balances   | 9,332,495   |
| Net retirements are deducted from the fund balance  | (3,499)     |
| Depreciation expense is deducted from the fund balances<br>(Depreciation expense is net of internal service fund depreciation<br>of \$271,588 which has already been allocated to serviced funds) | (1,721,663) |

LONG-TERM DEBT PROCEEDS AND PAYMENTS

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

|  |         |
|--|---------|
| Repayment of debt principal is added back to fund balances | 570,000 |
|--|---------|

ACCRUAL OF NON-CURRENT ITEMS

The amounts below included in the Statement of Activities do not provide or (require) the use of current financial resources and therefore are not reported as revenue or expenditures in governmental funds (net change):

|                      |           |
|----------------------|-----------|
| Deferred revenue     | (144,520) |
| Compensated absences | (1,569)   |
| Net OPEB asset       | 57,000    |

ALLOCATION OF INTERNAL SERVICE FUND ACTIVITY

Internal Service Funds are used by management to charge the costs of certain activities, such as equipment acquisition, and maintenance to individual funds. The portion of the net revenue of these Internal Service Funds arising out of their transactions with governmental funds is reported with governmental activities, because they service those activities.

|   |           |
|---|-----------|
| Change in Net Assets - All Internal Service Funds | (190,302) |
|---|-----------|

|   |             |
|---|-------------|
| CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES | \$1,683,728 |
|---|-------------|

See accompanying notes to financial statements

CITY OF MARTINEZ  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2011

|   | <u>Budgeted Amounts</u> |                      | <u>Actual Amounts</u> | <u>Variance with<br/>Final Budget<br/>Positive<br/>(Negative)</u> |
|---|-------------------------|----------------------|-----------------------|---|
|   | <u>Original</u>         | <u>Final</u>         |                       |   |
| <b>REVENUES:</b>  |                         |                      |                       |   |
| Taxes   | \$15,546,194            | \$15,809,261         | \$15,809,271          | \$10  |
| Licenses, permits, and fees   | 526,655                 | 446,655              | 497,920               | 51,265  |
| Intergovernmental   | 728,556                 | 674,235              | 663,488               | (10,747)  |
| Charges for services  | 619,957                 | 499,406              | 470,550               | (28,856)  |
| Fines and forfeits  | 351,158                 | 351,158              | 404,547               | 53,389  |
| Use of money and property   | 260,635                 | 121,496              | 87,647                | (33,849)  |
| Miscellaneous   | 629,548                 | 681,511              | 704,851               | 23,340  |
| <b>Total Revenues</b>   | <u>18,662,703</u>       | <u>18,583,722</u>    | <u>18,638,274</u>     | <u>54,552</u>   |
| <b>EXPENDITURES:</b>  |                         |                      |                       |   |
| Current:  |                         |                      |                       |   |
| General government  | 1,187,241               | 1,346,025            | 1,312,555             | 33,470  |
| Nondepartmental services  | 1,206,548               | 1,736,947            | 1,712,090             | 24,857  |
| Administrative services   | 786,413                 | 794,907              | 775,525               | 19,382  |
| Public works  | 3,816,330               | 3,826,293            | 3,627,781             | 198,512   |
| Community & economic development  | 2,112,094               | 2,209,915            | 2,186,809             | 23,106  |
| Police  | 9,943,536               | 9,936,618            | 9,886,525             | 50,093  |
| Capital outlay  |                         | 37,536               | 37,536                |   |
| <b>Total Expenditures</b>   | <u>19,052,162</u>       | <u>19,888,241</u>    | <u>19,538,821</u>     | <u>349,420</u>  |
| <b>EXCESS (DEFICIENCY) OF REVENUES<br/>OVER (UNDER) EXPENDITURES</b>                          | <u>(389,459)</u>        | <u>(1,304,519)</u>   | <u>(900,547)</u>      | <u>403,972</u>  |
| <b>OTHER FINANCING SOURCES (USES)</b>   |                         |                      |                       |   |
| Transfers (out) (Note 4A)   | (16,605)                | (667,096)            | (667,096)             |   |
| <b>Total other financing sources (uses)</b>   | <u>(16,605)</u>         | <u>(667,096)</u>     | <u>(667,096)</u>      |   |
| <b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER<br/>SOURCES OVER EXPENDITURES AND OTHER USES</b> | <u>(\$406,064)</u>      | <u>(\$1,971,615)</u> | <u>(1,567,643)</u>    | <u>\$403,972</u>  |
| <b>BEGINNING FUND BALANCE</b>   |                         |                      | <u>8,501,524</u>      |   |
| <b>ENDING FUND BALANCE</b>  |                         |                      | <u>\$6,933,881</u>    |   |

See accompanying notes to financial statements

## **MAJOR PROPRIETARY FUNDS**

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

The concept of major funds established by GASB Statement 34 extends to Proprietary Funds. The City has identified all of its Proprietary Funds as major funds in Fiscal 2011.

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

### **WATER SYSTEM FUND**

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

### **MARINA SERVICES FUND**

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

### **PARKING SERVICES FUND**

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

CITY OF MARTINEZ  
 PROPRIETARY FUNDS  
 STATEMENT OF NET ASSETS  
 JUNE 30, 2011

|   | Business-type Activities - Enterprise Funds |                      |                     |                     | Governmental<br>Activities-<br>Internal Service<br>Funds |
|---|---|----------------------|---------------------|---------------------|--|
|   | Water System                                | Marina Services      | Parking<br>Services | Totals              |  |
| <b>ASSETS</b>   |   |                      |                     |                     |  |
| <b>Current Assets:</b>  |   |                      |                     |                     |  |
| Cash and investments (Note 3):  |   |                      |                     |                     |  |
| Available for operations  | \$13,088,405                                | \$99,366             | \$884,845           | \$14,072,616        | \$2,524,580  |
| Restricted  | 465,666                                     |                      |                     | 465,666             |  |
| Receivables:  |   |                      |                     |                     |  |
| Intergovernmental<br>Accounts and other   | 1,269,294                                   | 10,368               |                     | 1,279,662           |  |
| <b>Total Current Assets</b>   | <b>14,823,365</b>                           | <b>109,734</b>       | <b>884,845</b>      | <b>15,817,944</b>   | <b>2,524,580</b>   |
| <b>Capital Assets (Note 6):</b>   |   |                      |                     |                     |  |
| Land  | 630,912                                     | 800,165              | 234,077             | 1,665,154           |  |
| Buildings   | 15,793,743                                  | 282,821              |                     | 16,076,564          |  |
| Improvements  | 150,584                                     | 1,934,189            | 245,122             | 2,329,895           |  |
| Equipment   | 1,297,203                                   |                      | 544,163             | 1,841,366           | 3,548,736  |
| Infrastructure  | 88,276,473                                  |                      | 23,500              | 88,299,973          |  |
| Less: Accumulated depreciation  | (74,392,169)                                | (632,345)            | (672,397)           | (75,696,911)        | (2,612,682)  |
|   | 31,756,746                                  | 2,384,830            | 374,465             | 34,516,041          | 936,054  |
| Construction in progress (Note 6)   | 1,336,215                                   |                      |                     | 1,336,215           |  |
| <b>Net Capital Assets</b>   | <b>33,092,961</b>                           | <b>2,384,830</b>     | <b>374,465</b>      | <b>35,852,256</b>   | <b>936,054</b>   |
| <b>Other Non-Current Assets:</b>  |   |                      |                     |                     |  |
| Loan receivable (Note 5)  | 22,920                                      |                      |                     | 22,920              |  |
| Bond issuance costs, net  | 759,551                                     |                      |                     | 759,551             |  |
| <b>Total Non-Current Assets</b>   | <b>33,875,432</b>                           | <b>2,384,830</b>     | <b>374,465</b>      | <b>36,634,727</b>   | <b>936,054</b>   |
| <b>Total Assets</b>   | <b>48,698,797</b>                           | <b>2,494,564</b>     | <b>1,259,310</b>    | <b>52,452,671</b>   | <b>3,460,634</b>   |
| <b>LIABILITIES</b>  |   |                      |                     |                     |  |
| <b>Current liabilities:</b>   |   |                      |                     |                     |  |
| Accounts payable  | 467,147                                     | 5,757                | 5,305               | 478,209             | 25,513   |
| Accrued liabilities   | 60,117                                      |                      | 2,714               | 62,831              | 12,103   |
| Deferred revenue  |   | 342,907              |                     | 342,907             |  |
| Deposits  | 46,172                                      | 46,867               |                     | 93,039              |  |
| Accrued interest  | 40,303                                      |                      |                     | 40,303              |  |
| Current portion of compensated absences (Note 1G)   | 25,000                                      |                      |                     | 25,000              |  |
| Current portion of long-term debt (Note 7)  | 540,000                                     |                      |                     | 540,000             |  |
| Current portion of loans payable (Note 8)   |   | 40,765               |                     | 40,765              |  |
| <b>Total Current Liabilities</b>  | <b>1,178,739</b>                            | <b>436,296</b>       | <b>8,019</b>        | <b>1,623,054</b>    | <b>37,616</b>  |
| <b>Noncurrent Liabilities:</b>  |   |                      |                     |                     |  |
| Accrued compensated absences (Note 1G)  | 145,233                                     |                      | 2,084               | 147,317             | 49,797   |
| Advance from other funds (Note 4B)  |   | 473,849              |                     | 473,849             |  |
| Long-term debt (Note 7)   | 7,220,000                                   |                      |                     | 7,220,000           |  |
| Loans payable (Note 8)  |   | 4,187,732            |                     | 4,187,732           |  |
| <b>Total Liabilities</b>  | <b>8,543,972</b>                            | <b>5,097,877</b>     | <b>10,103</b>       | <b>13,651,952</b>   | <b>87,413</b>  |
| <b>NET ASSETS (Note 10)</b>   |   |                      |                     |                     |  |
| Invested in capital assets,<br>net of related debt  | 25,332,961                                  | (1,843,667)          | 374,465             | 23,863,759          | 936,054  |
| Restricted for debt service   | 465,666                                     |                      |                     | 465,666             |  |
| Restricted for capital projects   | 7,351,236                                   |                      | 125,000             | 7,476,236           |  |
| Unrestricted  | 7,004,962                                   | (759,646)            | 749,742             | 6,995,058           | 2,437,167  |
| <b>Total Net Assets (Deficit)</b>   | <b>\$40,154,825</b>                         | <b>(\$2,603,313)</b> | <b>\$1,249,207</b>  | <b>38,800,719</b>   | <b>\$3,373,221</b>                                       |
| Some amounts reported for <i>business-type activities</i> in the Statement of Net Assets are different because certain internal service fund assets and liabilities are included with business-type activities. |   |                      |                     | (34,104)            |  |
| Net assets business-type activities   |   |                      |                     | <u>\$38,766,615</u> |  |
| See accompanying notes to financial statements  |   |                      |                     |                     |  |

CITY OF MARTINEZ  
 PROPRIETARY FUNDS  
 STATEMENT OF REVENUES, EXPENSES  
 AND CHANGES IN FUND NET ASSETS  
 FOR THE YEAR ENDED JUNE 30, 2011

|  | Business-type Activities - Enterprise Funds |                      |                     |                    | Governmental<br>Activities-<br>Internal Service<br>Funds |
|--|---|----------------------|---------------------|--------------------|--|
|  | Water System                                | Marina Services      | Parking<br>Services | Totals             |  |
| <b>OPERATING REVENUES</b>  |   |                      |                     |                    |  |
| Water sales  | \$9,413,940                                 |                      |                     | \$9,413,940        |  |
| Rents and leases   | 26,904                                      | \$227,759            |                     | 254,663            |  |
| Charges for services   | 232,981                                     |                      | \$361,236           | 594,217            | \$1,170,892  |
| Other fees   | 1,005                                       |                      |                     | 1,005              |  |
| Other revenue  | 72,027                                      |                      | 7,437               | 79,464             | 5,454  |
| <b>Total Operating Revenues</b>  | <b>9,746,857</b>                            | <b>227,759</b>       | <b>368,673</b>      | <b>10,343,289</b>  | <b>1,176,346</b>   |
| <b>OPERATING EXPENSES</b>  |   |                      |                     |                    |  |
| Filtration plant   | 4,231,294                                   |                      |                     | 4,231,294          |  |
| Maintenance, repairs, and distribution   | 1,475,872                                   | 106,532              |                     | 1,582,404          | 1,122,460  |
| Administration   | 1,841,608                                   | 206,169              | 406,135             | 2,453,912          |  |
| Depreciation and amortization  | 1,974,438                                   | 128,026              | 77,933              | 2,180,397          | 271,588  |
| <b>Total Operating Expenses</b>  | <b>9,523,212</b>                            | <b>440,727</b>       | <b>484,068</b>      | <b>10,448,007</b>  | <b>1,394,048</b>   |
| <b>Operating Income (loss)</b>   | <b>223,645</b>                              | <b>(212,968)</b>     | <b>(115,395)</b>    | <b>(104,718)</b>   | <b>(217,702)</b>   |
| <b>NONOPERATING REVENUES (EXPENSES)</b>  |   |                      |                     |                    |  |
| Interest income  | 58,956                                      | 320                  | 4,031               | 63,307             | 11,863   |
| Interest (expense)   | (369,121)                                   | (117,785)            |                     | (486,906)          |  |
| Gain on disposal of equipment  |   |                      |                     |                    | 16,376   |
| Taxes  |   | 12,110               | 55,293              | 67,403             |  |
| <b>Total Nonoperating Revenues (Expenses)</b>  | <b>(310,165)</b>                            | <b>(105,355)</b>     | <b>59,324</b>       | <b>(356,196)</b>   | <b>28,239</b>  |
| <b>Income (Loss) Before Transfers</b>  | <b>(86,520)</b>                             | <b>(318,323)</b>     | <b>(56,071)</b>     | <b>(460,914)</b>   | <b>(189,463)</b>   |
| Transfers in (Note 4A)   | 16,605                                      | 184,000              |                     | 200,605            |  |
| <b>Net Transfers</b>   | <b>16,605</b>                               | <b>184,000</b>       | <b></b>             | <b>200,605</b>     | <b></b>  |
| <b>Change in net assets</b>  | <b>(69,915)</b>                             | <b>(134,323)</b>     | <b>(56,071)</b>     | <b>(260,309)</b>   | <b>(189,463)</b>   |
| <b>BEGINNING NET ASSETS (DEFICIT)</b>  | <b>40,224,740</b>                           | <b>(2,468,990)</b>   | <b>1,305,278</b>    | <b></b>            | <b>3,562,684</b>   |
| <b>ENDING NET ASSETS (DEFICIT)</b>   | <b>\$40,154,825</b>                         | <b>(\$2,603,313)</b> | <b>\$1,249,207</b>  | <b></b>            | <b>\$3,373,221</b>                                       |
| Some amounts reported for <i>business-type activities</i> in the Statement of Activities are different because the portion of the net income of certain internal service funds is reported with the business-type activities which those funds service |   |                      |                     | 839                |  |
| <b>Change in net assets of business-type activities</b>  |   |                      |                     | <b>(\$259,470)</b> |  |

See accompanying notes to financial statements

CITY OF MARTINEZ  
 PROPRIETARY FUNDS  
 STATEMENT OF CASH FLOWS  
 FOR THE YEAR ENDED JUNE 30, 2011

|  | Business-type Activities-Enterprise Funds |                   |                     |                     | Governmental<br>Activities-<br>Internal Service<br>Funds |
|--|---|-------------------|---------------------|---------------------|--|
|  | Water System                              | Marina Services   | Parking<br>Services | Totals              |  |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |   |                   |                     |                     |  |
| Receipts from customers  | \$9,673,071                               | \$215,551         | \$361,236           | \$10,249,858        | \$1,176,346  |
| Payments to suppliers  | (5,801,376)                               | (310,764)         | (329,872)           | (6,442,012)         | (752,357)  |
| Payments to employees  | (1,857,138)                               |                   | (78,629)            | (1,935,767)         | (382,023)  |
| Rent and lease payments received   | 72,027                                    |                   | 7,437               | 79,464              |  |
| <b>Cash Flows from Operating Activities</b>  | <b>2,086,584</b>                          | <b>(95,213)</b>   | <b>(39,828)</b>     | <b>1,951,543</b>    | <b>41,966</b>  |
| <b>CASH FLOWS FROM NONCAPITAL<br/>FINANCING ACTIVITIES</b>                             |   |                   |                     |                     |  |
| Taxes received   |   | 12,110            | 55,293              | 67,403              |  |
| Interfund receipt (payment), net   | 16,605                                    | 184,000           |                     | 200,605             |  |
| <b>Cash Flows from Noncapital Financing Activities</b>                                 | <b>16,605</b>                             | <b>196,110</b>    | <b>55,293</b>       | <b>268,008</b>      |  |
| <b>CASH FLOWS FROM CAPITAL AND RELATED<br/>FINANCING ACTIVITIES</b>                    |   |                   |                     |                     |  |
| Advances from other funds  |   | (26,674)          |                     | (26,674)            |  |
| Acquisition of capital assets  | (311,928)                                 |                   |                     | (311,928)           | (248,087)  |
| Proceeds from sale of equipment  |   |                   |                     |                     | 23,916   |
| Principal payments on capital debt   | (520,000)                                 | (18,718)          |                     | (538,718)           |  |
| Interest paid  | (371,091)                                 | (117,785)         |                     | (488,876)           |  |
| <b>Cash Flows from Capital and Related Financing Activities</b>                        | <b>(1,203,019)</b>                        | <b>(163,177)</b>  |                     | <b>(1,366,196)</b>  | <b>(224,171)</b>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |   |                   |                     |                     |  |
| Interest   | 58,956                                    | 320               | 4,031               | 63,307              | 11,863   |
| <b>Cash Flows from Investing Activities</b>  | <b>58,956</b>                             | <b>320</b>        | <b>4,031</b>        | <b>63,307</b>       | <b>11,863</b>  |
| <b>Net Cash Flows</b>  | <b>959,126</b>                            | <b>(61,960)</b>   | <b>19,496</b>       | <b>916,662</b>      | <b>(170,342)</b>   |
| Cash and investments at beginning of period  | 12,594,945                                | 161,326           | 865,349             | 13,621,620          | 2,694,922  |
| Cash and investments at end of period  | <u>\$13,554,071</u>                       | <u>\$99,366</u>   | <u>\$884,845</u>    | <u>\$14,538,282</u> | <u>\$2,524,580</u>                                       |
| <b>Reconciliation of Operating Income to Cash Flows<br/>from Operating Activities:</b> |   |                   |                     |                     |  |
| Operating income (loss)  | \$223,645                                 | (\$212,968)       | (\$115,395)         | (\$104,718)         | (\$217,702)  |
| Adjustments to reconcile operating income to cash flows<br>from operating activities:  |   |                   |                     |                     |  |
| Depreciation and amortization  | 1,974,438                                 | 128,026           | 77,933              | 2,180,397           | 271,588  |
| Change in assets and liabilities:  |   |                   |                     |                     |  |
| Accounts receivable  | (1,759)                                   | (3,844)           |                     | (5,603)             |  |
| Accounts payable and other liabilities   | (99,485)                                  | 1,937             | (2,685)             | (100,233)           | (18,719)   |
| Deposits   | (265)                                     |                   |                     | (265)               |  |
| Accrued vacation and other fringe benefits   | (9,990)                                   |                   | 319                 | (9,671)             | 6,821  |
| Accrued wages and benefits   |   |                   |                     |                     | (22)   |
| Deferred revenue   |   | (8,364)           |                     | (8,364)             |  |
| <b>Cash Flows from Operating Activities</b>  | <b>\$2,086,584</b>                        | <b>(\$95,213)</b> | <b>(\$39,828)</b>   | <b>\$1,951,543</b>  | <b>\$41,966</b>  |

See accompanying notes to financial statements

|                        |
|------------------------|
| <b>FIDUCIARY FUNDS</b> |
|------------------------|

**FIDUCIARY FUNDS**

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

CITY OF MARTINEZ  
 FIDUCIARY FUNDS  
 STATEMENT OF FIDUCIARY NET ASSETS  
 JUNE 30, 2011

|  | <u>Agency<br/>Funds</u> | <u>Trust<br/>Fund</u>   |
|--|-------------------------|-------------------------|
| <b>ASSETS</b>                            |                         |                         |
| Restricted cash and investments (Note 3) | <u>\$374,588</u>        | <u>\$136,575</u>        |
| Total Assets                             | <u><u>\$374,588</u></u> | <u><u>\$136,575</u></u> |
| <b>LIABILITIES</b>                       |                         |                         |
| Accounts payable                         | \$2,545                 | \$920                   |
| Due to bondholders                       | 226,189                 |                         |
| Due to members                           | <u>145,854</u>          |                         |
| Total Liabilities                        | <u><u>\$374,588</u></u> | <u><u>920</u></u>       |
| <b>NET ASSETS</b>                        |                         |                         |
| Reserved for private purpose activities  |                         | <u>135,655</u>          |
| Total Net Assets                         |                         | <u><u>\$135,655</u></u> |

See accompanying notes to financial statements

CITY OF MARTINEZ  
 FIDUCIARY FUNDS  
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
 FOR THE YEAR ENDED JUNE 30, 2011

|                               | Trust<br>Funds |
|-------------------------------|----------------|
| ADDITIONS:                    |                |
| Donations                     | \$7,292        |
| Interest                      | 347            |
|                               | 7,639          |
| Total Additions               | 7,639          |
| DEDUCTIONS:                   |                |
| Supplies                      | 1,165          |
| Beneficiary payments          | 1,434          |
| Improvements                  | 18,706         |
|                               | 21,305         |
| Total Deductions              | 21,305         |
| CHANGE IN NET ASSETS          | (13,666)       |
| NET ASSETS, BEGINNING OF YEAR | 149,321        |
| NET ASSETS, END OF YEAR       | \$135,655      |

See accompanying notes to financial statements

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**CITY OF MARTINEZ**  
**Notes to Financial Statements**  
**June 30, 2011**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Reporting Entity**

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

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

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

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

**B. Basis of Presentation**

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

**CITY OF MARTINEZ**  
**Notes to Financial Statements**  
**June 30, 2011**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

These Standards require that the financial statements described below be presented:

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

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

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

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

**C. Major Funds**

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

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

**CITY OF MARTINEZ**  
**Notes to Financial Statements**  
**June 30, 2011**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

**Measure H Fund** - Accounts for the \$15,000,000 of General Obligation Bonds issued in May 2009. These funds are to finance the costs of acquiring and constructing parks, library improvements, and pool and safety improvements.

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

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

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

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

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

The City also reports the following fund types:

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

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

**D. *Basis of Accounting***

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

**CITY OF MARTINEZ**  
**Notes to Financial Statements**  
**June 30, 2011**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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

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

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

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

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

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

**E. Revenue Recognition for Water System Enterprise Fund**

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

**F. Property Taxes and Special Assessment Revenue**

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

**CITY OF MARTINEZ**  
**Notes to Financial Statements**  
**June 30, 2011**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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

**G. *Compensated Absences***

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

The changes of the compensated absences during the fiscal year ended June 30, 2011 were as follows:

|                   | Governmental<br>Activities | Business-Type<br>Activities | Total              |
|-------------------|----------------------------|-----------------------------|--------------------|
| Beginning Balance | \$1,449,058                | \$181,988                   | \$1,631,046        |
| Additions         | 1,027,089                  | 145,960                     | 1,173,049          |
| Payments          | (1,018,699)                | (155,631)                   | (1,174,330)        |
| Ending Balance    | <u>\$1,457,448</u>         | <u>\$172,317</u>            | <u>\$1,629,765</u> |
| Current Portion   | <u>\$75,000</u>            | <u>\$25,000</u>             | <u>\$100,000</u>   |

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

**H. *Prepays and Inventory***

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

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

**CITY OF MARTINEZ**  
**Notes to Financial Statements**  
**June 30, 2011**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**I. 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.

**J. New Fund**

During the fiscal year the City established the Recycle Special Revenue Fund.

**NOTE 2 - BUDGETS AND BUDGETARY ACCOUNTING**

**A. Budgeting Procedures**

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

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

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

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

**CITY OF MARTINEZ**  
**Notes to Financial Statements**  
**June 30, 2011**

**NOTE 3 - CASH AND INVESTMENTS**

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

**A. Policies**

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

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

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

**B. Classification**

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

|  |                            |
|--|----------------------------|
| Cash and investments available for operations                              | \$28,413,140               |
| Restricted cash and investments  | <u>11,145,764</u>          |
| Total Primary Government cash and investments                              | 39,558,904                 |
| <br>   |                            |
| Restricted cash and investments<br>in Fiduciary Funds (separate statement) | <u>511,163</u>             |
| Total cash and investments   | <u><u>\$40,070,067</u></u> |

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

**CITY OF MARTINEZ**  
**Notes to Financial Statements**  
**June 30, 2011**

**NOTE 3 - CASH AND INVESTMENTS (Continued)**

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

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

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

**D. Investments Authorized by Debt Agreements**

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

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

**CITY OF MARTINEZ**  
**Notes to Financial Statements**  
**June 30, 2011**

**NOTE 3 - CASH AND INVESTMENTS (Continued)**

**E. Interest Rate Risk**

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

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

| Investment Type                         | 12 Months<br>or less |
|---|----------------------|
| California Local Agency Investment Fund | \$38,679,506         |
| Total Investments                       | 38,679,506           |
| Cash in banks and on hand               | 1,390,561            |
| Total Cash and Investments              | \$40,070,067         |

The City is a participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The City reports its investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. The balance is available for withdrawal on demand, and is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury Notes and Bills, and corporations. At June 30, 2011, these investments have an average maturity of 237 days.

**CITY OF MARTINEZ**  
**Notes to Financial Statements**  
**June 30, 2011**

**NOTE 4 – INTERFUND TRANSACTIONS**

**A. Transfers Between Funds**

With Council approval, resources may be transferred from one City fund to another. Transfers between funds during the fiscal year ended June 30, 2011 were as follows:

| <u>Fund Receiving Transfers</u> | <u>Fund Making Transfers</u> | <u>Amount Transferred</u> |
|---------------------------------|------------------------------|---------------------------|
| Capital Improvements Fund       | Non-Major Governmental Funds | \$435,218 B               |
| Non-Major Governmental Funds    | General Fund                 | 466,491 B                 |
| Non-Major Governmental Funds    | Capital Improvements Fund    | 60,628 B                  |
| Non-Major Governmental Funds    | Non-Major Governmental Funds | 700 A                     |
| Marina System Fund              | General Fund                 | 184,000 B                 |
| Water System Fund               | General Fund                 | 16,605 A                  |
|                                 | Total Interfund Transfers    | <u>\$1,163,642</u>        |

A: To fund operations

B: To fund Capital Projects

**B. Long-Term Interfund Advances**

In fiscal year 2004-2005 the General Fund made an advance to the Marina Services Enterprise Fund in the amount of \$225,000, to be repaid monthly until 2018. Annual interest at 4.96% is accrued on the unpaid balance. As of June 30, 2011, the balance was \$133,145.

In fiscal year 2005-2006 the General Fund made two additional advances to the Marina Services Enterprise Fund in the amount of \$82,000 and \$275,000. The \$82,000 advance is to be repaid at the same repayment terms as the original \$225,000 advance discussed above. As of June 30, 2011 its balance was \$52,176. The second advance for \$275,000 is to be repaid over the next 45 years. Annual interest at 4.53% is accrued on the unpaid balance. As of June 30, 2011 its balance was \$264,249.

In fiscal year 2007-08 the General Fund made an advance to the Marina Services Enterprise Fund in the amount of \$110,000, to be repaid monthly until 2023 at an interest rate of 3.11%. The project was completed under budget and \$67,408 of the loan was unused and returned to the General Fund leaving a loan balance at June 30, 2011 of \$24,279. This adjusted balance will be repaid in 2016.

In fiscal year 2007-08 the General Fund made an advance to the Alhambra Creek Improvements Capital Projects Fund in the amount of \$65,828, to be repaid in annual installments. The advance bears no interest. As of June 30, 2011, the balance was \$48,017.

**C. Internal Balances**

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

**CITY OF MARTINEZ**  
**Notes to Financial Statements**  
**June 30, 2011**

**NOTE 5 – LOAN RECEIVABLE AND DEFERRED REVENUE**

**A. *Riverhouse Associates***

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 balances of \$262,010 and \$22,920 were owed to the Capital Improvements Capital Projects Fund and Water System Enterprise Fund, respectively.

**B. *Willows Theatre Company***

On February 25, 2008 the City made a construction loan to the Willows Theatre Company in an amount up to \$75,000 for the renovation for the Campbell Theater. The renovations were completed and \$62,900 of the loan was expended. On December 17, 2008 the City loaned the Willows Theater Company \$40,000 to pay operating expenses in order to continue to provide live theater performances. As of June 30, 2011, City accepted in kind contributions as repayment for the loan in the amount of \$62,900 and the loan is considered to be fully repaid. In addition during the fiscal year the City forgave the second loan in the amount of \$40,000.

**C. *Martinez Unified School District (Special Item)***

The Martinez Unified School District (MUSD) requested financial assistance from the City in order to retain 17 teachers. Without the City's assistance the District would not have been able to maintain classroom sizes in the District's Kindergarten – 3<sup>rd</sup> grades. On July 27, 2009 the City advanced the MUSD \$500,000 and entered into a Fee Service and Joint Facility Use Agreement for repayment which terminates on July 27, 2014. It is anticipated that the Fee for Service and Joint Facilities Agreement shall provide the City an amount equal to the \$500,000 over the five years. As of June 30, 2011 the MUSD owes the City \$259,242.

**NOTE 6 - CAPITAL ASSETS**

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

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

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

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

**CITY OF MARTINEZ**  
**Notes to Financial Statements**  
**June 30, 2011**

**NOTE 6 - CAPITAL ASSETS (Continued)**

**A. Capital Asset Additions and Retirements**

Capital asset activities for the year ended June 30, 2011 comprise:

|  | Balance at<br>June 30, 2010 | Additions            | Retirements      | Transfers          | Balance at<br>June 30, 2011 |
|--|-----------------------------|----------------------|------------------|--------------------|-----------------------------|
| <b>Governmental activities</b>               |                             |                      |                  |                    |                             |
| Capital assets not being depreciated:        |                             |                      |                  |                    |                             |
| Land   | \$16,002,732                |                      |                  |                    | \$16,002,732                |
| Construction in progress                     | 8,391,086                   | \$8,153,516          | (\$3,499)        | (\$6,727,401)      | 9,813,702                   |
| Total capital assets not being depreciated   | <u>24,393,818</u>           | <u>8,153,516</u>     | <u>(3,499)</u>   | <u>(6,727,401)</u> | <u>25,816,434</u>           |
| Capital assets being depreciated:            |                             |                      |                  |                    |                             |
| Buildings                                    | 5,887,664                   |                      |                  | (479,567)          | 5,408,097                   |
| Improvements                                 | 36,920                      |                      |                  |                    | 36,920                      |
| Equipment                                    | 5,705,731                   | 478,320              | (167,593)        | 37,036             | 6,053,494                   |
| Infrastructure                               | 40,103,936                  | 941,206              |                  | 7,169,932          | 48,215,074                  |
| Total capital assets being depreciated       | <u>51,734,251</u>           | <u>1,419,526</u>     | <u>(167,593)</u> | <u>6,727,401</u>   | <u>59,713,585</u>           |
| Less accumulated depreciation:               |                             |                      |                  |                    |                             |
| Buildings                                    | (2,926,492)                 | (114,539)            |                  | 11,195             | (3,029,836)                 |
| Improvements                                 | (1,231)                     | (1,231)              |                  |                    | (2,462)                     |
| Equipment                                    | (3,254,542)                 | (473,387)            | 167,593          |                    | (3,560,336)                 |
| Infrastructure                               | (25,343,061)                | (1,404,094)          |                  | (11,195)           | (26,758,350)                |
| Total accumulated depreciation               | <u>(31,525,326)</u>         | <u>(1,993,251)</u>   | <u>167,593</u>   | <u>(11,195)</u>    | <u>(33,350,984)</u>         |
| Net capital assets being depreciated         | <u>20,208,925</u>           | <u>(573,725)</u>     |                  | <u>6,727,401</u>   | <u>26,362,601</u>           |
| Governmental activities capital assets, net  | <u>\$44,602,743</u>         | <u>\$7,579,791</u>   | <u>(\$3,499)</u> |                    | <u>\$52,179,035</u>         |
| <b>Business-type activities</b>              |                             |                      |                  |                    |                             |
| Capital assets, not being depreciated:       |                             |                      |                  |                    |                             |
| Land   | \$1,665,154                 |                      |                  |                    | \$1,665,154                 |
| Construction in progress                     | 1,919,026                   | \$10,621             |                  | (\$593,432)        | 1,336,215                   |
| Total capital assets not being depreciated   | <u>3,584,180</u>            | <u>10,621</u>        |                  | <u>(593,432)</u>   | <u>3,001,369</u>            |
| Capital assets being depreciated:            |                             |                      |                  |                    |                             |
| Buildings                                    | 15,940,035                  | 166,529              | (\$30,000)       |                    | 16,076,564                  |
| Improvements                                 | 2,329,895                   |                      |                  |                    | 2,329,895                   |
| Equipment                                    | 1,841,366                   |                      |                  |                    | 1,841,366                   |
| Infrastructure                               | 87,608,173                  | 134,778              | (36,410)         | 593,432            | 88,299,973                  |
| Net capital assets being depreciated         | <u>107,719,469</u>          | <u>301,307</u>       | <u>(66,410)</u>  | <u>593,432</u>     | <u>108,547,798</u>          |
| Less accumulated depreciation for:           |                             |                      |                  |                    |                             |
| Buildings                                    | (8,051,127)                 | (435,999)            | 30,000           |                    | (8,457,126)                 |
| Improvements                                 | (524,133)                   | (138,341)            |                  |                    | (662,474)                   |
| Equipment                                    | (1,511,400)                 | (94,296)             |                  |                    | (1,605,696)                 |
| Infrastructure                               | (63,585,448)                | (1,422,577)          | 36,410           |                    | (64,971,615)                |
| Total accumulated depreciation               | <u>(73,672,108)</u>         | <u>(2,091,213)</u>   | <u>66,410</u>    |                    | <u>(75,696,911)</u>         |
| Net capital assets being depreciated         | <u>34,047,361</u>           | <u>(1,789,906)</u>   |                  | <u>593,432</u>     | <u>32,850,887</u>           |
| Business-type activities capital assets, net | <u>\$37,631,541</u>         | <u>(\$1,779,285)</u> |                  |                    | <u>\$35,852,256</u>         |

**CITY OF MARTINEZ**  
**Notes to Financial Statements**  
**June 30, 2011**

**NOTE 6 - CAPITAL ASSETS (Continued)**

**B. Capital Asset Contributions**

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

**C. Depreciation Allocation**

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

|  |                           |
|--|---------------------------|
| <i><b>Governmental Activities</b></i>                    |                           |
| Community Development                                    | \$1,544,275               |
| Police   | 112,393                   |
| General Government                                       | 63,975                    |
| Public Works   | 1,020                     |
| Capital assets held by the City's Internal Service Funds | 271,588                   |
| <b>Total Governmental Activities</b>                     | <u><u>\$1,993,251</u></u> |
| <br><i><b>Business-Type Activities</b></i>               |                           |
| Water System   | \$1,885,254               |
| Marina Services  | 128,026                   |
| Parking Services   | 77,933                    |
| <b>Total Business-Type Activities</b>                    | <u><u>\$2,091,213</u></u> |

**NOTE 7 - LONG-TERM DEBT**

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

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

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

**CITY OF MARTINEZ**  
**Notes to Financial Statements**  
**June 30, 2011**

**NOTE 7 – LONG TERM DEBT (Continued)**

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

**A. Current Year Transactions and Balances**

|  | Original Issue<br>Amount | Balance at<br>June 30, 2010 | Retirements      | Balance at<br>June 30, 2011 | Current<br>Portion |
|--|--------------------------|-----------------------------|------------------|-----------------------------|--------------------|
| <b>Governmental Activity Debt</b>                        |                          |                             |                  |                             |                    |
| <i>General Long-Term Debt</i>                            |                          |                             |                  |                             |                    |
| <b>2003 Certificates of Participation</b>                |                          |                             |                  |                             |                    |
| Refinancing Project, 2-4%, due 12/01/13                  | \$2,200,000              | \$965,000                   | \$230,000        | \$735,000                   | \$235,000          |
| <b>2009 General Obligation Bonds</b>                     |                          |                             |                  |                             |                    |
| Election of 2008, Series A, 4-5%, due 2/01/39            | 15,000,000               | 15,000,000                  | 340,000          | 14,660,000                  | 360,000            |
| <b>Total governmental activity debt</b>                  |                          | <u>\$15,965,000</u>         | <u>\$570,000</u> | <u>\$15,395,000</u>         | <u>\$595,000</u>   |
| <b>Business-Type Activity Debt</b>                       |                          |                             |                  |                             |                    |
| <i>Enterprise Long-Term Debt</i>                         |                          |                             |                  |                             |                    |
| <b>Certificates of Participation:</b>                    |                          |                             |                  |                             |                    |
| 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            |
| <b>Total business-type activity debt</b>                 |                          | <u>\$8,280,000</u>          | <u>\$520,000</u> | <u>\$7,760,000</u>          | <u>\$540,000</u>   |

**B. 2003 Certificates of Participation**

On March 11, 2003, the City issued Certificates of Participation (COPs) in the amount of \$7,795,000 to refund and retire the outstanding 1992 City Hall Refurbishment Certificates of Participation and the 1993 Water System Improvements Certificates of Participation. Interest payments on the 2003 COPs are due semi annually on June 1 and December 1, and annual principal payments are due on December 1. Interest and principal payments are payable from lease revenues on City Hall and net revenues derived from the operation of the water system. The City's total principal and interest remaining to be paid on the bonds is \$775,084. The City's principal and interest paid for the current year is \$259,638.

The City has pledged future Water System Enterprise Fund revenues, net of specified operating expenses, to repay the Installment Agreement portion of the Certificates of Participation through 2019. Annual principal and interest payments on the bonds are expected to require less than 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. The City is in compliance with its' debt covenants for the year ended June 30, 2011.

**CITY OF MARTINEZ**  
**Notes to Financial Statements**  
**June 30, 2011**

**NOTE 7 – LONG TERM DEBT (Continued)**

**C. 2009 General Obligation Bonds**

On May 5, 2009, the City issued the General Obligation Election of 2008, Series A Bonds (GOs) in the amount of \$15,000,000 to finance the costs of acquiring and constructing parks, library improvements, and pool and safety improvements in the City. The Bonds were authorized at an election held on November 4, 2008, at which more than two-thirds of the voters approved. Interest payments on the 2009 GOs are due semi annually on February 1 and August 1, and annual principal payments are due on February or August 1. Interest and principal payments are payable from ad valorem property taxes levied by the City and collected by the County. The first interest installment is due on February 1, 2010 and the initial principal payment is due February 1, 2011. The total principal and interest remaining to be paid on the bonds is \$14,660,000 and \$16,337,902 respectively. Principal and interest paid for the current fiscal year and total Ad Valorem Property Tax Revenues were \$1,123,145 and \$1,509,647 respectively.

**D. 1999 Certificates of Participation**

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

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 percent 8.20 and 11.02 percent of net water revenues. The Water Fund's total principal and interest remaining to be paid on the bonds is \$6,881,870. The Water Fund's principal and interest paid for the current year and total customer net revenues were \$433,731 and \$2,257,039 respectively. The City is in compliance with its debt covenants for the year ended June 30, 2011.

**E. Debt Service Requirements**

Annual debt service requirements are shown below:

| For the Year<br>Ending June 30 | Governmental Activities |                     | Business-type Activities |                    |
|--------------------------------|-------------------------|---------------------|--------------------------|--------------------|
|                                | Principal               | Interest            | Principal                | Interest           |
| 2012                           | \$595,000               | \$779,075           | \$540,000                | \$350,698          |
| 2013                           | 405,000                 | 757,875             | 555,000                  | 328,769            |
| 2014                           | 260,000                 | 745,066             | 580,000                  | 305,598            |
| 2015                           | 45,000                  | 739,444             | 605,000                  | 280,822            |
| 2016                           | 65,000                  | 737,244             | 630,000                  | 254,527            |
| 2017 - 2021                    | 690,000                 | 3,621,720           | 2,655,000                | 856,573            |
| 2022 - 2026                    | 1,470,000               | 3,400,736           | 1,780,000                | 360,935            |
| 2027 - 2031                    | 2,605,000               | 2,929,893           | 415,000                  | 11,163             |
| 2032 - 2036                    | 4,230,000               | 2,084,133           |                          |                    |
| 2037 - 2039                    | 5,030,000               | 582,800             |                          |                    |
| <b>Total</b>                   | <b>\$15,395,000</b>     | <b>\$16,377,986</b> | <b>\$7,760,000</b>       | <b>\$2,749,085</b> |

**CITY OF MARTINEZ**  
**Notes to Financial Statements**  
**June 30, 2011**

**NOTE 7 – LONG TERM DEBT (Continued)**

**F. 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.

In addition, the City issued General Obligation Election of 2008, Series A Bonds (GOs) that were ratified by two-thirds of the voters on November 4, 2008 in the amount of \$30,000,000. \$15,000,000 remains authorized but unissued as of June 30, 2011.

**NOTE 8 – LOANS PAYABLE TO STATE OF CALIFORNIA**

At June 30, 2011, the Marina Services Fund owed \$4,228,497 in loans to the State. The City made an interest payment of \$75,857 to Department of Boating and Waterways in fiscal 2011 to cover current year interest accrued on the unpaid loan balances. Principal payments were made in the amount of \$39,009 to DBAW in fiscal year 2011.

**A. Loan Payable – 1960**

In January of 1960, the City entered into an agreement with the State of California, whereby a loan of \$1,300,000 was granted to the City for the construction of a Marina. At June 30, 2011, the amount payable to the State including interest amounted to \$2,537,014.

The agreement was modified in 1964 with the following conditions:

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

- Pro rata reimbursement to contributors of initial development costs as described in the agreement.
- 80% of the annual net income to the State, until the sum of \$1,300,000 is paid; the remaining 20% to be paid to the City.
- After the principal portion of the loan is repaid to the State, 80% of the annual net income shall be paid to the City; the remaining 20% shall be paid to the State until the State has been paid 3% interest per annum on the unpaid principal of the loan for each year starting with January 1, 1961. The agreement will terminate upon completion of the foregoing payments.

**CITY OF MARTINEZ**  
**Notes to Financial Statements**  
**June 30, 2011**

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

**B. *Loan Payable – 1973***

On December 20, 1973, the City entered into another agreement with the State of California, whereby a loan of \$450,000 was granted to the City to complete the Martinez Small Craft Harbor (MSCH). At June 30, 2011, the amount payable to the State was \$273,536 including accrued interest. The terms are as follows:

- The loan is payable from the gross revenues from operations of the facilities located or erected within the MSCH Project, prior to any other expenditures from such revenues.
- Payments of principal and interest at 4.5% shall be payable in equal annual installments on August 1 of each year with a final payment due on August 1, 2026.

During fiscal year 2005 the State amended the agreement to allow the City to make interest only annual payments until August 2008, at which time the City commenced making principal payments on the loan. As of June 30, 2011, the City was still in negotiations with the State for the terms of these loans.

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

**C. *Loan Payable – 1978***

On January 30, 1978, the City entered into another agreement with the State of California, whereby a loan of \$175,000 was granted to the City for construction of Marina Improvements. At June 30, 2011 the amount payable to the State was \$141,884 including accrued interest. The terms are as follows:

- The loan is payable from the gross revenues from operation of the facilities located or erected within the Project Area.
- Payments of principal and interest at 4.5% in equal annual installments shall be payable on August 1 of each year with a final payment due August 1, 2029.

During fiscal year 2005 the State amended the agreement to allow the City to make interest only annual payments until August 2008, at which time the City commenced making principal payments on the loan. As of June 30, 2011, the City was still in negotiations with the State for the terms of these loans.

**CITY OF MARTINEZ**  
**Notes to Financial Statements**  
**June 30, 2011**

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

**D. *Loan Payable – 1982***

On November 1, 1982, the City entered into another agreement with the State of California, whereby a loan of \$300,000 was granted to the City for the construction of new berthings and improvements to the Marina. The loan was to be based on stages of completion. At June 30, 2011, the amount payable to the State was \$345,573 including accrued interest. The loan terms are as follows:

- The loan is payable from the gross revenues originating from the operations of the Marina. These gross revenues constitute sole security for the loan.
- The loan shall bear compound interest at 4.5% per annum on the unpaid balance.
- Repayment of the loan shall be in equal annual installments on August 1 of each year with final payment due August 1, 2034.

**E. *Loan Payable – 1985***

On January 14, 1985 the City entered into another agreement with the State of California, whereby a loan of \$770,425 was granted to the City for twelve capital improvement projects at the Marina. At June 30, 2011, the amount payable to the State was \$930,490 including accrued interest. The loan terms are as follows:

- The loan is payable from the gross revenues from the operation of the facilities located within the project area.
- The loan shall bear compound interest at 4.5% per annum on the unpaid balance.
- Repayment of the loan shall be in equal annual installments on August 1 of each year with a final payment due on August 1, 2038.
- Berthing rates may not average less than \$3.75 per foot of boat or berth length and are subject to annual adjustments based on the consumer price index.
- A survey of berthing charges in the same market as the Marina shall be conducted on an annual basis.

**F. *Extensions and Loan Modifications***

The above loan agreements, except for the 1960 loan which has no specified repayment terms, require the Marina to remit approximately \$170,000 per year in each of the subsequent five years for debt service, and additional amounts thereafter. However, the Marina did not make any principal or interest payments on the above loans between fiscal 1996 and fiscal 2004. In June 2005, the State of California approved an extension which permitted the City to postpone principal payments on the above loans until fiscal year 2009. In fiscal year 2006-07, the State further agreed to allow the City to make interest-only annual payments until August 2008, at which time the City commenced making principal payments on the loans. As of June 30, 2011, the City was still in negotiations with the State for the terms of the loans.

**CITY OF MARTINEZ**  
**Notes to Financial Statements**  
**June 30, 2011**

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

**G. Commitments**

The City has commitments for two additional loans in the amounts of \$2.77 million and \$338,000. The City also has an application for an additional \$3.75 million from the State to finance certain Marina improvements.

**NOTE 9 – DEBT WITHOUT CITY COMMITMENT**

**A. Special Assessment Bonds**

The Alhambra Creek Assessment District issued Assessment Bonds of 1999, but the City has no legal or moral liability with respect to the payment of this debt, which is secured only by assessments on the properties in this District. Therefore, this debt is not included as debt of the City. At June 30, 2011, the District's outstanding debt amounted to \$730,000.

**B. Home Mortgage Revenue Bonds**

Home mortgage revenue bonds have been issued to finance secured mortgage loans for low-income housing projects. The bonds do not constitute indebtedness to which the good faith and credit of the City is pledged. The City is not obligated to pay the principal, interest or other payments associated with the bonds. The payments on the bonds are payable solely from monies received from mortgage loans, security agreements or insurance. Accordingly, the bonds have not been recorded in the basic financial statements of the City. The total amount of mortgage revenue bonds outstanding as June 30, 2011 was \$2,360,000.

**NOTE 10 – NET ASSETS AND FUND BALANCES**

**A. Net Assets**

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

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

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

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

**CITY OF MARTINEZ**  
**Notes to Financial Statements**  
**June 30, 2011**

**NOTE 10 – NET ASSETS AND FUND BALANCES (Continued)**

**B. Fund Balances**

Governmental fund balances represent the net current assets of each fund. Net current assets generally represent a fund's cash and receivables, less its liabilities.

The City's fund balances are classified in accordance with Governmental Accounting Standards Board Statement Number 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*, which requires the City to classify its fund balances based on spending constraints imposed on the use of resources. For programs with multiple funding sources, the City prioritizes and expends funds in the following order: Restricted, Committed, Assigned, and Unassigned. Each category in the following hierarchy is ranked according to the degree of spending constraint:

*Nonspendable* represents balances set aside to indicate items do not represent available, spendable resources even though they are a component of assets. Fund balances required to be maintained intact, such as Permanent Funds, and assets not expected to be converted to cash, such as prepaids, notes receivable, and land held for redevelopment are included. However, if proceeds realized from the sale or collection of nonspendable assets are restricted, committed or assigned, then Nonspendable amounts are required to be presented as a component of the applicable category.

*Restricted* fund balances have external restrictions imposed by creditors, grantors, contributors, laws, regulations, or enabling legislation which requires the resources to be used only for a specific purpose. Encumbrances and nonspendable amounts subject to restrictions are included along with spendable resources.

*Committed* fund balances have constraints imposed by formal action of the City Council which may be altered only by formal action of the City Council. Encumbrances and nonspendable amounts subject to council commitments are included along with spendable resources. As of June 30, 2011, the City does not have committed fund balance.

*Assigned* fund balances are amounts constrained by the City's intent to be used for a specific purpose, but are neither restricted nor committed. Intent is expressed by the City Council or its designee and may be changed at the discretion of the City Council or its designee. This category includes encumbrances; Nonspendables, when it is the City's intent to use proceeds or collections for a specific purpose, and residual fund balances, if any, of Special Revenue, Capital Projects and Debt Service Funds which have not been restricted or committed.

*Unassigned* fund balance represents residual amounts that have not been restricted, committed, or assigned. This includes the residual general fund balance and residual fund deficits, if any, of other governmental funds.

**CITY OF MARTINEZ**  
**Notes to Financial Statements**  
**June 30, 2011**

**NOTE 10 – NET ASSETS AND FUND BALANCES (Continued)**

Detailed classifications of the City's Fund Balances, as of June 30, 2011, are below:

| Fund Balance Classifications              | General Fund       | Special Revenue<br>Measure<br>H | Capital Project<br>Capital<br>Improvements | Other<br>Governmental<br>Funds | Total               |
|---|--------------------|---------------------------------|--|--------------------------------|---------------------|
| <b>Nonspendable:</b>                      |                    |                                 |  |                                |                     |
| Advance to Other Funds                    | \$521,866          |                                 |  |                                | \$521,866           |
| Inventory                                 | 13,106             |                                 |  |                                | 13,106              |
| Petty Cash                                | 1,625              |                                 |  |                                | 1,625               |
| <b>Total Nonspendable Fund Balances</b>   | <b>536,597</b>     |                                 |  |                                | <b>536,597</b>      |
| <b>Restricted for:</b>                    |                    |                                 |  |                                |                     |
| Debt Service                              |                    |                                 |  | \$1,312,460                    | 1,312,460           |
| Grants                                    | 2,974              |                                 |  |                                | 2,974               |
| Park & Facilities Improvements            |                    | \$8,579,433                     |  |                                | 8,579,433           |
| Street Improvements                       |                    |                                 |  | 2,381,895                      | 2,381,895           |
| Recycle                                   |                    |                                 |  | 25,485                         | 25,485              |
| PEG Access                                |                    |                                 |  | 382,750                        | 382,750             |
| Lighting & Landscape                      |                    |                                 |  | 235,421                        | 235,421             |
| Traffic Mitigation                        |                    |                                 | \$322,401                                  |                                | 322,401             |
| Park Impact                               |                    |                                 | 299,026                                    |                                | 299,026             |
| Child Care                                |                    |                                 | 14,521                                     |                                | 14,521              |
| Drainage                                  |                    |                                 | 75,724                                     |                                | 75,724              |
| Cultural Facilities                       |                    |                                 | 124,502                                    |                                | 124,502             |
| Public Safety                             |                    |                                 | 803  | 607,015                        | 607,818             |
| <b>Total Restricted Fund Balances</b>     | <b>2,974</b>       | <b>8,579,433</b>                | <b>836,977</b>                             | <b>4,945,026</b>               | <b>14,364,410</b>   |
| <b>Assigned to:</b>                       |                    |                                 |  |                                |                     |
| Insurance                                 | 582,425            |                                 |  |                                | 582,425             |
| Pension Obligation                        | 250,000            |                                 |  |                                | 250,000             |
| Improvements                              | 295,109            |                                 | 1,668,389                                  |                                | 1,963,498           |
| Health Benefits                           | 360,363            |                                 |  |                                | 360,363             |
| Loan to Marina                            | 350,000            |                                 |  |                                | 350,000             |
| Rent at 636 Ward Street                   | 178,000            |                                 |  |                                | 178,000             |
| Professional Service Consultants          | 31,766             |                                 |  |                                | 31,766              |
| Special Events                            | 21,802             |                                 |  |                                | 21,802              |
| Seismic                                   | 512                |                                 |  |                                | 512                 |
| Supplies                                  | 1,158              |                                 |  |                                | 1,158               |
| <b>Total Assigned Fund Balances</b>       | <b>2,071,135</b>   |                                 | <b>1,668,389</b>                           |                                | <b>3,739,524</b>    |
| <b>Unassigned:</b>                        |                    |                                 |  |                                |                     |
| General Fund                              | 4,323,175          |                                 |  |                                | 4,323,175           |
| Other Governmental Fund Deficit Residuals |                    |                                 |  | (48,017)                       | (48,017)            |
| <b>Total Unassigned Fund Balances</b>     | <b>4,323,175</b>   |                                 |  | <b>(48,017)</b>                | <b>4,275,158</b>    |
| <b>Total Fund Balances</b>                | <b>\$6,933,881</b> | <b>\$8,579,433</b>              | <b>\$2,505,366</b>                         | <b>\$4,897,009</b>             | <b>\$22,915,689</b> |

**C. Encumbrances**

The City uses an encumbrance system as an extension of normal budgetary accounting for governmental funds. Under this system, purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of applicable appropriations. Encumbrances outstanding at year-end are recorded as restricted, committed or assigned fund balance, depending on the classification of the resources to be used to liquidate the encumbrance, since they do not constitute expenditures or liabilities. Outstanding encumbrances at year-end are automatically reappropriated for the following year. Unencumbered and unexpended appropriations lapse at year-end. Encumbrances outstanding as of June 30, 2011 were as listed below:

**CITY OF MARTINEZ**  
**Notes to Financial Statements**  
**June 30, 2011**

**NOTE 10 – NET ASSETS AND FUND BALANCES (Continued)**

| Governmental funds:            | <u>Amount</u>      |
|--------------------------------|--------------------|
| General Fund                   | \$32,924           |
| Measure H Special Revenue Fund | 943,412            |
| Capital Improvements           | 60,958             |
| Other Governmental Funds       | <u>7,732</u>       |
| Total                          | <u>\$1,045,026</u> |

**D. Contingency Arrangements**

The City's annual budget requires the City to implement and maintain fund balance to handle any unforeseen contingencies in the future, rather than continued reliance on the City's operating General Fund reserves. These unforeseen contingencies include Economic Uncertainty, Catastrophes and Contingencies. As of June 30, 2011, the following are reported within the unassigned fund balance of the General Fund:

|                      | <u>Amount</u>      |
|----------------------|--------------------|
| Economic Uncertainty | \$600,000          |
| Catastrophes         | 300,000            |
| Contingencies        | <u>100,000</u>     |
| Total                | <u>\$1,000,000</u> |

**E. Fund Balance and Net Assets Deficits**

At June 30, 2011 the Alhambra Creek Improvements Capital Projects Fund had a deficit fund balance of \$48,017. Future revenues are expected to offset this fund deficit.

The Marina Services Enterprise Fund has an accumulated net deficit of \$2,603,313 as of June 30, 2011 made up primarily of state loans which the City has not had sufficient operating revenues to repay. The fund is used to account for the operation of the City's Marina. Management has taken steps to remedy this situation by privatizing the Marina, by entering into an operating agreement with an independent company to manage the Marina. In fiscal year 2006-07, the State of California approved an extension which permitted the City to postpone principal payments on the loans until fiscal year 2008-09. In fiscal year 2009 the City commenced making the principal payments on the loans. Contained in the loan agreements with the State is a provision which allows the State to take over the Marina with a 90 day notice. As of June 30, 2011, the City had not received such notice.

**CITY OF MARTINEZ**  
**Notes to Financial Statements**  
**June 30, 2011**

**NOTE 11 – EMPLOYEES’ RETIREMENT SYSTEM**

Substantially all City employees are eligible to participate in pension plans offered by California Public Employees Retirement System (CALPERS), an agent multiple employer defined benefit pension plan which acts as a common investment and administrative agent for its participating member employers. CALPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. The City’s employees participate in the separate Safety (police), Miscellaneous (all other), and Miscellaneous Joint Facilities Agency Employee Plans. Benefit provisions under the Plans are established by State statute and City ordinance. Benefits are based on years of credited service, equal to one year of full time employment. Funding contributions for the Plans are determined annually on an actuarial basis as of June 30 by CALPERS; the City must contribute these amounts. The City’s labor contracts require it to pay employee contributions as well as its own. The Plans’ provisions and benefits in effect at June 30, 2011, are summarized as follows:

|  | <u>Safety</u>    | <u>Miscellaneous</u> | <u>Miscellaneous Joint<br/>Facilities Agency</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<br>annual salary | 3%               | 1.426% - 2.418%      | 1.426% - 2.418%                                  |
| Required employee<br>contribution rates      | 9%               | 7%                   | 7%   |
| Required employer<br>contribution rates      | 39.041%          | 8.984%               | 10.537%  |
| *Rates include amortization of side fund     |                  |                      |  |

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:

**CITY OF MARTINEZ**  
**Notes to Financial Statements**  
**June 30, 2011**

**NOTE 11 – EMPLOYEES’ RETIREMENT SYSTEM (Continued)**

| Fiscal Year<br>Ending                        | Annual<br>Pension<br>Cost (APC) | Percentage<br>of APC<br>Contributed | Net<br>Pension<br>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**  
**Notes to Financial Statements**  
**June 30, 2011**

**NOTE 11 – 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%   |

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.

**CITY OF MARTINEZ**  
**Notes to Financial Statements**  
**June 30, 2011**

**NOTE 12 – OTHER POST-EMPLOYMENT BENEFITS**

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

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

Effective January 1, 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.

**CITY OF MARTINEZ**  
**Notes to Financial Statements**  
**June 30, 2011**

**NOTE 12 – OTHER POST-EMPLOYMENT BENEFITS (Continued)**

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

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

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

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

For those 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<br>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**  
**Notes to Financial Statements**  
**June 30, 2011**

**NOTE 12 – 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**  
**Notes to Financial Statements**  
**June 30, 2011**

**NOTE 12 – OTHER 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>                 |
| <b>Net OPEB Asset at June 30, 2011</b>     | <b><u><u>\$4,183,000</u></u></b> |

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<br>OPEB Cost | Actual<br>Contribution | Percentage of<br>OPEB Cost<br>Contributed | Net OPEB<br>Obligation<br>(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<br>Valuation<br>Date | Actuarial<br>Value of<br>Assets<br>(A) | Entry Age<br>Actuarial<br>Accrued<br>Liability<br>(B) | Unfunded<br>(Overfunded)<br>Actuarial<br>Accrued<br>Liability<br>(B-A) | Funded<br>Ratio<br>(A/B) | Covered<br>Payroll<br>(C) | Unfunded<br>(Overfunded)<br>Actuarial<br>Liability as<br>Percentage of<br>Covered Payroll<br>[(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**  
**Notes to Financial Statements**  
**June 30, 2011**

**NOTE 13 – SOCIAL SECURITY**

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

The City's part-time, seasonal, and temporary employees are covered under Social Security, which requires these employees and the City to each contribute 6.2% of the employees' pay. The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 provided a two percentage point payroll tax cut for employees, reducing their Social Security tax withholdings rate from 6.2% to 4.2% of wages paid in calendar 2011. This reduced Social Security withholding will have no effect on the employee's future Social Security benefits. Total contributions to Social Security during the year ended June 30, 2011 amounted to \$53,880 of which the City paid \$29,367.

**NOTE 14 – DEFERRED COMPENSATION PLAN**

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

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

**CITY OF MARTINEZ**  
**Notes to Financial Statements**  
**June 30, 2011**

**NOTE 15 – RISK MANAGEMENT**

**A. *Municipal Pooling Authority***

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

| Type of Coverage (Deductible)  | Coverage<br>Limits |
|--|--------------------|
| Liability (\$10,000)   | \$29,000,000       |
| Employment Risk Management Authority (\$50,000)                                    | 1,000,000          |
| Vehicle - Physical Damage (\$3,000 for police vehicles,<br>\$2,000 for all others) | 250,000            |
| Workers' 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        |

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

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

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

**B. *Liability for Uninsured Claims***

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

**CITY OF MARTINEZ**  
**Notes to Financial Statements**  
**June 30, 2011**

**NOTE 15 – RISK MANAGEMENT (Continued)**

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

|   | 2011     | 2010     |
|---|----------|----------|
| Beginning balance   | \$80,000 | \$80,000 |
| Liability for current fiscal year claims  | 37,124   | 67,048   |
| Increase (decrease) in liability for prior<br>fiscal year claims and claims incurred<br>but not reported (IBNR) | (25,075) | (42,317) |
| Claims paid   | (12,049) | (24,731) |
| Ending balance  | \$80,000 | \$80,000 |

**NOTE 16 - COMMITMENTS AND CONTINGENCIES**

**A. *Litigation***

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

## NON-MAJOR GOVERNMENTAL FUNDS

### SPECIAL REVENUE FUNDS

#### **Gas Tax Funds**

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

#### **NPDES Stormwater Fund**

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

#### **Measure J Fund**

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

#### **COPS Grant Fund**

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

#### **Traffic Congestion Relief**

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

#### **Proposition 1B Fund**

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

#### **PEG Access Fund**

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

#### **Recycling Fund**

This fund accounts for grants the City receives for the disposal of used oil and recycling of material and for monies received to cover the implementation of the City's Assembly Bill 939 programs and Climate Action Plan initiatives.

### DEBT SERVICE FUNDS

#### **2003 Debt Service Fund**

To account for the accumulation of resources for, and the payment of long-term debt principal, interest and related costs for the 2003 Certificates of Participation (other than those paid for by Proprietary Funds).

#### **2009 Debt Service Fund**

Accounts for funds to be used for payment of debt service on the 2009 General Obligation Bonds issued in May 2009. Debt service is funded from *ad valorem* taxes levied upon all property within the City subject to taxation.

|   |
|---|
| <b>NON-MAJOR GOVERNMENTAL FUNDS (Continued)</b> |
|---|

**CAPITAL PROJECTS FUNDS**

**Alhambra Creek Improvements**

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

**Lighting and Landscaping Fund**

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

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CITY OF MARTINEZ  
NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEETS  
JUNE 30, 2011

|  | SPECIAL REVENUE FUNDS |                             |                   |                       |                                 |
|--|-----------------------|-----------------------------|-------------------|-----------------------|---------------------------------|
|  | Gas Tax<br>Funds      | NPDES<br>Stormwater<br>Fund | Measure J<br>Fund | COPS<br>Grant<br>Fund | Traffic<br>Congestion<br>Relief |
| <b>ASSETS</b>  |                       |                             |                   |                       |                                 |
| Cash and investments                                       |                       |                             |                   |                       |                                 |
| Available for operations                                   | \$629,288             | \$159,036                   | \$299,001         | \$567,164             |                                 |
| Restricted   |                       |                             |                   |                       |                                 |
| Receivables:   |                       |                             |                   |                       |                                 |
| Accounts receivables (net of allowance for uncollectibles) |                       |                             |                   |                       |                                 |
| Intergovernmental  | 111,825               |                             | 415,888           | 49,885                |                                 |
| Total Assets   | <u>\$741,113</u>      | <u>\$159,036</u>            | <u>\$714,889</u>  | <u>\$617,049</u>      |                                 |
| <b>LIABILITIES</b>   |                       |                             |                   |                       |                                 |
| Accounts payable   | \$16,977              | \$1,852                     |                   | \$181                 |                                 |
| Accrued wages and benefits                                 |                       | 3,173                       |                   |                       |                                 |
| Deposits   |                       |                             |                   | 9,853                 |                                 |
| Advance from other funds                                   |                       |                             |                   |                       |                                 |
| Deferred revenue   |                       |                             |                   |                       |                                 |
| Total Liabilities  | <u>16,977</u>         | <u>5,025</u>                |                   | <u>10,034</u>         |                                 |
| <b>FUND EQUITY</b>   |                       |                             |                   |                       |                                 |
| Fund balances  |                       |                             |                   |                       |                                 |
| Nonspendable   |                       |                             |                   |                       |                                 |
| Restricted   | 724,136               | 154,011                     | \$714,889         | 607,015               |                                 |
| Committed  |                       |                             |                   |                       |                                 |
| Assigned   |                       |                             |                   |                       |                                 |
| Unassigned   |                       |                             |                   |                       |                                 |
| Total Fund Balances (Deficit)                              | <u>724,136</u>        | <u>154,011</u>              | <u>714,889</u>    | <u>607,015</u>        |                                 |
| Total Liabilities and Fund Balances                        | <u>\$741,113</u>      | <u>\$159,036</u>            | <u>\$714,889</u>  | <u>\$617,049</u>      |                                 |

| Proposition<br>IB | PEG<br>Access    | Recycling<br>Fund | DEBT SERVICE FUNDS           |                              | CAPITAL PROJECTS FUNDS            |                                     | Total<br>Nonmajor<br>Governmental<br>Funds |
|-------------------|------------------|-------------------|------------------------------|------------------------------|-----------------------------------|-------------------------------------|--|
|                   |                  |                   | 2003 Debt<br>Service<br>Fund | 2009 Debt<br>Service<br>Fund | Alhambra<br>Creek<br>Improvements | Lighting and<br>Landscaping<br>Fund |  |
| \$538,859         | \$371,001        | \$272,330         | \$116,828<br>412,124         | \$783,508                    |                                   | \$251,358                           | \$3,204,865<br>1,195,632                   |
|                   | 11,749           | 5,000             |                              |                              | \$48,017                          |                                     | 11,749<br>630,615                          |
| <u>\$538,859</u>  | <u>\$382,750</u> | <u>\$277,330</u>  | <u>\$528,952</u>             | <u>\$783,508</u>             | <u>\$48,017</u>                   | <u>\$251,358</u>                    | <u>\$5,042,861</u>                         |
|                   |                  | \$1,845           |                              |                              |                                   | \$15,937                            | \$36,792<br>3,173<br>9,853                 |
|                   |                  |                   |                              |                              | \$48,017<br>48,017                |                                     | 48,017<br>48,017                           |
|                   |                  | 1,845             |                              |                              | 96,034                            | 15,937                              | 145,852                                    |
| \$538,859         | \$382,750        | 275,485           | \$528,952                    | \$783,508                    |                                   | 235,421                             | 4,945,026                                  |
|                   |                  |                   |                              |                              | (48,017)                          |                                     | (48,017)                                   |
| <u>538,859</u>    | <u>382,750</u>   | <u>275,485</u>    | <u>528,952</u>               | <u>783,508</u>               | <u>(48,017)</u>                   | <u>235,421</u>                      | <u>4,897,009</u>                           |
| <u>\$538,859</u>  | <u>\$382,750</u> | <u>\$277,330</u>  | <u>\$528,952</u>             | <u>\$783,508</u>             | <u>\$48,017</u>                   | <u>\$251,358</u>                    | <u>\$5,042,861</u>                         |

CITY OF MARTINEZ  
NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2011

|   | SPECIAL REVENUE FUNDS |                             |                   |                       |                                 |
|---|-----------------------|-----------------------------|-------------------|-----------------------|---------------------------------|
|   | Gas Tax<br>Funds      | NPDES<br>Stormwater<br>Fund | Measure J<br>Fund | COPS<br>Grant<br>Fund | Traffic<br>Congestion<br>Relief |
| <b>REVENUES</b>   |                       |                             |                   |                       |                                 |
| Special assessments   |                       | \$475,855                   |                   |                       |                                 |
| Intergovernmental   | \$924,120             |                             | \$484,658         | \$153,901             |                                 |
| Fines and forfeits  |                       |                             |                   | 25,046                |                                 |
| Use of money and property   | 2,027                 | 461                         | 2,809             | 364                   | \$1,470                         |
| Miscellaneous   |                       | 9,923                       |                   | 1,180                 |                                 |
| <b>Total Revenues</b>   | <b>926,147</b>        | <b>486,239</b>              | <b>487,467</b>    | <b>180,491</b>        | <b>1,470</b>                    |
| <b>EXPENDITURES</b>   |                       |                             |                   |                       |                                 |
| Current:  |                       |                             |                   |                       |                                 |
| Administrative services   |                       |                             |                   |                       |                                 |
| Community & economic development  | 497,247               | 459,056                     | 102,258           |                       |                                 |
| Police  |                       |                             |                   | 127,347               |                                 |
| Debt Service:   |                       |                             |                   |                       |                                 |
| Principal   |                       |                             |                   |                       |                                 |
| Interest and fiscal charges   |                       |                             |                   |                       |                                 |
| Capital outlay  |                       |                             |                   | 28,725                | 331,108                         |
| <b>Total Expenditures</b>   | <b>497,247</b>        | <b>459,056</b>              | <b>102,258</b>    | <b>156,072</b>        | <b>331,108</b>                  |
| <b>EXCESS (DEFICIENCY) OF REVENUES<br/>OVER EXPENDITURES</b>                                      | <b>428,900</b>        | <b>27,183</b>               | <b>385,209</b>    | <b>24,419</b>         | <b>(329,638)</b>                |
| <b>OTHER FINANCING SOURCES (USES)</b>   |                       |                             |                   |                       |                                 |
| Transfers in  |                       | 17,438                      | 43,190            | 450,000               |                                 |
| Transfers (out)   | (135,218)             | (700)                       | (300,000)         |                       |                                 |
| <b>Total Other Financing Sources (Uses)</b>   | <b>(135,218)</b>      | <b>16,738</b>               | <b>(256,810)</b>  | <b>450,000</b>        |                                 |
| <b>EXCESS (DEFICIENCY) OF REVENUES AND<br/>OTHER SOURCES OVER EXPENDITURES<br/>AND OTHER USES</b> | <b>293,682</b>        | <b>43,921</b>               | <b>128,399</b>    | <b>474,419</b>        | <b>(329,638)</b>                |
| <b>BEGINNING FUND BALANCES (DEFICIT)</b>  | <b>430,454</b>        | <b>110,090</b>              | <b>586,490</b>    | <b>132,596</b>        | <b>329,638</b>                  |
| <b>ENDING FUND BALANCES (DEFICIT)</b>   | <b>\$724,136</b>      | <b>\$154,011</b>            | <b>\$714,889</b>  | <b>\$607,015</b>      |                                 |

| Proposition<br>IB | PEG<br>Access | Recycling<br>Fund | DEBT SERVICE FUNDS           |                              | CAPITAL PROJECTS FUNDS            |                                     | Total<br>Nonmajor<br>Governmental<br>Funds |
|-------------------|---------------|-------------------|------------------------------|------------------------------|-----------------------------------|-------------------------------------|--|
|                   |               |                   | 2003 Debt<br>Service<br>Fund | 2009 Debt<br>Service<br>Fund | Alhambra<br>Creek<br>Improvements | Lighting and<br>Landscaping<br>Fund |  |
|                   |               | \$21,655          |                              | \$1,509,647                  | \$5,950                           | \$118,649                           | \$2,110,101                                |
| \$537,849         |               |                   |                              |                              |                                   |                                     | 2,122,183                                  |
|                   |               |                   | \$328                        | 1,326                        |                                   | 1,126                               | 25,046                                     |
| 1,010             | \$47,939      | 254,447           | 263,138                      |                              |                                   |                                     | 10,921                                     |
|                   |               |                   |                              |                              |                                   |                                     | 576,627                                    |
| 538,859           | 47,939        | 276,102           | 263,466                      | 1,510,973                    | 5,950                             | 119,775                             | 4,844,878                                  |
|                   | 30,585        | 10,108            |                              |                              |                                   |                                     | 40,693                                     |
|                   |               |                   |                              |                              |                                   | 140,458                             | 1,199,019                                  |
|                   |               |                   |                              |                              |                                   |                                     | 127,347                                    |
|                   |               |                   | 230,000                      | 340,000                      |                                   |                                     | 570,000                                    |
|                   |               |                   | 30,154                       | 783,145                      |                                   |                                     | 813,299                                    |
|                   | 15,658        |                   |                              |                              |                                   |                                     | 375,491                                    |
|                   | 46,243        | 10,108            | 260,154                      | 1,123,145                    |                                   | 140,458                             | 3,125,849                                  |
| 538,859           | 1,696         | 265,994           | 3,312                        | 387,828                      | 5,950                             | (20,683)                            | 1,719,029                                  |
|                   |               | 9,491             |                              |                              |                                   | 7,700                               | 527,819                                    |
|                   |               |                   |                              |                              |                                   |                                     | (435,918)                                  |
|                   |               | 9,491             |                              |                              |                                   | 7,700                               | 91,901                                     |
| 538,859           | 1,696         | 275,485           | 3,312                        | 387,828                      | 5,950                             | (12,983)                            | 1,810,930                                  |
|                   | 381,054       |                   | 525,640                      | 395,680                      | (53,967)                          | 248,404                             | 3,086,079                                  |
| 538,859           | 382,750       | 275,485           | 528,952                      | 783,508                      | (48,017)                          | 235,421                             | 4,897,009                                  |

CITY OF MARTINEZ  
 BUDGETED NON-MAJOR FUNDS  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCES  
 BUDGET AND ACTUAL  
 FOR THE YEAR ENDED JUNE 30, 2011

|  | GAS TAX FUNDS      |                  |                                    | NPDES STORMWATER FUND |                  |                                    |
|--|--------------------|------------------|------------------------------------|-----------------------|------------------|------------------------------------|
|  | Budget             | Actual           | Variance<br>Positive<br>(Negative) | Budget                | Actual           | Variance<br>Positive<br>(Negative) |
| REVENUES   |                    |                  |                                    |                       |                  |                                    |
| Special assessments  |                    |                  |                                    | \$472,658             | \$475,855        | \$3,197                            |
| Licenses, permits, and fees  |                    |                  |                                    |                       |                  |                                    |
| Intergovernmental  | \$671,000          | \$924,120        | \$253,120                          |                       |                  |                                    |
| Fines and forfeits   |                    |                  |                                    |                       |                  |                                    |
| Use of money and property  | 4,000              | 2,027            | (1,973)                            | 1,000                 | 461              | (539)                              |
| Miscellaneous  |                    |                  |                                    | 9,900                 | 9,923            | 23                                 |
| Total Revenues   | <u>675,000</u>     | <u>926,147</u>   | <u>251,147</u>                     | <u>483,558</u>        | <u>486,239</u>   | <u>2,681</u>                       |
| EXPENDITURES   |                    |                  |                                    |                       |                  |                                    |
| Current:   |                    |                  |                                    |                       |                  |                                    |
| Administrative services  |                    |                  |                                    |                       |                  |                                    |
| Community development  | 545,636            | 497,247          | 48,389                             | 460,585               | 459,056          | 1,529                              |
| Police   |                    |                  |                                    |                       |                  |                                    |
| Capital outlay   |                    |                  |                                    |                       |                  |                                    |
| Total Expenditures   | <u>545,636</u>     | <u>497,247</u>   | <u>48,389</u>                      | <u>460,585</u>        | <u>459,056</u>   | <u>1,529</u>                       |
| EXCESS (DEFICIENCY) OF REVENUES<br>OVER EXPENDITURES                                     | <u>129,364</u>     | <u>428,900</u>   | <u>299,536</u>                     | <u>22,973</u>         | <u>27,183</u>    | <u>4,210</u>                       |
| OTHER FINANCING SOURCES (USES)   |                    |                  |                                    |                       |                  |                                    |
| Transfers in   |                    |                  |                                    | 17,439                | 17,438           | (1)                                |
| Transfers (out)  | (363,500)          | (135,218)        | 228,282                            | (700)                 | (700)            |                                    |
| Total Other Financing Sources (Uses)   | <u>(363,500)</u>   | <u>(135,218)</u> | <u>228,282</u>                     | <u>16,739</u>         | <u>16,738</u>    | <u>(1)</u>                         |
| EXCESS (DEFICIENCY) OF REVENUES AND<br>OTHER SOURCES OVER EXPENDITURES<br>AND OTHER USES | <u>(\$234,136)</u> | <u>293,682</u>   | <u>\$527,818</u>                   | <u>\$39,712</u>       | <u>43,921</u>    | <u>\$4,209</u>                     |
| BEGINNING FUND BALANCES  |                    | <u>430,454</u>   |                                    |                       | <u>110,090</u>   |                                    |
| ENDING FUND BALANCES   |                    | <u>\$724,136</u> |                                    |                       | <u>\$154,011</u> |                                    |

| MEASURE J FUND   |                  |                                    | COPS GRANT FUND  |                  |                                    |
|------------------|------------------|------------------------------------|------------------|------------------|------------------------------------|
| Budget           | Actual           | Variance<br>Positive<br>(Negative) | Budget           | Actual           | Variance<br>Positive<br>(Negative) |
| \$405,000        | \$484,658        | \$79,658                           | \$77,973         | \$153,901        | \$75,928                           |
| 8,000            | 2,809            | (5,191)                            |                  | 25,046           | 25,046                             |
|                  |                  |                                    |                  | 364              | 364                                |
|                  |                  |                                    |                  | 1,180            | 1,180                              |
| <u>413,000</u>   | <u>487,467</u>   | <u>74,467</u>                      | <u>77,973</u>    | <u>180,491</u>   | <u>102,518</u>                     |
| 135,976          | 102,258          | 33,718                             |                  |                  |                                    |
|                  |                  |                                    | 147,532          | 127,347          | 20,185                             |
|                  |                  |                                    | 30,441           | 28,725           | 1,716                              |
| <u>135,976</u>   | <u>102,258</u>   | <u>33,718</u>                      | <u>177,973</u>   | <u>156,072</u>   | <u>21,901</u>                      |
| <u>277,024</u>   | <u>385,209</u>   | <u>108,185</u>                     | <u>(100,000)</u> | <u>24,419</u>    | <u>124,419</u>                     |
| 43,190           | 43,190           |                                    | 450,000          | 450,000          |                                    |
| <u>(300,000)</u> | <u>(300,000)</u> |                                    |                  |                  |                                    |
| <u>(256,810)</u> | <u>(256,810)</u> |                                    | <u>450,000</u>   | <u>450,000</u>   |                                    |
| <u>\$20,214</u>  | 128,399          | <u>\$108,185</u>                   | <u>\$350,000</u> | 474,419          | <u>\$124,419</u>                   |
|                  | 586,490          |                                    |                  | 132,596          |                                    |
|                  | <u>\$714,889</u> |                                    |                  | <u>\$607,015</u> |                                    |

CITY OF MARTINEZ  
 BUDGETED NON-MAJOR FUNDS  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCES  
 BUDGET AND ACTUAL  
 FOR THE YEAR ENDED JUNE 30, 2011

|  | TRAFFIC CONGESTION RELIEF |                  |                                    | PROPOSITION 1B |                  |                                    |
|--|---------------------------|------------------|------------------------------------|----------------|------------------|------------------------------------|
|  | Budget                    | Actual           | Variance<br>Positive<br>(Negative) | Budget         | Actual           | Variance<br>Positive<br>(Negative) |
| REVENUES   |                           |                  |                                    |                |                  |                                    |
| Special assessments  |                           |                  |                                    |                |                  |                                    |
| Licenses, permits, and fees  |                           |                  |                                    |                |                  |                                    |
| Intergovernmental  |                           |                  |                                    | \$537,849      | \$537,849        |                                    |
| Fines and forfeits   |                           |                  |                                    |                |                  |                                    |
| Use of money and property  |                           | \$1,470          | \$1,470                            |                | 1,010            | \$1,010                            |
| Miscellaneous  |                           |                  |                                    |                |                  |                                    |
| Total Revenues   |                           | 1,470            | 1,470                              | 537,849        | 538,859          | 1,010                              |
| EXPENDITURES   |                           |                  |                                    |                |                  |                                    |
| Current:   |                           |                  |                                    |                |                  |                                    |
| Administrative services  |                           |                  |                                    |                |                  |                                    |
| Community development  |                           |                  |                                    |                |                  |                                    |
| Police   |                           |                  |                                    |                |                  |                                    |
| Capital outlay   | \$331,108                 | 331,108          |                                    | 537,849        |                  | 537,849                            |
| Total Expenditures   | 331,108                   | 331,108          |                                    | 537,849        |                  | 537,849                            |
| EXCESS (DEFICIENCY) OF REVENUES<br>OVER EXPENDITURES                                     | (331,108)                 | (329,638)        | 1,470                              |                | 538,859          | 538,859                            |
| OTHER FINANCING SOURCES (USES)   |                           |                  |                                    |                |                  |                                    |
| Transfers in   |                           |                  |                                    |                |                  |                                    |
| Transfers (out)  |                           |                  |                                    |                |                  |                                    |
| Total Other Financing Sources (Uses)   |                           |                  |                                    |                |                  |                                    |
| EXCESS (DEFICIENCY) OF REVENUES AND<br>OTHER SOURCES OVER EXPENDITURES<br>AND OTHER USES | <u>(\$331,108)</u>        | <u>(329,638)</u> | <u>\$1,470</u>                     |                | 538,859          | <u>\$538,859</u>                   |
| BEGINNING FUND BALANCES  |                           | 329,638          |                                    |                |                  |                                    |
| ENDING FUND BALANCES   |                           |                  |                                    |                | <u>\$538,859</u> |                                    |

| PEG ACCESS      |                  |                                    | RECYCLING FUND   |                  |                                    |
|-----------------|------------------|------------------------------------|------------------|------------------|------------------------------------|
| Budget          | Actual           | Variance<br>Positive<br>(Negative) | Budget           | Actual           | Variance<br>Positive<br>(Negative) |
|                 |                  |                                    | \$21,655         | \$21,655         |                                    |
| <u>\$55,000</u> | <u>\$47,939</u>  | <u>(\$7,061)</u>                   | <u>253,900</u>   | <u>254,447</u>   | <u>\$547</u>                       |
| <u>55,000</u>   | <u>47,939</u>    | <u>(7,061)</u>                     | <u>275,555</u>   | <u>276,102</u>   | <u>547</u>                         |
| 31,575          | 30,585           | 990                                | 35,046           | 10,108           | 24,938                             |
| <u>15,658</u>   | <u>15,658</u>    |                                    |                  |                  |                                    |
| <u>47,233</u>   | <u>46,243</u>    | <u>990</u>                         | <u>35,046</u>    | <u>10,108</u>    | <u>24,938</u>                      |
| <u>7,767</u>    | <u>1,696</u>     | <u>(6,071)</u>                     | <u>240,509</u>   | <u>265,994</u>   | <u>25,485</u>                      |
|                 |                  |                                    | 9,491            | 9,491            |                                    |
|                 |                  |                                    | 9,491            | 9,491            |                                    |
| <u>\$7,767</u>  | 1,696            | <u>(\$6,071)</u>                   | <u>\$250,000</u> | 275,485          | <u>\$25,485</u>                    |
|                 | <u>381,054</u>   |                                    |                  |                  |                                    |
|                 | <u>\$382,750</u> |                                    |                  | <u>\$275,485</u> |                                    |

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## INTERNAL SERVICE FUNDS

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

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

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

### **Equipment Replacement**

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

### **Management Information System**

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

CITY OF MARTINEZ  
INTERNAL SERVICE FUNDS  
COMBINING STATEMENT OF NET ASSETS  
JUNE 30, 2011

|   | Equipment<br>Replacement | Management<br>Information<br>System | Total       |
|---|--------------------------|-------------------------------------|-------------|
| ASSETS  |                          |                                     |             |
| Current Assets:                               |                          |                                     |             |
| Cash and investments available for operations | \$1,896,936              | \$627,644                           | \$2,524,580 |
| Total Current Assets                          | 1,896,936                | 627,644                             | 2,524,580   |
| Capital Assets:                               |                          |                                     |             |
| Equipment                                     | 3,170,538                | 378,198                             | 3,548,736   |
| Accumulated depreciation                      | (2,237,740)              | (374,942)                           | (2,612,682) |
| Net Capital Assets                            | 932,798                  | 3,256                               | 936,054     |
| Total Assets                                  | 2,829,734                | 630,900                             | 3,460,634   |
| LIABILITIES                                   |                          |                                     |             |
| Current Liabilities:                          |                          |                                     |             |
| Accounts payable                              | 19,385                   | 6,128                               | 25,513      |
| Accrued liabilities                           | 7,039                    | 5,064                               | 12,103      |
| Accrued vacation and other fringe benefits    | 35,045                   | 14,752                              | 49,797      |
| Total Liabilities                             | 61,469                   | 25,944                              | 87,413      |
| NET ASSETS                                    |                          |                                     |             |
| Invested in capital assets                    | 932,798                  | 3,256                               | 936,054     |
| Unrestricted                                  | 1,835,467                | 601,700                             | 2,437,167   |
| Total Net Assets                              | \$2,768,265              | \$604,956                           | \$3,373,221 |

CITY OF MARTINEZ  
INTERNAL SERVICE FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN FUND NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2011

|                                    | <u>Equipment<br/>Replacement</u> | <u>Management<br/>Information<br/>System</u> | <u>Total</u>              |
|------------------------------------|----------------------------------|--|---------------------------|
| <b>OPERATING REVENUES</b>          |                                  |  |                           |
| Charges for services               | \$834,615                        | \$336,277                                    | \$1,170,892               |
| Other revenue                      |                                  | 5,454  | 5,454                     |
| <b>Total Operating Revenues</b>    | <u>834,615</u>                   | <u>341,731</u>                               | <u>1,176,346</u>          |
| <b>OPERATING EXPENSES</b>          |                                  |  |                           |
| Maintenance and repairs            | 760,460                          | 362,000                                      | 1,122,460                 |
| Depreciation                       | 257,548                          | 14,040                                       | 271,588                   |
| <b>Total Operating Expenses</b>    | <u>1,018,008</u>                 | <u>376,040</u>                               | <u>1,394,048</u>          |
| <b>Operating Income (Loss)</b>     | <u>(183,393)</u>                 | <u>(34,309)</u>                              | <u>(217,702)</u>          |
| <b>NONOPERATING REVENUES</b>       |                                  |  |                           |
| Interest income                    | 8,990                            | 2,873  | 11,863                    |
| Gain on disposal of equipment      | 16,376                           |  | 16,376                    |
| <b>Total Nonoperating Revenues</b> | <u>25,366</u>                    | <u>2,873</u>                                 | <u>28,239</u>             |
| <b>Income (Loss)</b>               | <u>(158,027)</u>                 | <u>(31,436)</u>                              | <u>(189,463)</u>          |
| <b>Change in Net Assets</b>        | <u>(158,027)</u>                 | <u>(31,436)</u>                              | <u>(189,463)</u>          |
| <b>BEGINNING NET ASSETS</b>        | <u>2,926,292</u>                 | <u>636,392</u>                               | <u>3,562,684</u>          |
| <b>ENDING NET ASSETS</b>           | <u><u>\$2,768,265</u></u>        | <u><u>\$604,956</u></u>                      | <u><u>\$3,373,221</u></u> |

CITY OF MARTINEZ  
INTERNAL SERVICE FUNDS  
COMBINING STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2011

|   | Equipment<br>Replacement | Management<br>Information<br>System | Total              |
|---|--------------------------|-------------------------------------|--------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                          |                                     |                    |
| Receipts from customers   | \$834,615                | \$341,731                           | \$1,176,346        |
| Payments to suppliers   | (532,003)                | (220,354)                           | (752,357)          |
| Payments to employees   | (224,943)                | (157,080)                           | (382,023)          |
|   | <u>77,669</u>            | <u>(35,703)</u>                     | <u>41,966</u>      |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>                               |                          |                                     |                    |
| Acquisition of capital assets   | (248,085)                | (2)                                 | (248,087)          |
| Proceeds from sale of equipment   | 23,916                   |                                     | 23,916             |
|   | <u>(224,169)</u>         | <u>(2)</u>                          | <u>(224,171)</u>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                          |                                     |                    |
| Interest  | 8,990                    | 2,873                               | 11,863             |
|   | <u>8,990</u>             | <u>2,873</u>                        | <u>11,863</u>      |
| Net Cash Flows  | (137,510)                | (32,832)                            | (170,342)          |
| Cash and investments at beginning of period   | 2,034,446                | 660,476                             | 2,694,922          |
| Cash and investments at end of period   | <u>\$1,896,936</u>       | <u>\$627,644</u>                    | <u>\$2,524,580</u> |
| <b>Reconciliation of operating income (loss) to net cash flows from operating activities:</b> |                          |                                     |                    |
| Operating income (loss)   | (\$183,393)              | (\$34,309)                          | (\$217,702)        |
| Adjustments to reconcile operating income (loss) to net cash flows from operating activities: |                          |                                     |                    |
| Depreciation  | 257,548                  | 14,040                              | 271,588            |
| Change in assets and liabilities:   |                          |                                     |                    |
| Accounts payable  | 292                      | (19,011)                            | (18,719)           |
| Accrued wages and benefits  | 13                       | (35)                                | (22)               |
| Accrued vacation and other fringe benefits  | 3,209                    | 3,612                               | 6,821              |
| Cash Flows from Operating Activities  | <u>\$77,669</u>          | <u>(\$35,703)</u>                   | <u>\$41,966</u>    |

|                        |
|------------------------|
| <b>FIDUCIARY FUNDS</b> |
|------------------------|

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

**Alhambra Creek Assessment District**

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

**Senior Center Club**

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

CITY OF MARTINEZ  
 AGENCY FUNDS  
 STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
 FOR THE YEAR ENDED JUNE 30, 2011

|   | Balance<br>June 30, 2010 | Additions        | Deductions       | Balance<br>June 30, 2011 |
|---|--------------------------|------------------|------------------|--------------------------|
| <u>Alhambra Creek Assessment District</u> |                          |                  |                  |                          |
| <u>Assets</u>                             |                          |                  |                  |                          |
| Restricted cash and investments           | \$222,245                | \$114,327        | \$110,383        | \$226,189                |
| Total assets                              | <u>\$222,245</u>         | <u>\$114,327</u> | <u>\$110,383</u> | <u>\$226,189</u>         |
| <u>Liabilities</u>                        |                          |                  |                  |                          |
| Accounts payable<br>Due to bondholders    | \$222,245                | \$114,327        | 110,383          | \$226,189                |
| Total liabilities                         | <u>\$222,245</u>         | <u>\$114,327</u> | <u>\$110,383</u> | <u>\$226,189</u>         |
| <u>Senior Center Club</u>                 |                          |                  |                  |                          |
| <u>Assets</u>                             |                          |                  |                  |                          |
| Restricted cash and investments           | \$158,044                | \$188,623        | \$198,268        | \$148,399                |
| Total assets                              | <u>\$158,044</u>         | <u>\$188,623</u> | <u>\$198,268</u> | <u>\$148,399</u>         |
| <u>Liabilities</u>                        |                          |                  |                  |                          |
| Accounts payable                          | \$5,718                  | \$2,546          | \$5,719          | \$2,545                  |
| Deposits in trust                         | 152,326                  | 186,077          | 192,549          | 145,854                  |
| Total liabilities                         | <u>\$158,044</u>         | <u>\$188,623</u> | <u>\$198,268</u> | <u>\$148,399</u>         |
| <u>Total Agency Funds</u>                 |                          |                  |                  |                          |
| <u>Assets</u>                             |                          |                  |                  |                          |
| Restricted cash and investments           | \$380,289                | \$302,950        | \$308,651        | \$374,588                |
| Total assets                              | <u>\$380,289</u>         | <u>\$302,950</u> | <u>\$308,651</u> | <u>\$374,588</u>         |
| <u>Liabilities</u>                        |                          |                  |                  |                          |
| Accounts payable                          | \$5,718                  | \$2,546          | \$5,719          | \$2,545                  |
| Due to bondholders                        | 222,245                  | 114,327          | 110,383          | 226,189                  |
| Due to members                            | 152,326                  | 186,077          | 192,549          | 145,854                  |
| Total liabilities                         | <u>\$380,289</u>         | <u>\$302,950</u> | <u>\$308,651</u> | <u>\$374,588</u>         |

## STATISTICAL SECTION

This part of the City's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health. In contrast to the financial section, the statistical section information is not subject to independent audit.

### ***Financial Trends***

These schedules contain trend information to help the reader understand how the City's financial performance and well being have changed over time:

1. Net Assets by Component
2. Changes in Net Assets
3. Fund Balances of Governmental Funds
4. Changes in Fund Balance of Governmental Funds

### ***Revenue Capacity***

These schedules contain information to help the reader assess the City's most significant local revenue source, the property tax:

1. Assessed and Estimated Actual Value of Taxable Property
2. Property Tax Rates, All Overlapping Governments
3. Water System Revenue
4. Principal Property Tax Payers
5. Property Tax Levies and Collections

### ***Debt Capacity***

These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future:

1. Ratio of Outstanding Debt by Type
2. Computation of Direct and Overlapping Debt
3. Computation of Legal Bonded Debt Margin
4. Revenue Bond Coverage, Water Fund Certificates of Participation

### ***Demographic and Economic Information***

These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place:

1. Demographic and Economic Statistics
2. Principal Employers

### ***Operating Information***

These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs:

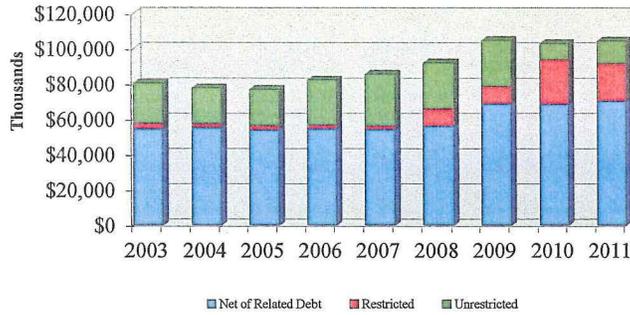
1. Full-Time Equivalent City Government Employees by Function
2. Operating Indicators by Function/Program
3. Capital Asset Statistics by Function/Program

**STATISTICAL SECTION (Continued)**

*Sources*

Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year. The City implemented GASB Statement 34 in 2003; schedules presenting government-wide information include information beginning in that fiscal year.

**CITY OF MARTINEZ**  
**Net Assets by Component**  
**Last Nine Fiscal Years (A)**  
**(Accrual Basis of Accounting)**



|  | Fiscal Year Ended June 30. |                     |                     |                     |                     |                     |                      |                      |                      |
|--|----------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|----------------------|----------------------|----------------------|
|  | 2003                       | 2004                | 2005                | 2006                | 2007                | 2008                | 2009                 | 2010                 | 2011                 |
| <b>Governmental activities</b>                     |                            |                     |                     |                     |                     |                     |                      |                      |                      |
| Invested in capital assets,<br>net of related debt | \$23,962,388               | \$23,434,010        | \$23,001,061        | \$24,072,792        | \$24,450,822        | \$29,045,551        | \$42,645,250         | \$43,328,577         | \$46,268,501         |
| Restricted   | 2,758,880                  | 1,860,177           | 1,968,361           | 1,805,299           | 1,647,325           | 3,091,564           | 2,947,166            | 17,697,648           | 13,524,459           |
| Unrestricted                                       | 12,528,238                 | 13,580,382          | 12,652,888          | 16,956,596          | 20,301,070          | 20,294,772          | 19,638,559           | 2,805,660            | 5,722,653            |
| <b>Total governmental activities net assets</b>    | <b>\$39,249,506</b>        | <b>\$38,874,569</b> | <b>\$37,622,310</b> | <b>\$42,834,687</b> | <b>\$46,399,217</b> | <b>\$52,431,887</b> | <b>\$65,230,975</b>  | <b>\$63,831,885</b>  | <b>\$65,515,613</b>  |
| <b>Business-type activities</b>                    |                            |                     |                     |                     |                     |                     |                      |                      |                      |
| Invested in capital assets,<br>net of related debt | \$30,429,111               | \$31,622,821        | \$30,894,163        | \$30,405,353        | \$29,680,363        | \$27,073,604        | \$25,908,195         | \$25,104,326         | \$23,863,759         |
| Restricted   | 465,144                    | 478,686             | 492,014             | 465,980             | 473,896             | 6,613,067           | 7,224,675            | 7,620,488            | 7,941,902            |
| Unrestricted                                       | 10,244,301                 | 6,721,816           | 7,880,511           | 8,472,990           | 8,954,539           | 5,890,545           | 6,280,210            | 6,301,271            | 6,960,954            |
| <b>Total business-type activities net assets</b>   | <b>\$41,138,556</b>        | <b>\$38,823,323</b> | <b>\$39,266,688</b> | <b>\$39,344,323</b> | <b>\$39,108,798</b> | <b>\$39,577,216</b> | <b>\$39,413,080</b>  | <b>\$39,026,085</b>  | <b>\$38,766,615</b>  |
| <b>Primary government</b>                          |                            |                     |                     |                     |                     |                     |                      |                      |                      |
| Invested in capital assets,<br>net of related debt | \$54,391,499               | \$55,056,831        | \$53,895,224        | \$54,478,145        | \$54,131,185        | \$56,119,155        | \$68,553,445         | \$68,432,903         | \$70,132,260         |
| Restricted   | 3,224,024                  | 2,338,863           | 2,460,375           | 2,271,279           | 2,121,221           | 9,704,631           | 10,171,841           | 25,318,136           | 21,466,361           |
| Unrestricted                                       | 22,772,539                 | 20,302,198          | 20,533,399          | 25,429,586          | 29,255,609          | 26,185,317          | 25,918,769           | 9,106,931            | 12,683,607           |
| <b>Total primary government net assets</b>         | <b>\$80,388,062</b>        | <b>\$77,697,892</b> | <b>\$76,888,998</b> | <b>\$82,179,010</b> | <b>\$85,508,015</b> | <b>\$92,009,103</b> | <b>\$104,644,055</b> | <b>\$102,857,970</b> | <b>\$104,282,228</b> |

(A) The City implemented GASB Statement 34 in 2003.

**CITY OF MARTINEZ**  
**Changes in Net Assets**  
**Last Nine Fiscal Years (A)**  
**(Accrual Basis of Accounting)**

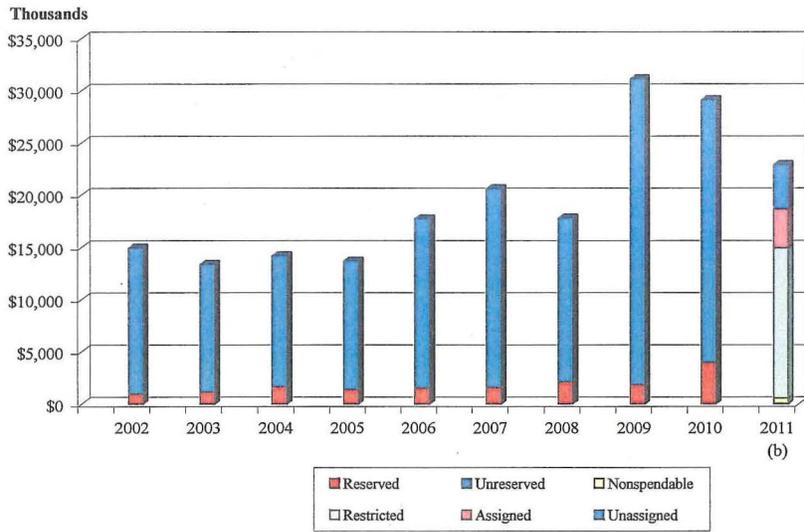
|  | Fiscal Year Ended June 30. |                       |                       |                       |                       |                       |                      |                       |                       |
|--|----------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|----------------------|-----------------------|-----------------------|
|  | 2003                       | 2004                  | 2005                  | 2006                  | 2007                  | 2008                  | 2009                 | 2010                  | 2011                  |
| <b>Expenses</b>  |                            |                       |                       |                       |                       |                       |                      |                       |                       |
| <b>Governmental Activities:</b>                        |                            |                       |                       |                       |                       |                       |                      |                       |                       |
| General Government                                     | \$904,411                  | \$1,361,712           | \$1,064,838           | \$1,220,112           | \$1,275,521           | \$982,551             | \$1,328,858          | \$1,860,433           | \$1,888,212           |
| Nondepartmental Services                               | 1,162,661                  | 583,170               | 602,262               | 722,957               | 2,100,557             | 1,295,821             | 1,114,785            |                       |                       |
| Administrative Services                                | 412,644                    | 597,450               | 611,904               | 704,534               | 813,629               | 724,408               | 781,593              | 695,828               | 912,678               |
| Public Works   | 633,565                    | 742,330               | 821,956               | 831,843               | 931,263               | 3,515,810             | 3,369,089            | 3,842,513             | 4,181,381             |
| Community & Economic Development                       | 6,656,236                  | 7,673,229             | 8,871,098             | 7,281,906             | 7,640,086             | 6,000,157             | 5,856,950            | 6,725,653             | 6,024,757             |
| Police   | 7,882,901                  | 7,852,448             | 8,597,502             | 8,637,872             | 9,048,033             | 9,660,925             | 9,853,949            | 10,616,620            | 10,665,218            |
| Interest on Long-Term Debt                             | 277,194                    | 66,580                | 60,943                | 55,823                | 52,506                | 50,630                | 291,152              | 584,615               | 813,299               |
| <b>Total Governmental Activities Expenses</b>          | <b>17,929,612</b>          | <b>18,876,919</b>     | <b>20,630,503</b>     | <b>19,455,047</b>     | <b>21,861,595</b>     | <b>22,230,302</b>     | <b>22,596,376</b>    | <b>24,325,662</b>     | <b>24,485,545</b>     |
| <b>Business-Type Activities:</b>                       |                            |                       |                       |                       |                       |                       |                      |                       |                       |
| Water System   | 8,994,202                  | 10,088,366            | 10,019,095            | 9,419,852             | 10,221,974            | 10,068,412            | 10,317,436           | 10,200,676            | 9,891,686             |
| Marina Services  | 404,774                    | 470,175               | 472,205               | 381,516               | 441,823               | 797,453               | 345,533              | 388,591               | 558,512               |
| Parking Services                                       | 330,031                    | 547,454               | 532,367               | 426,565               | 375,634               | 391,841               | 454,122              | 451,488               | 483,876               |
| <b>Total Business-Type Activities Expenses</b>         | <b>9,729,007</b>           | <b>11,105,995</b>     | <b>11,023,667</b>     | <b>10,227,933</b>     | <b>11,039,431</b>     | <b>11,257,706</b>     | <b>11,117,091</b>    | <b>11,040,755</b>     | <b>10,934,074</b>     |
| <b>Total Primary Government Expenses</b>               | <b>\$27,658,619</b>        | <b>\$29,982,914</b>   | <b>\$31,654,170</b>   | <b>\$29,682,980</b>   | <b>\$32,901,026</b>   | <b>\$33,488,008</b>   | <b>\$33,713,467</b>  | <b>\$35,366,417</b>   | <b>\$35,419,619</b>   |
| <b>Program Revenues</b>                                |                            |                       |                       |                       |                       |                       |                      |                       |                       |
| <b>Governmental Activities:</b>                        |                            |                       |                       |                       |                       |                       |                      |                       |                       |
| <b>Charges for Services:</b>                           |                            |                       |                       |                       |                       |                       |                      |                       |                       |
| General Government                                     | \$1,447,732                | \$112,806             | \$123,738             | \$112,254             | \$127,720             | \$48,383              | \$27,359             | \$32,079              | \$26,863              |
| Administrative Services                                |                            |                       |                       |                       |                       |                       |                      |                       | 49,145                |
| Public Works   | 461,187                    | 417,578               | 533,355               | 804,965               | 933,307               | 775,303               | 660,516              | 585,117               | 580,520               |
| Community & Economic Development                       | 897,812                    | 819,377               | 1,032,160             | 1,166,315             | 1,149,605             | 954,885               | 731,853              | 549,109               | 547,115               |
| Police   | 436,593                    | 353,505               | 457,654               | 339,697               | 428,723               | 381,602               | 398,088              | 376,514               | 441,982               |
| Operating Grants and Contributions                     | 932,133                    | 2,365,301             | 1,896,096             | 3,004,055             | 2,928,894             | 2,978,771             | 2,645,990            | 2,414,403             | 3,034,131             |
| Capital Grants and Contributions                       | 1,796,860                  | 1,274,224             | 798,967               | 1,460,056             | 963,982               | 5,166,574             | 13,319,245           | 2,124,450             | 4,308,479             |
| <b>Total Government Activities Program Revenues</b>    | <b>5,972,317</b>           | <b>5,342,791</b>      | <b>4,841,970</b>      | <b>6,887,342</b>      | <b>6,532,231</b>      | <b>10,305,518</b>     | <b>17,783,051</b>    | <b>6,081,672</b>      | <b>8,988,235</b>      |
| <b>Business-Type Activities:</b>                       |                            |                       |                       |                       |                       |                       |                      |                       |                       |
| <b>Charges for Services:</b>                           |                            |                       |                       |                       |                       |                       |                      |                       |                       |
| Water System   | 7,846,114                  | 8,395,769             | 9,241,189             | 9,397,659             | 9,721,022             | 9,844,373             | 10,044,919           | 9,830,348             | 9,746,857             |
| Marina Services  | 191,393                    | 127,608               | 166,080               | 219,207               | 291,919               | 273,732               | 241,247              | 245,157               | 227,759               |
| Parking Services                                       | 336,321                    | 169,145               | 273,001               | 346,457               | 365,488               | 405,351               | 387,388              | 398,591               | 368,673               |
| Operating Grants and Contributions                     |                            |                       |                       | 114,843               |                       |                       |                      |                       |                       |
| Capital Grants and Contributions                       |                            |                       | 1,404,646             |                       |                       |                       | 430,343              |                       |                       |
| <b>Total Business-Type Activities Program Revenues</b> | <b>8,373,828</b>           | <b>8,692,522</b>      | <b>11,084,916</b>     | <b>10,078,166</b>     | <b>10,378,429</b>     | <b>10,953,799</b>     | <b>10,673,554</b>    | <b>10,474,096</b>     | <b>10,343,289</b>     |
| <b>Total Primary Government Program Revenues</b>       | <b>\$14,346,145</b>        | <b>\$14,035,313</b>   | <b>\$15,926,886</b>   | <b>\$16,965,508</b>   | <b>\$16,910,660</b>   | <b>\$21,259,317</b>   | <b>\$28,456,605</b>  | <b>\$16,555,768</b>   | <b>\$19,331,524</b>   |
| <b>Net (Expense)/Revenue</b>                           |                            |                       |                       |                       |                       |                       |                      |                       |                       |
| Governmental Activities                                | (\$11,957,295)             | (\$13,534,128)        | (\$15,788,533)        | (\$12,567,705)        | (\$15,329,364)        | (\$11,924,784)        | (\$4,813,325)        | (\$18,243,990)        | (\$15,497,310)        |
| Business-Type Activities                               | (1,355,179)                | (2,413,473)           | 61,249                | (149,767)             | (661,002)             | (303,907)             | (443,537)            | (566,659)             | (590,785)             |
| <b>Total Primary Government Net Expense</b>            | <b>(\$13,312,474)</b>      | <b>(\$15,947,601)</b> | <b>(\$15,727,284)</b> | <b>(\$12,717,472)</b> | <b>(\$15,990,366)</b> | <b>(\$12,228,691)</b> | <b>(\$5,256,862)</b> | <b>(\$18,810,649)</b> | <b>(\$16,088,095)</b> |

**CITY OF MARTINEZ**  
**Changes in Net Assets**  
**(continued)**  
**Last Nine Fiscal Years (A)**  
**(Accrual Basis of Accounting)**

|   | Fiscal Year Ended June 30, |                     |                     |                     |                     |                     |                     |                      |                     |
|---|----------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|----------------------|---------------------|
|   | 2003                       | 2004                | 2005                | 2006                | 2007                | 2008                | 2009                | 2010                 | 2011                |
| <b>General Revenues and Other Changes in Net Assets</b> |                            |                     |                     |                     |                     |                     |                     |                      |                     |
| <b>Governmental Activities:</b>                         |                            |                     |                     |                     |                     |                     |                     |                      |                     |
| Taxes:  |                            |                     |                     |                     |                     |                     |                     |                      |                     |
| Property Taxes  | \$4,591,561                | \$5,072,317         | \$5,603,872         | \$6,048,835         | \$6,749,316         | \$6,778,683         | \$6,833,240         | \$6,440,055          | \$6,413,918         |
| Sales Taxes   | 2,981,530                  | 3,683,973           | 3,770,934           | 4,271,279           | 2,845,391           | 2,910,391           | 2,548,963           | 2,890,078            | 3,216,371           |
| Slate Tax Shift - ERAF III                              | 3,634,912                  |                     | (399,067)           | (399,067)           |                     |                     |                     |                      |                     |
| VLF Property Tax Swap                                   |                            |                     | 1,971,541           | 2,387,675           | 2,438,135           | 2,619,831           | 2,663,236           | 2,553,503            | 2,516,117           |
| Franchise fees  | 474,473                    | 962,045             | 946,323             | 1,294,839           | 1,377,064           | 1,432,161           | 1,380,404           | 1,355,211            | 1,356,952           |
| Other Taxes   | 600                        | 1,205,727           | 1,328,281           | 1,390,701           | 2,639,579           | 2,502,998           | 2,475,992           | 2,363,498            | 2,257,290           |
| Intergovernmental                                       | 958,136                    | 1,762,251           | 881,895             | 344,160             | 281,669             | 231,037             | 192,805             | 178,083              | 238,498             |
| Investment Earnings                                     |                            | 199,788             | 267,746             | 533,475             | 1,019,116           | 955,422             | 412,821             | 187,035              | 123,304             |
| Miscellaneous   |                            | 83,090              | 282,749             | 1,744,370           | 1,404,792           | 760,256             | 1,055,423           | 893,942              | 1,259,193           |
| Transfers   |                            | 190,000             | (118,000)           | 163,815             | 138,832             | (233,325)           | 49,529              | (16,605)             | (200,605)           |
| <b>Total Government Activities</b>                      | <b>12,641,212</b>          | <b>13,159,191</b>   | <b>14,536,274</b>   | <b>17,780,082</b>   | <b>18,893,894</b>   | <b>17,957,454</b>   | <b>17,612,413</b>   | <b>16,844,800</b>    | <b>17,181,038</b>   |
| <b>Business-Type Activities:</b>                        |                            |                     |                     |                     |                     |                     |                     |                      |                     |
| Other Taxes   |                            | 62,306              | 56,769              | 48,292              | 56,545              | 63,240              | 64,263              | 61,579               | 67,403              |
| Investment Earnings                                     | 214,941                    | 139,026             | 184,977             | 317,631             | 507,764             | 475,760             | 263,207             | 82,093               | 63,307              |
| Rents & Leases  | 22,176                     | 25,231              | 22,370              | 25,294              |                     |                     |                     |                      |                     |
| Miscellaneous   | 65,920                     | 61,677              |                     |                     |                     |                     | 1,460               |                      |                     |
| Contributions   |                            |                     |                     |                     |                     |                     |                     | 19,387               |                     |
| Transfers   |                            | (190,000)           | 118,000             | (163,815)           | (138,832)           | 233,325             | (49,529)            | 16,605               | 200,605             |
| <b>Total Business-Type Activities</b>                   | <b>303,037</b>             | <b>98,240</b>       | <b>382,116</b>      | <b>227,402</b>      | <b>425,477</b>      | <b>772,325</b>      | <b>279,401</b>      | <b>179,664</b>       | <b>331,315</b>      |
| <b>Total Primary Government</b>                         | <b>\$12,944,249</b>        | <b>\$13,257,431</b> | <b>\$14,918,390</b> | <b>\$18,007,484</b> | <b>\$19,319,371</b> | <b>\$18,729,779</b> | <b>\$17,891,814</b> | <b>\$17,024,464</b>  | <b>\$17,512,353</b> |
| <b>Change in Net Assets</b>                             |                            |                     |                     |                     |                     |                     |                     |                      |                     |
| Governmental Activities                                 | \$683,917                  | (\$374,937)         | (\$1,252,259)       | \$5,212,377         | \$3,564,530         | \$6,032,670         | \$12,799,088        | (\$1,399,090)        | \$1,683,728         |
| Business-Type Activities                                | (1,052,142)                | (2,315,233)         | 443,365             | 77,635              | (235,525)           | 468,418             | (164,136)           | (386,995)            | (259,470)           |
| <b>Total Primary Government</b>                         | <b>(\$368,225)</b>         | <b>(\$690,170)</b>  | <b>(\$808,894)</b>  | <b>\$5,290,012</b>  | <b>\$3,329,005</b>  | <b>\$6,501,088</b>  | <b>\$12,634,952</b> | <b>(\$1,786,085)</b> | <b>\$1,424,258</b>  |

(A) The City implemented GASB Statement 34 in 2003.

**CITY OF MARTINEZ**  
**Fund Balances of Governmental Funds**  
**Last Ten Fiscal Years**  
**(Modified Accrual Basis of Accounting)**



|   | 2002                | 2003                | 2004               | 2005               | 2006                | 2007                | 2008                | 2009                | 2010                | 2011 (b)               |
|---|---------------------|---------------------|--------------------|--------------------|---------------------|---------------------|---------------------|---------------------|---------------------|------------------------|
| <b>General Fund</b>                       |                     |                     |                    |                    |                     |                     |                     |                     |                     |                        |
| Reserved                                  | \$48,397            | \$278,429           | \$659,139          | \$573,040          | \$793,427           | \$787,770           | \$1,041,261         | \$853,371           | \$809,098           |                        |
| Unreserved                                | 10,092,248          | 9,834,407           | 8,573,920          | 9,174,295          | 12,053,642          | 14,531,543          | 9,618,304           | 8,973,975           | 7,692,426           |                        |
| Nonspendable                              |                     |                     |                    |                    |                     |                     |                     |                     |                     | \$536,597              |
| Restricted                                |                     |                     |                    |                    |                     |                     |                     |                     |                     | 2,974                  |
| Assigned                                  |                     |                     |                    |                    |                     |                     |                     |                     |                     | 2,071,135              |
| Unassigned                                |                     |                     |                    |                    |                     |                     |                     |                     |                     | 4,323,175              |
| <b>Total General Fund</b>                 | <u>\$10,140,645</u> | <u>\$10,112,836</u> | <u>\$9,233,059</u> | <u>\$9,747,335</u> | <u>\$12,847,069</u> | <u>\$15,319,313</u> | <u>\$10,659,565</u> | <u>\$9,827,346</u>  | <u>\$8,501,524</u>  | <u>\$6,933,881</u> (a) |
| <b>All Other Governmental Funds</b>       |                     |                     |                    |                    |                     |                     |                     |                     |                     |                        |
| Reserved                                  | \$887,177           | \$855,382           | \$977,684          | \$803,791          | \$686,781           | \$767,264           | \$1,036,074         | \$951,122           | \$3,149,573         |                        |
| Unreserved, reported in:                  |                     |                     |                    |                    |                     |                     |                     |                     |                     |                        |
| Special revenue funds                     | 2,427,125           | 1,424,758           | 670,733            | 940,575            | 957,109             | 781,421             | 2,014,107           | 1,789,329           | 1,837,726           |                        |
| Capital project funds                     | 1,496,910           | 958,579             | 3,307,186          | 2,186,757          | 3,236,220           | 3,747,215           | 4,087,770           | 18,567,181          | 15,641,080          |                        |
| Unreserved                                |                     |                     |                    |                    |                     |                     |                     |                     |                     |                        |
| Nonspendable                              |                     |                     |                    |                    |                     |                     |                     |                     |                     |                        |
| Restricted                                |                     |                     |                    |                    |                     |                     |                     |                     |                     | \$14,361,436           |
| Assigned                                  |                     |                     |                    |                    |                     |                     |                     |                     |                     | 1,668,389              |
| Unassigned                                |                     |                     |                    |                    |                     |                     |                     |                     |                     | (48,017)               |
| <b>Total all other governmental funds</b> | <u>\$4,811,212</u>  | <u>\$3,238,719</u>  | <u>\$4,955,603</u> | <u>\$3,931,123</u> | <u>\$4,880,110</u>  | <u>\$5,295,900</u>  | <u>\$7,137,951</u>  | <u>\$21,307,632</u> | <u>\$20,628,379</u> | <u>\$15,981,808</u>    |

(a) The change in total fund balance for the General Fund and other governmental funds is explained in the Management's Discussion and Analysis.

(b) The City implemented the provisions of GASB Statement 54 in fiscal year 2011.

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**CITY OF MARTINEZ**  
**Changes in Fund Balance of Governmental Funds**  
**Last Ten Fiscal Years**  
**(Modified Accrual Basis of Accounting)**

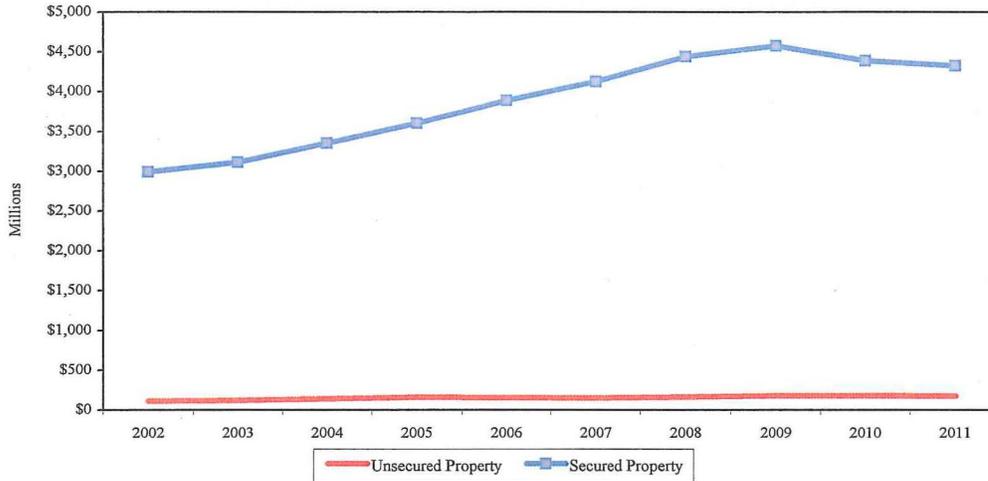
|  | <u>2002</u>        | <u>2003</u>          | <u>2004</u>       | <u>2005</u>        |
|--|--------------------|----------------------|-------------------|--------------------|
| <b>Revenues</b>  |                    |                      |                   |                    |
| Taxes  | \$11,116,572       | \$10,670,402         | \$11,295,326      | \$13,221,884       |
| Special assessments  | 633,183            | 654,990              | 604,659           | 654,028            |
| Licenses, permits and fees                                   | 2,143,691          | 2,068,185            | 489,276           | 779,784            |
| Intergovernmental revenues                                   | 9,244,563          | 2,493,944            | 4,613,687         | 3,109,850          |
| Charges for services   | 1,243,195          | 1,475,313            | 722,266           | 706,670            |
| Fines and forfeits   | 280,697            | 387,676              | 231,412           | 333,075            |
| Use of money and property                                    | 723,871            | 493,025              | 200,309           | 308,809            |
| Miscellaneous  | 491,171            | 132,326              | 202,556           | 324,923            |
| <b>Total Revenues</b>  | <u>25,876,943</u>  | <u>18,375,861</u>    | <u>18,359,491</u> | <u>19,439,023</u>  |
| <b>Expenditures</b>  |                    |                      |                   |                    |
| <b>Current:</b>  |                    |                      |                   |                    |
| General government   | 981,212            | 801,417              | 850,845           | 827,226            |
| Nondepartmental services                                     | 672,191            | 1,149,672            | 583,170           | 602,262            |
| Administrative services                                      | 596,745            | 402,692              | 578,412           | 596,296            |
| Public works   | 580,976            | 609,678              | 618,243           | 763,635            |
| Community & economic development                             | 5,606,656          | 5,628,996            | 6,651,965         | 6,959,750          |
| Police   | 6,569,037          | 7,681,814            | 7,740,536         | 8,589,785          |
| Capital outlay   | 4,794,086          | 3,402,047            | 614,619           | 1,236,330          |
| <b>Debt service:</b>   |                    |                      |                   |                    |
| Principal repayment  | 127,307            | 137,653              | 8,014             | 195,000            |
| Interest and fiscal charges                                  | 287,275            | 172,212              | 66,580            | 60,943             |
| <b>Total Expenditures</b>                                    | <u>20,215,485</u>  | <u>19,986,181</u>    | <u>17,712,384</u> | <u>19,831,227</u>  |
| Excess (deficiency) of revenues over<br>(under) expenditures | <u>5,661,458</u>   | <u>(1,610,320)</u>   | <u>647,107</u>    | <u>(392,204)</u>   |
| <b>Other Financing Sources (Uses)</b>                        |                    |                      |                   |                    |
| Transfers in   | 565,447            | 920,164              | 5,074,830         | 864,960            |
| Transfers (out)  | (915,447)          | (945,164)            | (4,884,830)       | (982,960)          |
| Proceeds from the issuance of long term debt                 |                    |                      |                   |                    |
| Proceeds from bond premium                                   |                    |                      |                   |                    |
| Certificates of participation issued                         |                    | 2,200,000            |                   |                    |
| Payments to refunded bond escrow                             |                    | (2,164,982)          |                   |                    |
| <b>Total other financing sources (uses)</b>                  | <u>(350,000)</u>   | <u>10,018</u>        | <u>190,000</u>    | <u>(118,000)</u>   |
| <b>Special Item:</b>   |                    |                      |                   |                    |
| OPEB funding   |                    |                      |                   |                    |
| Loan to Martinez Unified School District                     |                    |                      |                   |                    |
| <b>Net Change in fund balances</b>                           | <u>\$5,311,458</u> | <u>(\$1,600,302)</u> | <u>\$837,107</u>  | <u>(\$510,204)</u> |
| Debt service as a percentage of<br>noncapital expenditures   | (a)                | (a)                  | 0.4%              | 1.4%               |

**NOTE:**

- (a) The City implemented GASB Statement 34 in fiscal year 2003. Therefore this calculation is included only for fiscal years subsequent to that date.  
(b) The City reorganized departments in 2002.

| Fiscal Year Ended June 30, |                    |                      |                     |                      |                      |
|----------------------------|--------------------|----------------------|---------------------|----------------------|----------------------|
| 2006                       | 2007               | 2008                 | 2009                | 2010                 | 2011                 |
| \$14,994,265               | \$16,049,485       | \$16,244,064         | \$15,901,834        | \$15,602,345         | \$15,809,271         |
| 648,225                    | 618,402            | 592,675              | 593,327             | 1,391,343            | 2,110,101            |
| 829,438                    | 1,206,310          | 901,504              | 569,653             | 451,972              | 537,305              |
| 4,293,695                  | 3,366,831          | 7,854,354            | 14,976,879          | 3,985,583            | 5,536,564            |
| 1,009,212                  | 769,834            | 714,089              | 716,173             | 562,189              | 470,550              |
| 284,486                    | 295,334            | 360,409              | 376,179             | 360,431              | 429,593              |
| 585,146                    | 967,531            | 907,560              | 403,693             | 249,043              | 172,727              |
| 1,791,186                  | 1,755,786          | 942,321              | 1,126,603           | 911,374              | 1,281,478            |
| <u>24,435,653</u>          | <u>25,029,513</u>  | <u>28,516,976</u>    | <u>34,664,341</u>   | <u>23,514,280</u>    | <u>26,347,589</u>    |
| 1,253,927                  | 1,249,523          | 1,055,630            | 1,327,384           | 1,324,418            | 1,312,555            |
| 722,957                    | 2,100,557          | 1,294,070            | 1,156,191           | 816,510              | 1,712,090            |
| 691,218                    | 791,144            | 710,163              | 757,298             | 725,585              | 816,218              |
| 826,781                    | 904,338            | 3,515,167            | 3,773,961           | 3,742,399            | 3,627,781            |
| 6,271,909                  | 6,664,397          | 4,899,818            | 4,975,417           | 5,321,903            | 4,162,888            |
| 8,532,786                  | 9,029,159          | 9,744,360            | 9,755,501           | 9,972,242            | 10,013,872           |
| 1,995,346                  | 1,288,687          | 5,488,729            | 14,524,632          | 2,295,078            | 9,332,495            |
| 200,000                    | 200,000            | 205,000              | 215,000             | 220,000              | 570,000              |
| 55,823                     | 52,506             | 50,630               | 291,152             | 584,615              | 813,299              |
| <u>20,550,747</u>          | <u>22,280,311</u>  | <u>26,963,567</u>    | <u>36,776,536</u>   | <u>25,002,750</u>    | <u>32,361,198</u>    |
| <u>3,884,906</u>           | <u>2,749,202</u>   | <u>1,553,409</u>     | <u>(2,112,195)</u>  | <u>(1,488,470)</u>   | <u>(6,013,609)</u>   |
| 1,934,775                  | 1,623,555          | 1,837,479            | 1,514,146           | 609,610              | 963,037              |
| (1,770,960)                | (1,484,723)        | (2,208,585)          | (1,464,617)         | (626,215)            | (1,163,642)          |
|                            |                    |                      | 15,000,000          |                      |                      |
|                            |                    |                      | 400,128             |                      |                      |
| <u>163,815</u>             | <u>138,832</u>     | <u>(371,106)</u>     | <u>15,449,657</u>   | <u>(16,605)</u>      | <u>(200,605)</u>     |
|                            |                    | (4,000,000)          |                     | (500,000)            |                      |
| <u>\$4,048,721</u>         | <u>\$2,888,034</u> | <u>(\$2,817,697)</u> | <u>\$13,337,462</u> | <u>(\$2,005,075)</u> | <u>(\$6,214,214)</u> |
| 1.4%                       | 1.2%               | 1.2%                 | 2.3%                | 3.5%                 | 6.0%                 |

**CITY OF MARTINEZ  
ASSESSED AND ESTIMATED ACTUAL  
VALUE OF TAXABLE PROPERTY  
LAST TEN FISCAL YEARS**



| Fiscal Year | Real Property        |                     |                     |              | Total Real Secured Property | Unsecured Property | Total Assessed (a) | Estimated Full Market (a) | Total Direct Tax Rate (b) |
|-------------|----------------------|---------------------|---------------------|--------------|-----------------------------|--------------------|--------------------|---------------------------|---------------------------|
|             | Residential Property | Commercial Property | Industrial Property | Other        |                             |                    |                    |                           |                           |
| 2002        | \$2,276,803,980      | \$189,132,984       | \$362,317,910       | \$51,311,610 | \$2,879,566,484             | \$112,037,636      | \$2,991,604,120    | \$2,991,604,120           | 1%                        |
| 2003        | 2,446,841,113        | 221,143,170         | 277,022,355         | 45,793,860   | 2,990,800,498               | 118,371,038        | 3,109,171,536      | 3,109,171,536             | 1%                        |
| 2004        | 2,648,146,047        | 227,098,395         | 295,631,337         | 43,601,867   | 3,214,477,646               | 138,013,747        | 3,352,491,393      | 3,352,491,393             | 1%                        |
| 2005        | 2,859,236,600        | 234,959,433         | 297,127,470         | 53,304,392   | 3,444,627,895               | 158,892,616        | 3,603,520,511      | 3,603,520,511             | 1%                        |
| 2006        | 3,118,221,619        | 247,416,988         | 305,547,262         | 63,095,076   | 3,734,280,945               | 154,169,708        | 3,888,450,653      | 3,888,450,653             | 1%                        |
| 2007        | 3,337,522,088        | 251,751,868         | 311,532,867         | 73,168,763   | 3,973,975,586               | 153,320,879        | 4,127,296,465      | 4,127,296,465             | 1%                        |
| 2008        | 3,526,510,149        | 270,957,611         | 403,333,442         | 76,161,039   | 4,276,962,241               | 164,132,730        | 4,441,094,971      | 4,441,094,971             | 1%                        |
| 2009        | 3,633,226,219        | 275,675,065         | 425,243,421         | 66,391,574   | 4,400,536,279               | 177,818,280        | 4,578,354,559      | 4,578,354,559             | 1%                        |
| 2010        | 3,396,269,139        | 281,325,148         | 469,892,706         | 62,478,908   | 4,209,965,901               | 180,171,657        | 4,390,137,558      | 4,390,137,558             | 1%                        |
| 2011        | 3,344,430,122        | 283,901,765         | 466,229,666         | 57,623,622   | 4,152,185,175               | 174,543,244        | 4,326,728,419      | 4,326,728,419             | 1%                        |

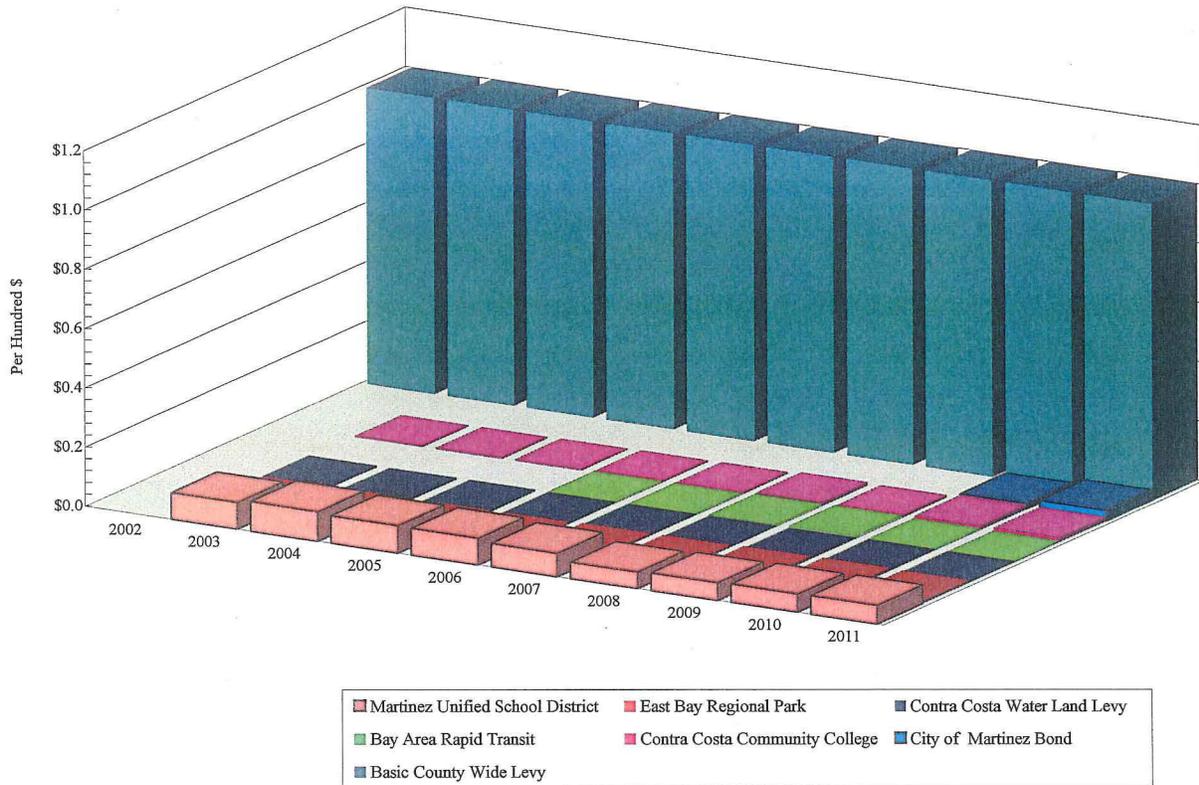
(a) The State Constitution requires property to be assessed at one hundred percent of the most recent purchase price, plus an increment of no more than two percent annually, plus any local over-rides. These values are considered to be full market values.

(b) California cities do not set their own direct tax rate. The state constitution establishes the rate at 1% and allocates a portion of that amount, by an annual calculation, to all the taxing entities within a tax rate area. The City of Martinez encompasses more than 15 tax rate areas.

(c) Information is not available.

Source: Contra Costa County Auditor Controller Office Certificate of Assessed Valuations and HDL Coren & Cone

**CITY OF MARTINEZ  
PROPERTY TAX RATES  
ALL OVERLAPPING GOVERNMENTS  
LAST TEN FISCAL YEARS**



| <u>Fiscal Year</u> | <u>Basic County Wide Levy</u> | <u>Bay Area Rapid Transit</u> | <u>Contra Costa Community College (a)</u> | <u>Contra Costa Water Land Levy (a)</u> | <u>East Bay Regional Park (a)</u> | <u>Martinez Unified School District (a)</u> | <u>City of Martinez Bond</u> | <u>Total</u> |
|--------------------|-------------------------------|-------------------------------|---|---|-----------------------------------|---|------------------------------|--------------|
| 2002               | \$1.0000                      |                               |   |   |                                   |   |                              | \$1.0000     |
| 2003               | 1.0000                        |                               | \$0.0040                                  | \$0.0072                                | \$0.0065                          | \$0.0901                                    |                              | 1.1078       |
| 2004               | 1.0000                        |                               | 0.0038                                    | 0.0063                                  | 0.0057                            | 0.1000                                      |                              | 1.1158       |
| 2005               | 1.0000                        |                               | 0.0042                                    | 0.0057                                  | 0.0057                            | 0.0923                                      |                              | 1.1079       |
| 2006               | 1.0000                        | \$0.0048                      | 0.0047                                    | 0.0050                                  | 0.0057                            | 0.0904                                      |                              | 1.1106       |
| 2007               | 1.0000                        | 0.0050                        | 0.0043                                    | 0.0043                                  | 0.0085                            | 0.0794                                      |                              | 1.1015       |
| 2008               | 1.0000                        | 0.0076                        | 0.0108                                    | 0.0039                                  | 0.0080                            | 0.0557                                      |                              | 1.0860       |
| 2009               | 1.0000                        | 0.0090                        | 0.0066                                    | 0.0041                                  | 0.0100                            | 0.0597                                      |                              | 1.0894       |
| 2010               | 1.0000                        | 0.0057                        | 0.0126                                    | 0.0048                                  | 0.0108                            | 0.0619                                      | \$0.0181                     | 1.1139       |
| 2011               | 1.0000                        | 0.0031                        | 0.0133                                    | 0.0049                                  | 0.0084                            | 0.0629                                      | 0.0347                       | 1.1273       |

Note: (a) Information not available prior to FY 2003  
Source: Contra Costa County Auditor Controller

**CITY OF MARTINEZ  
Water System Revenue  
Last Ten Fiscal Years**

| <u>Fiscal<br/>Year</u> | <u>Water<br/>Sales</u> | <u>Total<br/>Operating Revenue</u> | <u>Percentage of<br/>Water Sales<br/>to<br/>Operating Revenue</u> |
|------------------------|------------------------|------------------------------------|---|
| 2002                   | \$7,547,981            | \$7,705,142                        | 97.96%  |
| 2003                   | 7,581,904              | 7,909,137                          | 95.86%  |
| 2004                   | 8,058,204              | 8,402,307                          | 95.90%  |
| 2005                   | 8,718,295              | 9,241,189                          | 94.34%  |
| 2006                   | 8,937,741              | 9,422,953                          | 94.85%  |
| 2007                   | 9,215,311              | 9,721,022                          | 94.80%  |
| 2008                   | 9,523,618              | 9,844,373                          | 96.74%  |
| 2009                   | 9,603,050              | 10,046,379                         | 95.59%  |
| 2010                   | 9,484,712              | 9,830,348                          | 96.48%  |
| 2011                   | 9,413,940              | 9,746,857                          | 96.58%  |

Source: City of Martinez Administrative Services Department

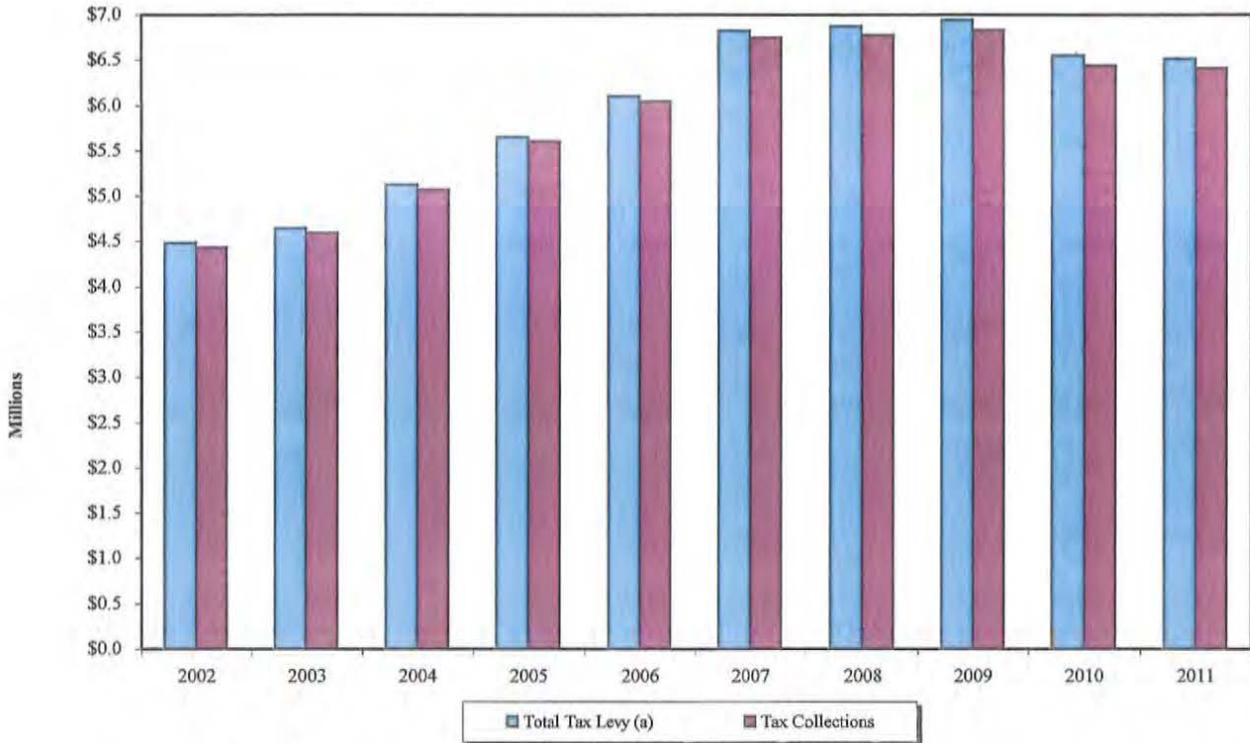
**CITY OF MARTINEZ**  
**Principal Property Tax Payers**  
**Current Year and Seven Years Ago**

| <u>Taxpayer</u>                     | <u>2010 - 2011</u>            |             |  | <u>2003 - 2004</u>            |             |  |
|-------------------------------------|-------------------------------|-------------|--|-------------------------------|-------------|--|
|                                     | <u>Taxable Assessed Value</u> | <u>Rank</u> | <u>Percentage of Total City Taxable Assessed Value</u> | <u>Taxable Assessed Value</u> | <u>Rank</u> | <u>Percentage of Total City Taxable Assessed Value</u> |
| Equilon Enterprises LLC             | \$156,343,486                 | 1           | 3.6%   | \$120,246,026                 | 1           | 3.6%   |
| Pacific Atlantic Terminals LLC      | 140,267,800                   | 2           | 3.2%   |                               |             | 0.0%   |
| Tesoro Refining & Marketing Company | 41,272,227                    | 3           | 1.0%   |                               |             | 0.0%   |
| Stauffer Chemical Company           | 27,381,092                    | 4           | 0.6%   | 34,287,215                    | 3           | 1.0%   |
| Shell Chemical Limited Partnership  | 25,763,940                    | 5           | 0.6%   | 20,765,178                    | 4           | 0.6%   |
| Wal Mart Real Estate                | 19,656,424                    | 6           | 0.5%   | 17,001,885                    | 6           | 0.5%   |
| Kenneth H. & Martha Hofmann Trust   | 19,158,168                    | 7           | 0.4%   | 17,074,602                    | 5           | 0.5%   |
| Marine Spill Response Corporation   | 19,041,467                    | 8           | 0.4%   |                               |             | 0.0%   |
| KW Hidden Creek LLC                 | 19,840,000                    | 9           | 0.5%   |                               |             | 0.0%   |
| Muir Station Center LLC             | 18,697,658                    | 10          | 0.4%   |                               |             | 0.0%   |
| Rhodia                              |                               |             |  | 44,946,225                    | 2           | 1.3%   |
| Muirwood Square Investors           |                               |             | 0.0%   | 16,416,899                    | 7           | 0.5%   |
| George Ogino LLC                    |                               |             |  | 15,606,000                    | 8           | 0.0%   |
| Collier Village Oaks LLC            |                               |             | 0.0%   | 13,462,297                    | 9           | 0.4%   |
| The Center Martinez                 |                               |             |  | 10,919,511                    | 10          | 0.0%   |
| Subtotal                            | <u>\$487,422,262</u>          |             | <u>11.3%</u>   | <u>\$310,725,838</u>          |             | <u>9.3%</u>  |
| Total Net Assessed Valuation:       |                               |             |  |                               |             |  |
| Fiscal Year 2010 - 2011             | \$4,326,728,419               |             |  |                               |             |  |
| Fiscal Year 2003 - 2004             | \$3,352,491,393               |             |  |                               |             |  |

Note: The City was unable to obtain data back 10 years, this comparison is back seven years.

Source: HDL Coren & Cone

**CITY OF MARTINEZ  
PROPERTY TAX LEVIES AND COLLECTIONS  
LAST TEN FISCAL YEARS**



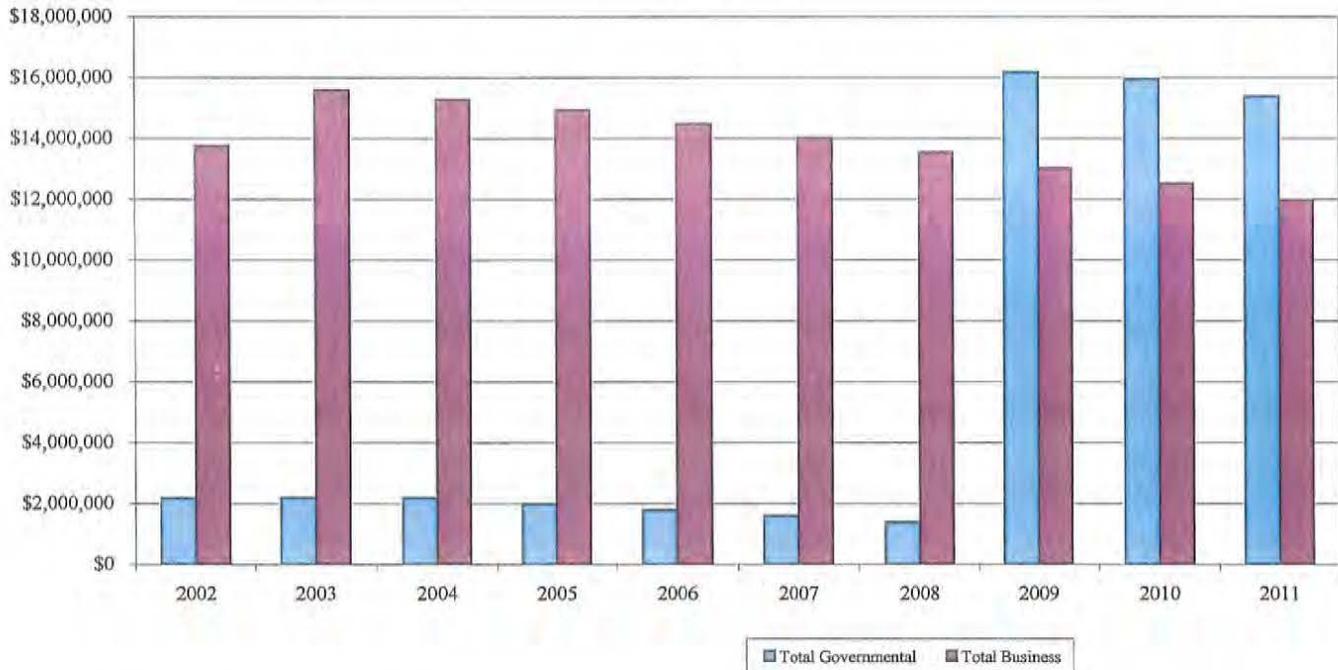
| Fiscal Year | Total Tax Levy (a) | Current Tax Collections | Percent of Levy Collected | Delinquent Tax Collections | County Administrative Fee | Total Tax Collections | Percent of Total Tax Collections to Tax Levy |
|-------------|--------------------|-------------------------|---------------------------|----------------------------|---------------------------|-----------------------|--|
| 2002        | \$4,483,783        | \$4,483,783             | 100.00%                   | 0                          | (\$48,599)                | \$4,435,184           | 100.00%                                      |
| 2003        | 4,646,442          | 4,646,442               | 100.00%                   | 0                          | (54,881)                  | 4,591,561             | 100.00%                                      |
| 2004        | 5,124,479          | 5,124,479               | 100.00%                   | 0                          | (52,170)                  | 5,072,309             | 100.00%                                      |
| 2005        | 5,655,854          | 5,655,854               | 100.00%                   | 0                          | (51,982)                  | 5,603,872             | 100.00%                                      |
| 2006        | 6,100,187          | 6,100,187               | 100.00%                   | 0                          | (51,352)                  | 6,048,835             | 100.00%                                      |
| 2007        | 6,822,167          | 6,822,167               | 100.00%                   | 0                          | (72,851)                  | 6,749,316             | 100.00%                                      |
| 2008        | 6,873,959          | 6,873,959               | 100.00%                   | 0                          | (95,276)                  | 6,778,683             | 100.00%                                      |
| 2009        | 6,946,652          | 6,946,652               | 100.00%                   | 0                          | (113,412)                 | 6,833,240             | 100.00%                                      |
| 2010        | 6,548,656          | 6,548,656               | 100.00%                   | 0                          | (108,601)                 | 6,440,055             | 100.00%                                      |
| 2011        | 6,517,643          | 6,517,643               | 100.00%                   | 0                          | (103,726)                 | 6,413,918             | 100.00%                                      |

NOTE: Current tax collections beginning in 1993 have been reduced by a mandatory tax reallocation imposed by the State of California

(a) During fiscal year 1995, the County began providing the City 100% of its tax levy under an agreement which allows the County to keep all interest and delinquency charges collected.

Source: Contra Costa County Auditor-Controller

**CITY OF MARTINEZ**  
**Ratio of Outstanding Debt by Type**  
**Last Ten Fiscal Years**



**Governmental Activities**

| Fiscal Year | General Obligation Bonds | Certificates of Participation | Special Assessment Debt | Total       | Percentage of Actual Taxable Value of Property | General Bonded Debt Per Capita |
|-------------|--------------------------|-------------------------------|-------------------------|-------------|--|--------------------------------|
| 2002        |                          | \$2,190,000                   |                         | \$2,190,000 | 0.00%  | \$0.00                         |
| 2003        |                          | 2,200,000                     |                         | 2,200,000   | 0.00%  | 0.00                           |
| 2004        |                          | 2,200,000                     |                         | 2,200,000   | 0.00%  | 0.00                           |
| 2005        |                          | 2,005,000                     |                         | 2,005,000   | 0.00%  | 0.00                           |
| 2006        |                          | 1,805,000                     |                         | 1,805,000   | 0.00%  | 0.00                           |
| 2007        |                          | 1,605,000                     |                         | 1,605,000   | 0.00%  | 0.00                           |
| 2008        |                          | 1,400,000                     |                         | 1,400,000   | 0.00%  | 0.00                           |
| 2009        | \$15,000,000             | 1,185,000                     |                         | 16,185,000  | 0.33%  | 412.68                         |
| 2010        | 15,000,000               | 965,000                       |                         | 15,965,000  | 0.34%  | 412.68                         |
| 2011        | 14,660,000               | 735,000                       |                         | 15,395,000  | 0.34%  | 407.70                         |

**Business-Type Activities**

| Fiscal Year | Water Revenue Bonds | Certificates of Participation | Loans Payable | Total        | Total Primary Government | Percentage of Personal Income | Per Capita |
|-------------|---------------------|-------------------------------|---------------|--------------|--------------------------|-------------------------------|------------|
| 2002        |                     | \$11,440,000                  | \$2,327,357   | \$13,767,357 | \$15,957,357             | 0.99%                         | \$434.63   |
| 2003        |                     | 11,505,000                    | 4,101,329     | 15,606,329   | 17,806,329               | 1.10%                         | 485.19     |
| 2004        |                     | 11,080,000                    | 4,206,586     | 15,286,586   | 17,486,586               | 1.03%                         | 475.11     |
| 2005        |                     | 10,640,000                    | 4,310,680     | 14,950,680   | 16,955,680               | 0.95%                         | 460.53     |
| 2006        |                     | 10,190,000                    | 4,300,680     | 14,490,680   | 16,295,680               | 0.84%                         | 445.46     |
| 2007        |                     | 9,735,000                     | 4,300,680     | 14,035,680   | 15,640,680               | 0.78%                         | 432.31     |
| 2008        |                     | 9,265,000                     | 4,300,680     | 13,565,680   | 14,965,680               | 0.72%                         | 414.06     |
| 2009        |                     | 8,780,000                     | 4,264,958     | 13,044,958   | 14,444,958               | (a)                           | 397.41     |
| 2010        |                     | 8,280,000                     | 4,247,215     | 12,527,215   | 28,492,215               | (a)                           | 777.14     |
| 2011        |                     | 7,760,000                     | 4,228,497     | 11,988,497   | 27,383,497               | (a)                           | 761.54     |

Note : Debt amounts exclude any premiums, discounts, or other amortization amounts.

(a) Personal Income data not available for Fiscal Years 2009 through 2011

Sources: City of Martinez  
 State of California, Department of Finance (population)  
 U.S. Department of commerce, Bureau of the Census (income)

**CITY OF MARTINEZ  
COMPUTATION OF DIRECT AND OVERLAPPING DEBT  
JUNE 30, 2011**

2010 - 2011 Assessed Valuation \$4,326,728,419

|   | Net<br>Total Debt<br>06/30/11 | (1)<br>% Applicable | City's Share<br>06/30/11 |
|---|-------------------------------|---------------------|--------------------------|
| <u>DIRECT LONG-TERM DEBT</u>  |                               |                     |                          |
| City of Martinez  | \$14,660,000                  | 100.000%            | \$14,660,000             |
| City of Martinez Special Assessment District 1915 Act Bonds           | 730,000                       | 100.000%            | 730,000                  |
| City of Martinez Certificates of Participation                        | 735,000                       | 100.000%            | 735,000                  |
| Total Direct Long-Term Debt   | <u>\$16,125,000</u>           |                     | <u>\$16,125,000</u>      |
| <u>OVERLAPPING LONG-TERM DEBT:</u>                                    |                               |                     |                          |
| Bay Area Rapid Transit District                                       | \$413,865,000                 | 0.994%              | \$4,113,818              |
| East Bay Regional Park District                                       | 153,990,000                   | 1.540%              | 2,371,446                |
| Contra Costa Community College District                               | 237,095,000                   | 3.466%              | 8,217,713                |
| Martinez Unified School District                                      | 55,203,563                    | 53.925%             | 29,768,521               |
| Mount Diablo Unified School District                                  | 319,325,057                   | 5.993%              | 19,137,151               |
| Mount Diablo Unified School District Community Facilities District #1 | 56,445,000                    | 5.993%              | 3,382,749                |
| Contra Costa County Certificates of Participation                     | 319,867,903                   | 3.452%              | 11,041,840               |
| Contra Costa County Pension Obligations                               | 399,840,000                   | 3.452%              | 13,802,477               |
| Contra Costa Community College District Certificates of Participation | 925,000                       | 3.466%              | 32,061                   |
| Contra Costa Fire Protection District Pension Obligations             | 116,240,000                   | 7.694%              | 8,943,506                |
| Total Overlapping Long-Term Debt                                      | <u>\$2,072,796,523</u>        |                     | <u>\$100,811,282</u>     |
| TOTAL GROSS DIRECT AND OVERLAPPING LONG-TERM DEBT                     |                               |                     | <u>\$116,936,282</u> (2) |
| Less Contra Costa County self supporting obligations                  |                               |                     | <u>4,185,553</u>         |
| TOTAL NET DIRECT AND OVERLAPPING LONG-TERM DEBT                       |                               |                     | <u>\$112,750,729</u>     |

(1) Percentage of overlapping agency's assessed valuation located within boundaries of the city.

(2) Excludes tax and revenue anticipation notes, revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

RATIOS TO 2010 - 2011 ASSESSED VALUATION:

|                         |       |
|-------------------------|-------|
| Total Direct Debt       | 0.37% |
| Total Overlapping Debt  | 2.33% |
| Combined Net Total Debt | 2.61% |

Source: California Municipal Statistics, Inc.

**CITY OF MARTINEZ  
COMPUTATION OF LEGAL BONDED DEBT MARGIN  
JUNE 30, 2011**

ASSESSED VALUATION:

Secured property assessed value, net of  
exempt real property \$4,152,185,175

BONDED DEBT LIMIT (3.75% OF ASSESSED VALUE) (a) \$155,706,944

AMOUNT OF DEBT SUBJECT TO LIMIT:

Total Bonded Debt \$15,395,000

Less Tax Allocation Bonds and Sales Tax Revenue  
Bonds, Certificate of Participation not subject to limit 735,000

Amount of debt subject to limit 14,660,000

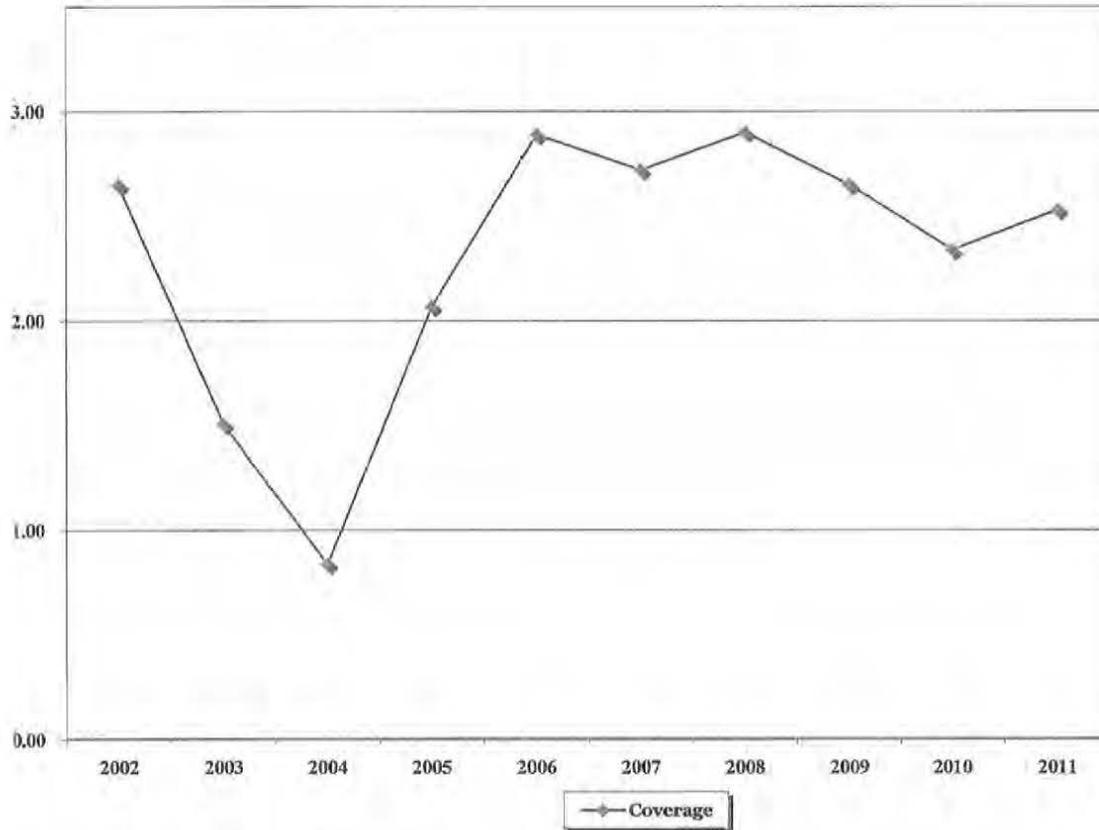
LEGAL BONDED DEBT MARGIN \$141,046,944

| Fiscal<br>Year | Debt<br>Limit | Total Net Debt<br>Applicable to<br>Limit | Legal<br>Debt<br>Margin | Total net debt<br>applicable to the limit<br>as a percentage<br>of debt limit |
|----------------|---------------|--|-------------------------|---|
| 2002           | \$448,740,618 |  | \$448,740,618           |   |
| 2003           | 466,375,730   |  | 466,375,730             |   |
| 2004           | 502,873,709   |  | 502,873,709             |   |
| 2005           | 540,528,077   |  | 540,528,077             |   |
| 2006           | 140,035,535   |  | 140,035,535             |   |
| 2007           | 149,024,084   |  | 149,024,084             |   |
| 2008           | 160,386,084   |  | 160,386,084             |   |
| 2009           | 165,020,110   | \$15,000,000                             | 165,020,110             | 9.09%   |
| 2010           | 157,873,721   | 15,000,000                               | 142,873,721             | 10.50%  |
| 2011           | 155,706,944   | 14,660,000                               | 141,046,944             | 10.39%  |

NOTE:

- (a) California Government Code, Section 43605 sets the debt limit at 15%. The Code section was enacted prior to the change in basing assessed value to full market value when it was previously 25% of market value. Thus, the limit shown as 3.75% is one-fourth the limit to account for the adjustment of showing assessed valuation at full cash value.

**CITY OF MARTINEZ  
REVENUE BOND COVERAGE  
WATER FUND CERTIFICATES OF PARTICIPATION  
LAST TEN FISCAL YEARS**

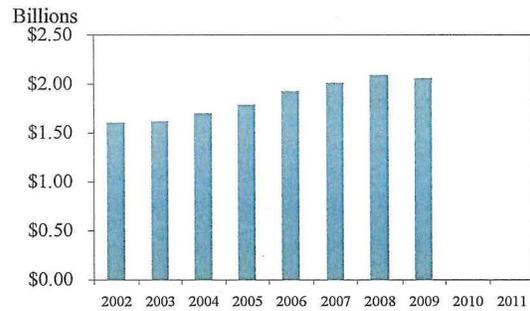
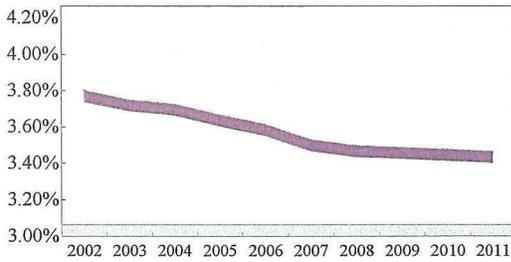


| Fiscal Year | Gross Revenue (1) | Operating Expenses (2) | Net Revenue Available for Debt Service | Debt Service Requirements |           |           | Coverage |
|-------------|-------------------|------------------------|--|---------------------------|-----------|-----------|----------|
|             |                   |                        |  | Principal                 | Interest  | Total     |          |
| 2002        | \$7,993,114       | \$6,394,582            | \$1,598,532                            | \$130,000                 | \$472,599 | \$602,599 | 2.65     |
| 2003        | 8,113,806         | 6,745,535              | 1,368,271                              | 425,000                   | 481,589   | 906,589   | 1.51     |
| 2004        | 8,545,760         | 7,795,532              | 750,228                                | 440,000                   | 457,036   | 897,036   | 0.84     |
| 2005        | 9,435,677         | 7,573,964              | 1,861,713                              | 450,000                   | 449,143   | 899,143   | 2.07     |
| 2006        | 9,726,463         | 7,160,841              | 2,565,622                              | 455,000                   | 433,661   | 888,661   | 2.89     |
| 2007        | 10,188,402        | 7,760,258              | 2,428,144                              | 470,000                   | 423,808   | 893,808   | 2.72     |
| 2008        | 10,287,823        | 7,706,998              | 2,580,825                              | 485,000                   | 406,326   | 891,326   | 2.90     |
| 2009        | 10,285,545        | 7,924,631              | 2,360,914                              | 500,000                   | 389,642   | 889,642   | 2.65     |
| 2010        | 9,906,086         | 7,823,809              | 2,082,277                              | 520,000                   | 371,092   | 891,092   | 2.34     |
| 2011        | 9,805,813         | 7,548,774              | 2,257,039                              | 540,000                   | 350,698   | 890,698   | 2.53     |

Notes: (1) Includes all Water Operating Revenues, Non-operating Interest Revenue, Connection Fees and other Non-operating Revenue  
(2) Includes all Water Operating Expenses less Depreciation and Interest

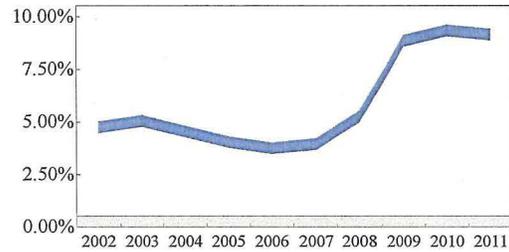
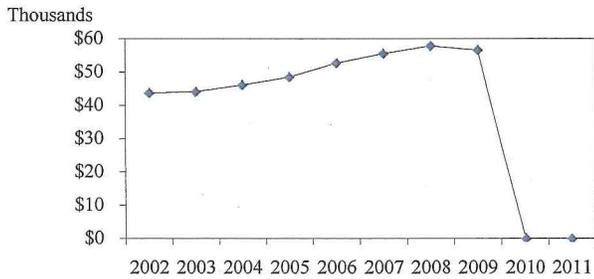
Source: City of Martinez Annual Financial Statements

**CITY OF MARTINEZ  
DEMOGRAPHIC AND ECONOMIC STATISTICS  
LAST TEN FISCAL YEARS**



■ City Population as a % of County Population

■ Total Personal Income (a)



◆ Per Capita Personal Income (a)

■ Unemployment Rate (%)

| Fiscal Year | City Population | Total Personal Income (a) | Per Capita Personal Income (a) | Unemployment Rate (%) | Contra Costa County Population | City Population % of County |
|-------------|-----------------|---------------------------|--------------------------------|-----------------------|--------------------------------|-----------------------------|
| 2002        | 36,715          | \$1,608,594,295           | \$43,813                       | 4.5%                  | 981,600                        | 3.74%                       |
| 2003        | 36,700          | 1,621,846,400             | 44,192                         | 4.8%                  | 994,900                        | 3.69%                       |
| 2004        | 36,805          | 1,700,795,855             | 46,211                         | 4.3%                  | 1,003,909                      | 3.67%                       |
| 2005        | 36,818          | 1,790,017,524             | 48,618                         | 3.8%                  | 1,020,898                      | 3.61%                       |
| 2006        | 36,582          | 1,928,968,860             | 52,730                         | 3.5%                  | 1,029,377                      | 3.55%                       |
| 2007        | 36,179          | 2,010,828,820             | 55,580                         | 3.7%                  | 1,042,341                      | 3.47%                       |
| 2008        | 36,144          | 2,091,797,856             | 57,874                         | 5.0%                  | 1,051,674                      | 3.44%                       |
| 2009        | 36,348          | 2,061,040,644             | 56,703                         | 8.6%                  | 1,060,435                      | 3.43%                       |
| 2010        | 36,663          | (b)                       | (b)                            | 9.1%                  | 1,073,055                      | 3.42%                       |
| 2011        | 35,958          | (b)                       | (b)                            | 8.9%                  | 1,056,064                      | 3.40%                       |

NOTES: (a) Per capita personal income are only available for Contra Costa County.

Personal income is the product of the countywide per capita amount multiplied by the City's population.

(b) Data for Fiscal Years 2010 - 2011 not available

Source: California State Department of Finance  
Bureau of Economic Analysis  
California State Employment Development Department

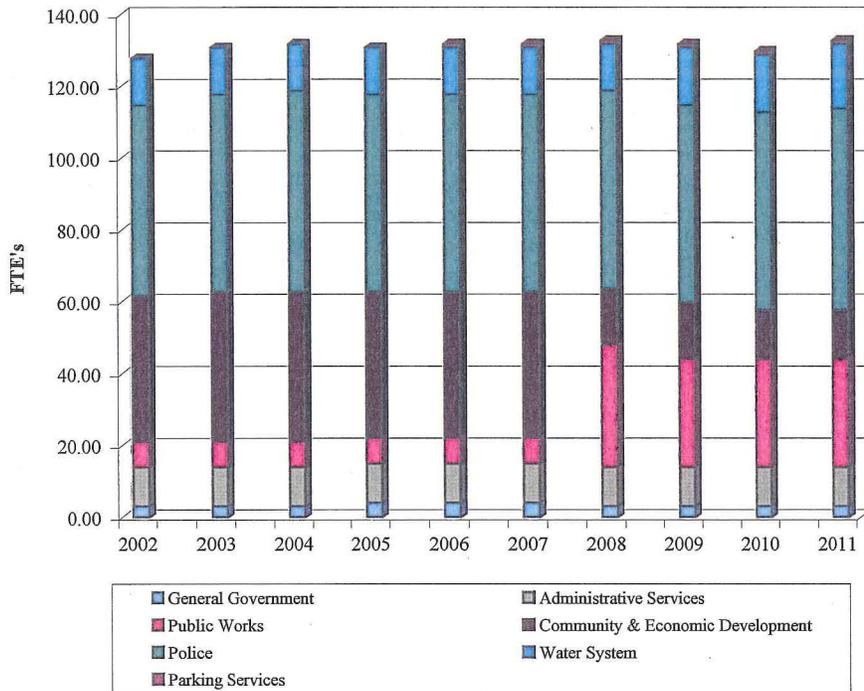
**CITY OF MARTINEZ**  
**Principal Employers**  
**Current Year and Five Years Ago**

| <u>Employer</u>                  | <u>2010 - 2011</u>         |             |  | <u>2005 - 2006</u>         |             |  |
|----------------------------------|----------------------------|-------------|--|----------------------------|-------------|--|
|                                  | <u>Number of Employees</u> | <u>Rank</u> | <u>Percentage of Total City Employment</u> | <u>Number of Employees</u> | <u>Rank</u> | <u>Percentage of Total City Employment</u> |
| Contra Costa County (a)          | 9,489                      | 1           | 44.1%                                      | 1,700                      | 1           | 8.1%                                       |
| Shell Oil Refinery               | 733                        | 2           | 3.4%                                       | 700                        | 4           | 3.3%                                       |
| Kaiser Permanente                | 715                        | 3           | 3.3%                                       | 1,000                      | 2           | 4.7%                                       |
| Veterans Admin Medical Center    | 650                        | 4           | 3.0%                                       | 950                        | 3           | 4.5%                                       |
| Martinez Unified School District | 401                        | 5           | 1.9%                                       | 425                        | 6           | 2.0%                                       |
| Wal-Mart Store                   | 232                        | 6           | 1.1%                                       | 350                        | 7           | 1.7%                                       |
| Safeway Stores                   | 160                        | 7           | 0.7%                                       |                            |             | 0.0%                                       |
| Contra Costa Electric            | 150                        | 8           | 0.7%                                       | 500                        | 5           | 2.4%                                       |
| City of Martinez                 | 124                        | 9           | 0.6%                                       | 170                        | 9           | 0.8%                                       |
| Home Depot                       | 108                        | 10          | 0.6%                                       | 250                        | 8           | 1.2%                                       |
| Telfer Oil Lines                 |                            |             |  | 100                        | 10          | 0.5%                                       |
| Subtotal                         | <u>12,762</u>              |             | <u>59.4%</u>                               | <u>6,145</u>               |             | <u>29.1%</u>                               |
| Total City Labor Force           | <u>21,500</u>              |             |  | <u>21,100</u>              |             |  |

(a) Contra Costa County employee count represents the entire county

Source: Muni Services, LLC

**CITY OF MARTINEZ**  
**Full-Time Equivalent City Government Employees by Function**  
**Last Ten Fiscal Years**



|                                  | 2002          | 2003          | 2004          | 2005          | 2006          | 2007          | 2008          | 2009          | 2010          | 2011          |
|----------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| <b>Function</b>                  |               |               |               |               |               |               |               |               |               |               |
| General Government               | 3.00          | 3.00          | 3.00          | 4.00          | 4.00          | 4.00          | 3.00          | 3.00          | 3.00          | 3.00          |
| Administrative Services          | 11.00         | 11.00         | 11.00         | 11.00         | 11.00         | 11.00         | 11.00         | 11.00         | 11.00         | 11.00         |
| Public Works                     | 7.00          | 7.00          | 7.00          | 7.00          | 7.00          | 7.00          | 34.00         | 30.00         | 30.00         | 30.00         |
| Community & Economic Development | 40.80         | 41.80         | 41.80         | 40.80         | 40.80         | 40.80         | 15.80         | 15.80         | 13.80         | 13.80         |
| Police                           | 53.00         | 55.00         | 56.00         | 55.00         | 55.00         | 55.00         | 55.00         | 55.00         | 55.00         | 56.00         |
| Water System                     | 13.00         | 13.00         | 13.00         | 13.00         | 13.00         | 13.00         | 13.00         | 16.00         | 16.00         | 18.00         |
| Parking Services                 |               |               |               |               | 1.00          | 1.00          | 1.00          | 1.00          | 1.00          | 1.00          |
| <b>Total</b>                     | <u>127.80</u> | <u>130.80</u> | <u>131.80</u> | <u>130.80</u> | <u>131.80</u> | <u>131.80</u> | <u>132.80</u> | <u>131.80</u> | <u>129.80</u> | <u>132.80</u> |

Source: City of Martinez Administrative Services Department

**CITY OF MARTINEZ**  
**Operating Indicators by Function/Program**  
**Last Ten Fiscal Years**

|  | <u>2002</u> | <u>2003</u> |
|--|-------------|-------------|
| <b>Function/Program</b>                          |             |             |
| <b>Public safety:</b>                            |             |             |
| Police:  |             |             |
| Police calls for Service                         | 26,439      | 26,621      |
| Law violations:                                  |             |             |
| Part I and Part II crimes                        | 5,123       | 5,663       |
| Physical arrests (adult and juvenile)            | 1,556       | 1,716       |
| Traffic violations                               | 2,233       | 2,507       |
| Parking violations                               | 16,976      | 8,454       |
| <br>   |             |             |
| <b>Public works</b>                              |             |             |
| Street resurfacing                               |             |             |
| Seal Coat (miles)                                | 2           | 3.68        |
| Asphalt overlay (miles)                          | 3           | n/a         |
| <br>   |             |             |
| <b>Culture and recreation:</b>                   |             |             |
| Community Services:                              |             |             |
| Number of recreation classes                     | n/a         | n/a         |
| Number of community events                       | n/a         | n/a         |
| Number of facility rentals                       | n/a         | n/a         |
| <br>   |             |             |
| <b>Water</b>                                     |             |             |
| Water service connections                        | n/a         | 9,714       |
| Water main breaks                                | 45          | n/a         |
| Average daily consumption (thousands of gallons) | 5,650       | 5,290       |

Note: n/a denotes information not available.

Source: City of Martinez

| Fiscal Year |        |        |        |        |        |        |        |
|-------------|--------|--------|--------|--------|--------|--------|--------|
| 2004        | 2005   | 2006   | 2007   | 2008   | 2009   | 2010   | 2011   |
| 31,013      | 35,621 | 32,071 | 30,710 | 30,354 | 30,794 | 29,463 | 27,501 |
| 5,742       | 5,989  | 5,753  | 5,460  | 5,970  | 4,923  | 4,343  | 4,079  |
| 1,828       | 2,213  | 1,886  | 1,693  | 1,714  | 1,585  | 1,655  | 1,622  |
| 3,477       | 3,117  | 1,872  | 1,642  | 1,340  | 2,598  | 2,985  | 1,738  |
| 7,505       | 8,267  | 4,992  | 5,929  | 8,895  | 8,790  | 8,864  | 9,226  |
| 9.47        | n/a    | 6      | 5.42   | 5.60   | 3.41   | 14.75  | 0.00   |
| 1           | 1.89   | 2.40   | 0.70   | 0.57   | 0.89   | 1.70   | 1.90   |
| 413         | 434    | 459    | 595    | 596    | 462    | 504    | 458    |
| 48          | 45     | 52     | 55     | 55     | 67     | 69     | 72     |
| 323         | 415    | 413    | 253    | 286    | 273    | 290    | 416    |
| 9,814       | 9,900  | 9,902  | 9,900  | 9,988  | 10,012 | 9,869  | 9,928  |
| 61          | 51     | 54     | 35     | 52     | 46     | 38     | 34     |
| 5,770       | 5,060  | 5,210  | 5,214  | 4,948  | 4,663  | 3,970  | 3,470  |

**CITY OF MARTINEZ**  
**Capital Asset Statistics by Function/Program**  
**Last Ten Fiscal Years**

|   | <u>2002</u> | <u>2003</u> | <u>2004</u> |
|---|-------------|-------------|-------------|
| <b>Function/Program</b>                 |             |             |             |
| <b>Public safety:</b>                   |             |             |             |
| Police stations                         | 1           | 1           | 1           |
| Police sworn officers                   | 39          | 39          | 39          |
| <b>Public works</b>                     |             |             |             |
| Miles of streets                        | 122         | 122         | 122         |
| Street lights                           | n/a         | 4,994       | 4,994       |
| Traffic Signals                         | n/a         | 253         | 253         |
| <b>Culture and recreation:</b>          |             |             |             |
| <b>Community services:</b>              |             |             |             |
| City parks                              | 16          | 16          | 16          |
| City parks acreage                      | 271         | 271         | 271         |
| Playgrounds                             | 10          | 10          | 10          |
| City trails                             | 9           | 9           | 9           |
| Roadway landscaping acreage             | 11          | 11          | 11          |
| Community gardens                       | 1           | 1           | 1           |
| Senior centers                          | 1           | 1           | 1           |
| Performing arts centers                 |             | 1           | 1           |
| Swimming pools                          | 1           | 1           | 1           |
| Tennis courts                           | 9           | 9           | 9           |
| Skateboard Park                         |             |             | 1           |
| Baseball/softball diamonds              | 8           | 8           | 8           |
| Soccer fields                           | 7           | 7           | 7           |
| <b>Water</b>                            |             |             |             |
| Miles of water lines                    | 100         | 100         | 100         |
| Storage capacity (thousands of gallons) | 9,522,000   | 9,522,000   | 9,522,000   |

Note: n/a denotes information is not available.

Source: City of Martinez

| Fiscal Year |           |           |           |           |           |           |
|-------------|-----------|-----------|-----------|-----------|-----------|-----------|
| 2005        | 2006      | 2007      | 2008      | 2009      | 2010      | 2011      |
| 1           | 1         | 1         | 1         | 1         | 1         | 1         |
| 39          | 39        | 39        | 39        | 39        | 39        | 39        |
| 122         | 122       | 122       | 122       | 122       | 122       | 122       |
| 4,994       | 4,994     | 4,994     | 4,996     | 5,005     | 5,005     | 5,005     |
| 253         | 253       | 253       | 265       | 265       | 265       | 265       |
| 16          | 16        | 17        | 17        | 17        | 17        | 17        |
| 271         | 271       | 271       | 271       | 271       | 271       | 271       |
| 10          | 10        | 14        | 14        | 14        | 14        | 14        |
| 9           | 9         | 9         | 9         | 9         | 9         | 9         |
| 11          | 11        | 11        | 12        | 12        | 12        | 12        |
| 1           | 1         | 1         | 1         | 1         | 1         | 1         |
| 1           | 1         | 1         | 1         | 1         | 1         | 1         |
| 1           | 1         | 1         | 1         | 1         | 1         | 1         |
| 1           | 1         | 1         | 1         | 1         | 1         | 1         |
| 9           | 9         | 10        | 10        | 10        | 10        | 10        |
| 1           | 1         | 1         | 1         | 1         | 1         | 1         |
| 8           | 8         | 11        | 11        | 11        | 11        | 11        |
| 7           | 7         | 7         | 7         | 7         | 7         | 7         |
| 100         | 100       | 100       | 100       | 100       | 100       | 100       |
| 9,522,000   | 9,522,000 | 9,522,000 | 9,522,000 | 9,522,000 | 9,522,000 | 9,522,000 |

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**APPENDIX D**

**FORM OF OPINION OF BOND COUNSEL**

[Letterhead of Jones Hall]

April 4, 2012

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

**OPINION:** \$10,000,000 City of Martinez General Obligation Bonds,  
Election of 2008, Series B

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Members of the City Council:

We have acted as bond counsel in connection with the issuance by the City of Martinez (the "City") of its general obligation bonds captioned above, dated April 4, 2012 (the "Bonds"). The Bonds have been issued by the City pursuant to the Constitution and laws of the State of California, a resolution adopted by the City Council of the City on February 15, 2012 (the "Resolution") and a Paying Agent Agreement dated as of March 1, 2012 (the "Paying Agent Agreement") between the City and U.S. Bank National Association, as paying agent. We have examined the law and such certified proceedings and other papers as we deem necessary to render this opinion.

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

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

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

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

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

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

5. The interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; it should be noted, however, that for the purpose of computing the alternative minimum tax imposed on such corporations (as defined for federal income tax purposes), such interest is required to be taken into account in determining certain income and earnings. The opinions set forth in the preceding sentence are subject to the condition that the City comply with all requirements of the Internal Revenue Code of 1986 that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal tax purposes. The City has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

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

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

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

Respectfully submitted,

A Professional Law Corporation

## APPENDIX E

### FORM OF CONTINUING DISCLOSURE CERTIFICATE

**\$10,000,000**  
**CITY OF MARTINEZ**  
**General Obligation Bonds**  
**Election of 2008, Series B**

This Continuing Disclosure Certificate (this “**Disclosure Certificate**”) is executed and delivered by the City of Martinez (the “**City**”) in connection with the execution and delivery of the bonds captioned above (the “**Bonds**”). The Bonds are being executed and delivered pursuant to a Paying Agent Agreement dated as of March 1, 2012 (the “**Agreement**”) by and between the City and U.S. Bank National Association, as paying agent (the “**Paying Agent**”).

The City hereby covenants and agrees as follows:

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

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

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

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

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

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

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

“*Official Statement*” means the final official statement dated March 21, 2012, executed by the City in connection with the issuance of the Bonds.

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

“Rule” means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as 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, 2013 with the report for the 2011-12 fiscal year, provide to the MSRB in an electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. Not later than 15 Business Days prior to the Annual Report Date, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). If by 15 Business Days prior to the Annual Report Date the Dissemination Agent (if other than the City) has not received a copy of the Annual Report, the Dissemination Agent shall contact the City to determine if the City is in compliance with the previous sentence. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report, and later than the Annual Report Date, if not available by that date. If the City’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(b). The City shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by the City hereunder.

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

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

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

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

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

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

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

- (i) Assessed value of taxable property within the jurisdiction of the City substantially the form of Table 1 in the Official Statement.
- (ii) Summary of property tax rates for all taxing entities within the City expressed as a percentage of assessed valuation substantially the form of Table 4 in the Official Statement.
- (iii) Top ten property tax assesses for current fiscal year, taxable value and percentage of total assessed value in substantially the form of Table 6 in the Official Statement.
- (iv) Property tax collection delinquencies for the City if the City is no longer a participant in Contra Costa County's Teeter Plan in substantially the form of Table 5 in the Official Statement.
- (v) Amount of all general obligation debt of the City outstanding, and total scheduled debt service on such general obligation debt.
- (vi) Any change to Contra Costa County's investment pool which would affect the City's receipt of property tax revenues used to pay debt service on the Bonds.
- (vii) Any changes in the operation of Contra Costa County's Teeter Plan affecting the City's receipt of property tax revenues used to pay debt service on the Bonds.

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

(d) Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which are available to the public on the MSRB's internet web site or filed with the Securities and Exchange Commission. The City shall clearly identify each such other document so included by reference.

#### **Section 5. Reporting of Significant Events.**

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

- (i) Principal and interest payment delinquencies.
- (ii) Non-payment related defaults, if material.
- (iii) Unscheduled draws on debt service reserves reflecting financial difficulties.

- (iv) Unscheduled draws on credit enhancements reflecting financial difficulties.
- (v) Substitution of credit or liquidity providers, or their failure to perform.
- (vi) 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.
- (vii) Modifications to rights of security holders, if material.
- (viii) Bond calls, if material, and tender offers.
- (ix) Defeasances.
- (x) Release, substitution, or sale of property securing repayment of the securities, if material.
- (xi) Rating changes.
- (xii) Bankruptcy, insolvency, receivership or similar event of the Authority or other obligated person.
- (xiii) The consummation of a merger, consolidation, or acquisition involving the City or an obligated person, or the sale of all or substantially all of the assets of the City or an 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.
- (xiv) 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, the City shall, or shall cause the Dissemination Agent (if not the City) to, file a notice of such occurrence with the MSRB and the Participating Underwriter, in an electronic format as prescribed by the MSRB, 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)(viii) and (ix) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds under the Paying Agent Agreement.

(c) The City acknowledges that the events described in subparagraphs (a)(ii), (a)(vii), (a)(viii) (if the event is a bond call), (a)(x), (a)(xiii), and (a)(xiv) of this Section 5 contain the qualifier "if material." The City shall cause a notice to be filed as set forth in paragraph (b) above with respect to any such event only to the extent that the City determines the event's occurrence is material for purposes of U.S. federal securities law.

(d) For purposes of this Disclosure Certificate, any event described in paragraph (a)(xii) above is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the City in a proceeding under the United States

Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City.

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

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

**Section 8. Dissemination Agent.** The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be U.S. Bank National Association. Any Dissemination Agent may resign by providing 30 days' written notice to the City and the Paying Agent.

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

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

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

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

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

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

**Section 10. Additional Information.** Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

**Section 11. Default.** If the City fails to comply with any provision of this Disclosure Certificate, the Participating Underwriter or any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Agreement, and the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance.

**Section 12. Duties, Immunities and Liabilities of Dissemination Agent.**

(a) The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall have no duty or obligation to review any information provided to it by the City hereunder, and shall not be deemed to be acting in any fiduciary capacity for the City, the Bond holders or any other party. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

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

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

To the Issuer:  
City of Martinez  
525 Henrietta Street  
Martinez, California 94553

To the Dissemination Agent:  
U.S. Bank National Association  
One California Street, Suite 2100  
San Francisco, California 94111  
Fax No.: (415) 273-4591

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

**Section 14. Beneficiaries.** This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, the Participating Underwriter and holders and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

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

Date: April 4, 2012

**CITY OF MARTINEZ**

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

AGREED AND ACCEPTED:

**U.S. Bank National Association,**  
as Dissemination Agent

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

**EXHIBIT A**

**NOTICE OF FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: City of Martinez (the "City")

Name of Bond Issue: \$10,000,000 City of Martinez General Obligation Bonds, Election of 2008, Series B

Date of Issuance: April 4, 2012

NOTICE IS HEREBY GIVEN that the City has not provided an Annual Report with respect to the above-named Bonds as required by the Paying Agent Agreement, dated as of March 1, 2012, by and between the City and U.S. Bank National Association, as paying agent. The City anticipates that the Annual Report will be filed by \_\_\_\_\_.

Dated: \_\_\_\_\_

DISSEMINATION AGENT:

By: \_\_\_\_\_  
Its: \_\_\_\_\_

## APPENDIX F

### DTC AND THE BOOK-ENTRY ONLY SYSTEM

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

*Neither the City, as issuer of the Bonds (the “**Issuer**”), nor the Paying Agent (the “**Agent**”) takes any responsibility for the information contained in this Appendix.*

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

1. The Depository Trust Company (“**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](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org). *The information contained on this Internet site is not incorporated in this Official Statement 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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