CITY OF MARTINEZ **CITY COUNCIL AGENDA**
December 21, 2011

TO: Mayor and City Council

FROM: Alan H. Shear, Assistant City Manager
Cathy Spinella, Finance Manager

SUBJECT: Approve the Execution, Delivery and Sale of 2012 Certificates of Participation in order to refund the 1999 Certificates of Participation and to Finance Water System Improvements, and Approve Related Documents and Actions

DATE: December 15, 2011

RECOMMENDATION:

Staff recommends the Council adopt a Resolution Authorizing the Execution, Delivery and Sale of 2012 Certificates of Participation (COP) in order to refund the 1999 COP and to finance improvements to the water system, and approve related documents and actions.

BACKGROUND:

In 1999, the City issued $6,040,000 in Certificates of Participation (the "1999 Certificates") to finance various improvements to the City's municipal water system. The interest rates on the 1999 Certificates range from 4.95% in 2012 to 5.375% in their final maturity of December 1, 2026.

The Water Treatment Plant Master Plan is nearing completion. It has identified the following projects as necessary improvements to the water system in order to maintain a reliable and high quality water supply in Martinez:

- Harbor View Reservoir Replacement
- Water Treatment Plant Major Electrical Projects
- Water Treatment Plant Structural Reinforcing Projects
- Various Projects Related to the Water System

The City Council on October 19, 2011, directed staff to take actions relating to the refinancing of the 1999 Certificates of Participation (1999 Water System Improvement Project) bond and issuing new bond money up to $5 Million for future water projects. At the December 7, 2011 meeting of the City Council, staff requested authority to proceed with the refunding of the 1999 COP and issue $3.5 million in new bond money. Because of the low interest rates available, Council directed staff to determine if there are other eligible water-related projects that would warrant bonding closer to the original request of $5 million. Staff has reviewed all potential

water projects to ensure that the highest number of eligible projects are included as part of the issuance of new bond money, yet remain under the debt covenant of 1.25. Therefore, staff is now requesting Council authority to proceed with the refunding of the 1999 COP and issue $4 million in new bond money. With a bond debt ratio of 1.25, staff believes that exceeding $4 million in new money could impact the water fund's ability to meet the debt covenant, and would therefore warrant a water rate analysis for a potential water rate increase.

FINANCING STRUCTURE AND FISCAL IMPACT

The transaction is being structured assuming an underlying rating of AA by Standard and Poor's rating services, and the procurement of bond insurance and a surety bond for the reserve fund. The procurement of bond insurance would give the issue an AA+ rating. Although the City's underlying credit rating is very strong, purchasing bond insurance provides the opportunity to purchase a surety bond for the reserve fund through the bond insurer (in lieu of a cash/bond proceeds funded reserve fund). This provides the best savings overall. If the original issue had been structured with a cash/bond proceeds funded reserve fund, refunding the COP could be structured with just the published underlying rating, without bond insurance.

Staff is recommending that the refunding of the 1999 Certificates to be done through a public offering. Through this type of sale, an underwriter purchases bonds from the issuer with the intent to resell the bonds to investors. The sale of bonds can be made to large investors such as mutual funds and insurance companies, commonly known as institutional investors, or to individual investors, commonly known as retail investors.

The new project fund up to $4 Million is also recommended for a public offering at a 15 year term, to match the final maturity of the 1999 COP. For a public offering of combined refunding and $4 Million of new bond money at a 15 year term, the annual average debt service is $682,441. The 1999 Certificates are able to be refunded anytime after December 1, 2009 and are callable on any date, and without premium beginning on December 1, 2011. There is currently $4,440,000 principal outstanding on the issue.

In order to proceed with the financing, it is necessary that the City Council approve the execution of certain legal documents and actions including an Installment Sale Agreement and Trust Agreement; authorize the competitive sale of the certificates and direct the Mayor, City Manager, Assistant City Manager, the City Clerk or their designees are authorized on behalf of the City to make any and all assignments, certificates, requisitions, agreements, notices, consents, instruments of conveyance, warrants and other documents, which they or any of them might deem necessary or appropriate in order to consummate any of the transactions contemplated by the agreements and documents approved under this Resolution.

Certificate Documents

By resolution, the following documents will be approved and on file with the City Clerk:

Installment Sale Agreement. This agreement is between the City and the Martinez Public Improvement Corporation (Corporation), under which the Corporation agrees to provide financing for refunding of the 1999 Certificates and the financing of the 2012 Project, and to sell

the 1999 Project and the 2012 Project (together, the "Project"), to the City in consideration of the payment by the City of semiannual installment payments as the purchase price of the Project, to be made from the net revenues of the Water System.

Trust Agreement. The Trust Agreement, is between the City, the Corporation and U.S. Bank National Association, as trustee (the "Trustee"), whereby the Trustee agrees to execute and deliver the 2012 Certificates, and to deposit the proceeds thereof in: (i) an escrow fund for the redemption of the 1999 Certificates; and (ii) a 2012 Project Fund, to be applied to the payment of 2012 Project costs upon requisitions of the City. Pursuant to the Agreement, the Trustee is given the authority to receive, hold, invest and disburse the monies paid to it for credit to the various funds and accounts established under the Agreement; to execute the Certificates; and to apply and disburse payments the owners of the Certificates. It sets forth the guidelines for the administration, investment and treatment of investment earnings generated by each fund and account. The Agreement obligates the City to pay compensation to the Trustee for services rendered under the Agreement.

Purchase Contract. This contract approves the sale of the 2012 Certificates by negotiation with the underwriter.

Preliminary Official Statement (POS). This document is the public offering statement for the issuance of the Certificates. This document thoroughly describes the financing program, the public improvements to be financed, the economic, financial and social characteristics of the City and the Corporation.

Financing Team Participants:
The City of Martinez has entered into agreements for consulting services with the following firms in the following capacities:

Name of Firm	Role
Jones Hall	Bond and Disclosure Counsel
Brandis Tallman, LLC	Underwriter

Financing Schedule
The following is the tentative financing schedule:

Date	Action Item
December 21st	▪ Council Adopts the Resolution Authorizing Sale of Certificates and approval of related legal documents and actions
Week of January 2nd	▪ Final preparation of POS
January 9th	▪ POS distributed to investors
January 18th	▪ Pre-price Bonds
January 19th	▪ Price Bonds
February 2nd	▪ Close and fund transaction

ACTION:

Motion approving a resolution authorizing the execution, delivery, sale of 2012 Certificates of Participation (COP) to refund the 1999 COP and to finance water system improvements, the financing plan, sale of certificates, Installment Agreement with the Martinez Public Improvement Corporation, Trust Agreement with US Bank, Purchase Agreement with Brandis Tallman and related documents and official actions.

Attachments:
Resolution
Installment Sale Agreement (same document as MPIC staff report)
Trust Agreement (same document as MPIC staff report)
Purchase Agreement of 2012 COP
Draft of Preliminary Official Statement

APPROVED BY:

City Manager

RESOLUTION NO. -11

RESOLUTION OF THE CITY COUNCIL OF THE CITY OF MARTINEZ AUTHORIZING THE EXECUTION, DELIVERY AND SALE OF 2012 CERTIFICATES OF PARTICIPATION TO REFUND 1999 CERTIFICATES OF PARTICIPATION AND TO FINANCE WATER SYSTEM IMPROVEMENTS, AND APPROVING RELATED DOCUMENTS AND ACTIONS

WHEREAS, the City of Martinez (the "City") owns and operates a system for the transportation, treatment and distribution of water for the residents, commercial and industrial consumers of water in the City (the "Water System"), and the City wishes to provide funds at this time to: (i) refund Certificates of Participation executed and delivered in the principal amount of $6,040,000 on August 17, 1999 (the "1999 Certificates"), the proceeds of which were applied to finance improvements to the Water System (the "1999 Project"); and (ii) finance various capital improvements (the "2012 Project") to the Water System, as more particularly described in the Installment Sale Agreement (described below); and

WHEREAS, the City wishes to authorize the execution, delivery and sale of certificates of participation in the aggregate principal amount of not to exceed $9,000,000 at this time for the purpose of refunding the 1999 Certificates and financing the 2012 Project, and the City has requested that the Martinez Public Improvement Corporation (the "Corporation") assist it in such proceedings; and

WHEREAS, the Corporation has been formed for the purpose of providing financial assistance to the City in the construction of public capital improvements;

NOW, THEREFORE, IT IS ORDERED, as follows:

Section 1. Approval of Financing Plan and Related Documents. The City Council hereby approves the execution and delivery of 2012 Certificates of Participation (City of Martinez Water Refunding and Improvement Project) in the aggregate principal amount of not to exceed $9,000,000 (the "2012 Certificates") for the purposes described above. To that end, the City Council hereby approves each of the following financing documents in substantially the respective forms on file with the City Clerk, together with any changes therein or additions thereto approved by the City Manager or the Assistant City Manager (each, an "Authorized Officer"):

- Installment Sale Agreement between the City and the Corporation, under which the Corporation agrees to provide financing for refunding of the 1999 Certificates and the financing of the 2012 Project, and to sell the 1999 Project and the 2012 Project (together, the "Project"), to the City in consideration of the payment by the City of semiannual installment payments as the purchase price of the Project, to be made from the net revenues of the Water System.

- Trust Agreement, among the City, the Corporation and U.S. Bank National Association, as trustee (the "Trustee"), whereby the Trustee agrees to execute and deliver the 2012 Certificates, and to deposit the proceeds thereof in: (i) an escrow fund for the redemption of the 1999 Certificates; and (ii) a 2012 Project Fund, to be applied to the payment of 2012 Project costs upon requisitions of the City.

The Authorized Officers are hereby authorized and directed for and in the name and on behalf of the City to execute the final form of each of the foregoing documents, and the City Clerk is hereby authorized and directed to attest to the final form of each of the foregoing documents. Execution of each of the foregoing documents by the Authorized Officers shall be conclusive evidence of the approval of any changes therein or additions thereto by an Authorized Officer. The schedule of installment payments attached to the Installment Sale Agreement shall correspond to the payments of principal and interest represented by the 2012 Certificates, to be determined upon the sale thereof as set forth in Section 2.

Section 2. Sale of 2012 Certificates. The Council hereby approves the sale of the 2012 Certificates by negotiation with Brandis Tallman LLC (the "Underwriter"), pursuant to the Purchase Contract, by and between the City and the Underwriter, in substantially the form on file with the City Clerk, together with any changes therein or additions thereto approved by an Authorized Officer, whose execution thereof shall be conclusive evidence of approval of any such additions and changes. The Purchase Contract shall be executed in the name and on behalf of the City by an Authorized Officer, who is hereby authorized and directed to execute and deliver said form of Purchase Contract on behalf of the City upon submission of a proposal by the Underwriter to purchase the 2012 Certificates, which proposal is acceptable to the Authorized Officer. The purchase price received by the City for the 2012 Certificates from the Underwriter, exclusive of original issue discount paid to the

investors, shall be not less than ninety-nine percent (99%) of the par amount thereof, and the true interest cost on the 2012 Certificates shall not exceed four percent (4.0%).

Section 3. Official Statement. The City Council hereby approves and deems nearly final within the meaning of Rule 15c2-12 of the Securities Exchange Act of 1934, the preliminary Official Statement describing the 2012 Certificates in the form on file with the City Clerk. An Authorized Officer is hereby authorized to execute an appropriate certificate affirming the City Council's determination that the preliminary Official Statement has been deemed final within the meaning of such Rule. Distribution of the preliminary Official Statement by the Underwriter is hereby approved. An Authorized Officer is hereby authorized and directed to approve any changes in or additions to a final form of said Official Statement, and the execution thereof by an Authorized Officer shall be conclusive evidence of approval of any such changes and additions. The City Council hereby authorizes the distribution of the final Official Statement by the Underwriter. The final Official Statement shall be executed in the name and on behalf of the City by an Authorized Officer.

Section 4. Official Actions. The Mayor, the City Manager, the Assistant City Manager, the City Clerk or their designees are authorized and directed in the name and on behalf of the City to make any and all assignments, certificates, requisitions, agreements, notices, consents, instruments of conveyance, warrants and other documents, which they or any of them might deem necessary or appropriate in order to consummate any of the transactions contemplated by the agreements and documents approved under this Resolution. Whenever in this resolution any officer of the City is directed to execute or countersign any document or take any action, such execution, countersigning or action may be taken on behalf of such officer by any person designated by such officer to act on his or her behalf in the case such officer is absent or unavailable.

Section 5. Effective Date. This Resolution shall take effect from and after the date of its passage and adoption.

*** * * * * ***

I HEREBY CERTIFY that the foregoing is a true and correct copy of a resolution duly adopted by the City Council of the City of Martinez at a Regular Meeting of said Council held on the day of , 2010, by the following vote:

AYES:

NOES:

ABSENT:

_____
Mayor

Attest:

_____
City Clerk

INSTALLMENT SALE AGREEMENT

Dated as of January 1, 2012

between the

MARTINEZ PUBLIC IMPROVEMENT CORPORATION,
as Seller

and the

CITY OF MARTINEZ,
as Purchaser

Relating to
$[Principal Amount]
2012 Certificates of Participation
(City of Martinez Water Refunding and Improvement Project)

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INSTALLMENT SALE AGREEMENT

This INSTALLMENT SALE AGREEMENT (this "Agreement"), dated as of January 1, 2012, is between the MARTINEZ PUBLIC IMPROVEMENT CORPORATION, a nonprofit public benefit corporation duly organized and existing under the laws of the State of California (the "Corporation"), as seller, and the CITY OF MARTINEZ, a –general law city and municipal corporation duly organized and existing under the laws of the State of California (the "City"), as purchaser.

B A C K G R O U N D :

1. The City presently owns and operates facilities and property for the transportation, treatment and distribution of water for the residential, commercial and industrial consumers of water in the City (the "Water System"), and the City wishes to provide funds at this time to: (i) refund Certificates of Participation executed and delivered in the principal amount of $6,040,000 on August 17, 1999 (the "1999 Certificates), the proceeds of which were applied to finance improvements to the Water System (the "1999 Project"); and (ii) finance various capital improvements (the "2012 Project") to the Water System as described in Appendix B hereto.

2. The Corporation has been formed for the purpose of assisting the City in the financing of facilities and property useful to the City, and the Corporation has proposed to enter into this Agreement with the City under which the Corporation has agreed to construct the 2012 Project and sell the 1999 Project and the 2012 Project (together, the "Project")to the City in consideration of the agreement by the City to pay the purchase price of the Project in semiannual installments (the "Installment Payments").

3. For the purpose of obtaining the moneys required to refund the 1999 Certificates and finance the 2012 Project in accordance with the terms hereof, the Corporation has assigned and transferred certain of its rights under this Agreement to U.S. Bank National Association, as trustee (the "Trustee"), under a Trust Agreement dated as of January 1, 2012, among the City, the Corporation and the Trustee, under which the Trustee has executed and delivered 2012 Certificates of Participation (City of Martinez Water Refunding and Improvement Project) in the aggregate principal amount of $_____(the "Certificates"), evidencing direct, undivided fractional interests in the Installment Payments.

4. The City has previously caused the execution and delivery of its $7,795,000 Certificates of Participation (2003 Refinancing Project) (the "2003 Certificates") under a Trust Agreement, dated as of March 1, 2003 between the City, the Corporation and the Trustee (the "2003 Trust Agreement"), evidencing the right to receive installment payments (the "2003 Installment Payments" payable by the City under an Installment Sale Agreement, dated as of March 1, 2003, between the City and the Corporation (the "2003 Installment Sale Agreement").

5. This Installment Sale Agreement will be executed and delivered on a parity with the 2003 Certificates and the 2003 Installment Payments.

6. The City has determined to secure the Installment Payments with a pledge of and lien on the Net Revenues as provided herein.

A G R E E M E N T :

In consideration of the foregoing and the material covenants hereinafter contained, the City and the Corporation formally covenant, agree and bind themselves as follows:

ARTICLE I

DEFINITIONS; RULES OF INTERPRETATION

SECTION 1.1. Definitions. Unless the context clearly otherwise requires or unless otherwise defined herein, the capitalized terms in this Agreement have the respective meanings given them in Appendix A to the Trust Agreement.

SECTION 1.2. Interpretation.

(a) Unless the context otherwise indicates, words expressed in the singular shall include the plural and vice versa and the use of the neuter, masculine, or feminine gender is for convenience only and includes the neuter, masculine or feminine gender, as appropriate.

(b) Headings of articles and sections herein and the table of contents hereof are solely for convenience of reference, do not constitute a part hereof and do not affect the meaning, construction or effect hereof.

(c) All references herein to "Articles," "Sections" and other subdivisions are to the corresponding Articles, Sections or subdivisions of this Agreement; the words "herein," "hereof," "hereby," "hereunder" and other words of similar import refer to this Agreement as a whole and not to any particular Article, Section or subdivision hereof.

ARTICLE II

REPRESENTATIONS, COVENANTS AND WARRANTIES

SECTION 2.1. Representations, Covenants and Warranties of the City. The City represents, covenants and warrants to the Corporation and the Certificate Insurer as follows:

(a) Due Organization and Existence. The City is a general law city and municipal corporation duly organized and validly existing under the laws of the State of California, has full legal right, power and authority under said laws to enter into this Agreement and the Trust Agreement and to carry out and consummate all transactions contemplated hereby and thereby, and by proper action the City Council of the City has duly authorized the execution and delivery of this Agreement and the Trust Agreement.

(b) Due Execution. The representatives of the City executing this Agreement and the Trust Agreement are fully authorized to execute the same.

(c) Valid, Binding and Enforceable Obligations. This Agreement and the Trust Agreement have been duly authorized, executed and delivered by the City and constitute the legal, valid and binding agreements of the City enforceable against the City in accordance with their respective terms; except as the enforceability thereof may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and except as such enforceability may be subject to the exercise of judicial discretion in accordance with principles of equity.

(d) No Conflicts. The execution and delivery of this Agreement and the Trust Agreement, the consummation of the transactions herein and therein contemplated and the fulfillment of or compliance with the terms and conditions hereof and thereof, do not and will not conflict with or constitute a violation or breach of or default (with due notice or the passage of time or both) under any applicable law or administrative rule or regulation, or any applicable court or administrative decree or order, or any indenture, mortgage, deed of trust, lease, contract or other agreement or instrument to which the City is a party or by which it or its properties are otherwise subject or bound, or result in the creation or imposition of any prohibited lien, charge or encumbrance of any nature whatsoever upon any of the property or assets of the City, which conflict, violation, breach, default, lien, charge or encumbrance would have consequences that would materially adversely affect the consummation of the transactions contemplated by this Agreement and the Trust Agreement or the financial condition, assets, properties or operations of the City, including but not limited to the performance of the City's obligations under this Agreement and the Trust Agreement.

(e) Consents and Approvals. No consent or approval of any trustee or holder of any indebtedness of the City or of the voters of the City, and no consent, permission, authorization, order or license of, or filing or registration with, any governmental authority is necessary in connection with the execution and delivery of this Agreement or the Trust Agreement, or the consummation of any transaction herein or therein contemplated, except as have been obtained or made and as are in full force and effect.

(f) No Litigation. There is no action, suit, proceeding, inquiry or investigation before or by any court or federal, state, municipal or other governmental authority pending or, to the knowledge of the City after reasonable investigation, threatened against or affecting the City or the assets, properties or operations of the City which, if determined adversely to the City or its interests, would have a material and adverse effect upon the consummation of the transactions contemplated by or the validity of this Agreement or the Trust Agreement, or upon the financial condition, assets, properties or operations of the City, and the City is not in default with respect to any order or decree of any court or any order, regulation or demand of any federal, state, municipal or other governmental authority, which default might have consequences that would materially adversely affect the consummation of the transactions contemplated by this Agreement or the Trust Agreement, or the financial conditions, assets, properties or operations of the City, including but not limited to the payment and performance of the City's obligations under this Agreement and the Trust Agreement.

(g) Prior Indebtedness. The City has not issued or incurred any obligations which are currently outstanding having any priority in payment out of the Gross Revenues or the Net Revenues over the payment of the Installment Payments as provided herein.

SECTION 2.2. Representations, Covenants and Warranties of Corporation. The Corporation represents, covenants and warrants to the City and the Certificate Insurer as follows:

(a) Due Organization and Existence. The Corporation is a nonprofit public benefit corporation organized and existing under the laws of the State of California, and has power to enter into this Agreement and the Trust Agreement and to perform the duties and obligations imposed on it hereunder and thereunder. The Board of Directors of the Corporation has duly authorized the execution and delivery of this Agreement and the Trust Agreement.

(b) Due Execution. The representatives of the Corporation executing this Agreement and the Trust Agreement are fully authorized to execute the same.

(c) Valid, Binding and Enforceable Obligations. This Agreement and the Trust Agreement have been duly authorized, executed and delivered by the Corporation and constitute the legal, valid and binding agreements of the Corporation with the Corporation, enforceable against the Corporation in accordance with their respective terms; except as the enforceability thereof may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and except as such enforceability may be subject to the exercise of judicial discretion in accordance with principles of equity.

(d) No Conflicts. The execution and delivery hereof and of the Trust Agreement, the consummation of the transactions herein and therein contemplated and the fulfillment of or compliance with the terms and conditions hereof and thereof, do not and will not conflict with or constitute a violation or breach of or default (with due notice or the passage of time or both) under any applicable law or administrative rule or regulation, or any applicable court or administrative decree or order, or any indenture, mortgage, deed of trust, lease, contract or other agreement or instrument to which the Corporation is a party or by which it or its properties are otherwise subject or bound, or result in the creation or imposition of any

prohibited lien, charge or encumbrance of any nature whatsoever upon any of the property or assets of the Corporation, which conflict, violation, breach, default, lien, charge or encumbrance would have consequences that would materially adversely affect the consummation of the transactions contemplated hereby and by the Trust Agreement or the financial condition, assets, properties or operations of the Corporation, including but not limited to the performance of the Corporation's obligations under this Agreement and the Trust Agreement.

(e) Consents and Approvals. No consent or approval of any trustee or holder of any indebtedness of the Corporation, and no consent, permission, authorization, order or license of, or filing or registration with, any governmental authority is necessary in connection with the execution and delivery hereof or of the Trust Agreement, or the consummation of any transaction herein or therein contemplated, except as have been obtained or made and as are in full force and effect.

(f) No Litigation. There is no action, suit, proceeding, inquiry or investigation before or by any court or federal, state, municipal or other governmental authority pending or, to the knowledge of the Corporation after reasonable investigation, threatened against or affecting the Corporation or the assets, properties or operations of the Corporation which, if determined adversely to the Corporation or its interests, would have a material and adverse effect upon the consummation of the transactions contemplated by or the validity of this Agreement or the Trust Agreement, or upon the financial condition, assets, properties or operations of the Corporation, and the Corporation is not in default with respect to any order or decree of any court or any order, regulation or demand of any federal, state, municipal or other governmental authority, which default might have consequences that would materially adversely affect the consummation of the transactions contemplated by this Agreement or the Trust Agreement or the financial conditions, assets, properties or operations of the Corporation, including but not limited to the performance of the Corporation's obligations hereunder and under the Trust Agreement.

ARTICLE III

ISSUANCE OF CERTIFICATES; APPLICATION OF PROCEEDS

SECTION 3.1. The Certificates. The Corporation shall cause the Certificates to be executed and delivered under the Trust Agreement in the aggregate principal amount of $_____. The City hereby approves the Trust Agreement, the assignment thereunder to the Trustee of certain rights of the Corporation, and the execution and delivery of the Certificates.

SECTION 3.2. Deposit and Application of Funds. The proceeds received by the Trustee from the sale of the Certificates to the Original Purchaser shall be deposited in the respective funds and accounts, and in the respective amounts, as set forth in Section 3.01 of the Trust Agreement. As provided in Section 3.01(b) of the Trust Agreement, a portion of the proceeds of sale of the Certificates shall be deposited into the 2012 Project Fund to be applied to finance the acquisition, construction and improvement of the 2012 Project as provided in this Agreement and in the Trust Agreement, and as provided in Section 3.01(c) of the Trust Agreement, a portion of the proceeds of sale of the Certificates shall be deposited into the Escrow Fund to be applied to refund the 1999 Certificates.

SECTION 3.3. Acquisition and Construction of the 2012 Project. The Corporation hereby agrees to supervise and provide for, or cause to be supervised and provided for, the acquisition, construction and installation of the 2012 Project in accordance with the plans and specifications, purchase orders, construction contracts and other documents relating thereto and approved by the City under all applicable requirements of law. All contracts for, and all work relating to, the acquisition, construction and installation of the 2012 Project are subject to all applicable provisions of law relating to the acquisition and construction of public works by the City. The Corporation expects that the 2012 Project will be completed on or before _____, 20__. The failure of the Corporation to complete the 2012 Project by that date does not constitute an Event of Default or a grounds for termination hereof, nor will such failure result in the diminution, abatement or extinguishment of the obligations of the City hereunder to pay the Installment Payments when due.

SECTION 3.4. Appointment of City as Agent. The Corporation hereby appoints the City as its agent to carry out all phases of the acquisition, construction and installation of the 2012 Project under and in accordance with the provisions hereof. The City hereby accepts such appointment and assumes all rights, liabilities, duties and responsibilities of the Corporation regarding the acquisition, construction and installation of the 2012 Project. As agent of the Corporation hereunder, the City will enter into, administer and enforce all purchase orders or other contracts relating to the 2012 Project. Payment of 2012 Project Costs will be made by the City from amounts held by the Trustee in the 2012 Project Fund in accordance with the provisions of this Agreement and the Trust Agreement.

SECTION 3.5. Plans and Specifications. The City has the right to specify the exact scope, nature and identification of the 2012 Project and the respective components thereof. Before any payment is made for the 2012 Project or any component thereof from amounts on deposit in the 2012 Project Fund, the City must prepare detailed plans and specifications

relating thereto. The City may from time to time amend any such plans and specifications, and thereby change or modify the description of the 2012 Project or any component thereof.

SECTION 3.6. Certificate of Completion. Upon the completion of the 2012 Project, but in any event not later than 30 days following such completion, the City Representative must execute and deliver to the Corporation, the Certificate Insurer and the Trustee a written certificate of the City Representative which (a) states that the construction of the 2012 Project has been substantially completed, (b) identifies the total 2012 Project Costs thereof.

ARTICLE IV

SALE OF PROJECT; INSTALLMENT PAYMENTS

SECTION 4.1. Sale. The Corporation hereby sells the Project to the City, and the City hereby purchases the Project from the Corporation, upon the terms and conditions set forth in this Agreement.

SECTION 4.2. Term. The Term of this Agreement commences on the Closing Date, and ends on _____ 1, 20__, or such later or earlier date on which the Certificates cease to be Outstanding under the Trust Agreement. Notwithstanding the foregoing provisions of this Section 4.2, the Term of this Agreement will not end so long as any amounts are owed to the Certificate Insurer with respect to the Certificate Insurance Policy.

SECTION 4.3. Title. Title to the 1999 Project, and each component thereof, has been conveyed by the Corporation to and vested in the City. Title to the 2012 Project, and each component thereof, will be deemed conveyed by the Corporation to and vested in the City upon the completion of the acquisition, construction and installation thereof. The Corporation and the City will execute, deliver and cause to be recorded any and all documents reasonably required by the City to consummate such transfer of title.

SECTION 4.4. Installment Payments.

(a) Obligation to Pay. The City hereby agrees to pay to the Corporation, as the purchase price of the Project hereunder, the aggregate principal amount of $_____ together with interest (calculated on the basis of a 360-day year of twelve 30-day months) on the unpaid principal balance thereof, payable in semiannual Installment Payments in the respective amounts and on the respective Interest Payment Dates specified in Appendix A. On each Installment Payment Date, the City shall deposit with the Trustee, as assignee of the Corporation under the Trust Agreement, an amount which, together with amounts then held by the Trustee in the Installment Payment Fund, is equal to the full amount of such Installment Payment coming due and payable on the next Interest Payment Date. The Installment Payments shall be secured by and payable solely from the sources specified in Section 4.5.

[Notwithstanding anything herein or in the Trust Agreement to the contrary, amounts paid by the Certificate Insurer under the Certificate Insurance Policy do not relieve the City from its obligations hereunder to pay the Installment Payments when due.]

(b) Effect of Prepayment. If the City prepays all remaining Installment Payments in full under Section 7.2, the City's obligations under this Agreement will thereupon cease and terminate, including but not limited to the City's obligation to pay Installment Payments therefor under this Section 4.4; *provided, however,* that the City's obligations to compensate and indemnify the Trustee under Sections 4.8 and 5.2 will survive such prepayment. If the City prepays the Installment Payments in part but not in whole under Section 7.2, the principal component of each succeeding Installment Payment will be reduced as provided in such Sections, and the interest component of each remaining Installment Payment will be reduced by

the aggregate corresponding amount of interest which would otherwise be payable with respect to the Certificates thereby prepaid under Section 4.01(a) of the Trust Agreement.

(c) Rate on Overdue Payments. If the City fails to make any of the payments required in this Section 4.4 and Section 4.8, the payment in default will continue as an obligation of the City until fully paid, and the City shall pay the same with interest thereon, from the date of default to the date of payment, at the Overdue Rate.

(d) Assignment. The City understands and agrees that certain rights of the Corporation, including but not limited to the right of the Corporation to receive payment of the Installment Payments, have been assigned by the Corporation to the Trustee in trust under the Trust Agreement, for the benefit of the Certificate Insurer and the Owners of the Certificates, and the City hereby consents to such assignment. The Corporation hereby directs the City, and the City hereby agrees, to pay to the Trustee at its Trust Office, all payments payable by the City under this Section 4.4 and all amounts payable by the City under Article VII.

SECTION 4.5. Pledge and Application of Net Revenues.

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

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

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

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

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

All interest earnings and profits or losses on the investment of amounts in the Installment Payment Fund (described below) shall be deposited in or charged to the Installment Payment Fund and applied to the purposes thereof. No transfer and deposit need be made into the Installment Payment Fund if the amount contained therein,

taking into account investment earnings and profits, is at least equal to the Installment Payments to become due on the next Installment Payment Date .

(3) Reserve Fund. After making the payments, allocations and transfers described in subsections (1) and (2) above, if the balance in the Reserve Fund is less than the Reserve Requirement, the deficiency will be restored by transfers from the first moneys which become available in the Water Revenue Fund to the Trustee for deposit in the Reserve Fund in accordance with the Installment Sale Agreement; provided, however, that the Reserve Fund will be replenished in the following priority: (i) reimbursement to the Certificate Insurer for draws on the Surety Bond will be paid from first Net Revenues, and (ii) after all such amounts are paid in full, amounts necessary to fund the Reserve Fund to the Reserve Requirement, after taking into account any amounts available under the Surety Bond, shall be deposited from next Net Revenues.

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

(c) No Preference or Priority. Payment of the Installment Payments and the principal of and interest on any Parity Debt shall be made without preference or priority among the Installment Payments and such Parity Debt. If the amount of Net Revenues on deposit in the Water Revenue Fund are any time insufficient to enable the City to pay when due the Installment Payments and the principal of and interest on any Parity Debt, such payments shall be made on a pro rata basis.

(d) Other Uses of Net Revenues Permitted. The City will manage, conserve and apply the Net Revenues on deposit in the Water Revenue Fund in such a manner that all deposits required to be made under the preceding subsection (b) are made at the times and in the amounts so required. Subject to the foregoing sentence, so long as no Event of Default has occurred and is continuing hereunder, the City may use and apply moneys in the Water Revenue Fund for (i) the payment of any subordinate obligations or any unsecured obligations, (ii) the acquisition and construction of improvements to the Water System, (iii) the prepayment of any other obligations of the City relating to the Water System, or (iv) any other lawful purposes of the City.

(e) Budget and Appropriation of Installment Payments. During the Term of this Agreement, the City will adopt all necessary budgets and make all necessary appropriations of the Installment Payments from the Net Revenues. If any Installment Payment requires the adoption by the City of any supplemental budget or appropriation, the City will promptly adopt the same. The covenants on the part of the City contained in this subsection (e) are duties imposed by law and it is the duty of each and every public official of the City to take such actions and do such things as are required by law in the performance of the official duty of such officials to enable the City to carry out and perform the covenants and agreements in this subsection (e).

SECTION 4.6. Establishment of Rate Stabilization Fund. The City has the right (but not the obligation) at any time to establish a fund to be held by it and administered in

accordance with this Section 4.6, for the purpose of stabilizing the rates and charges imposed by the City with respect to the Water System. From time to time the City may deposit amounts in the Rate Stabilization Fund, from any source of legally available funds, including but not limited to Net Revenues which are released from the pledge and lien which secures the Installment Payments and any Parity Debt, as the City may determine.

The City may, but is not be required to, withdraw from any amounts on deposit in the Rate Stabilization Fund and deposit such amounts in the Water Revenue Fund in any Fiscal Year for the purpose of paying the Installment Payments or the principal of and interest on any Parity Debt coming due and payable in such Fiscal Year. Amounts so transferred from the Rate Stabilization Fund to the Water Revenue Fund will constitute Gross Revenues for such Fiscal Year (except as otherwise provided herein), and will be applied for the purposes of the Water Revenue Fund. Amounts on deposit in the Rate Stabilization Fund are not pledged to and do not secure the Installment Payments or any Parity Debt. All interest or other earnings on deposits in the Rate Stabilization Fund will be retained therein or, at the option of the City, be applied for any other lawful purposes. The City may at any time withdraw any or all amounts on deposit in the Rate Stabilization Fund and apply such amounts for any other lawful purposes of the City.

SECTION 4.7. Special Obligation of the City; Obligations Absolute. The City's obligation to pay the Installment Payments and any other amounts coming due and payable hereunder is a special obligation of the City limited solely to the Net Revenues. Under no circumstances is the City required to advance moneys derived from any source of income other than the Net Revenues and other sources specifically identified herein for the payment of the Installment Payments and such other amounts. No other funds or property of the City are liable for the payment of the Installment Payments and any other amounts coming due and payable hereunder.

The obligations of the City to make the Installment Payments from the Net Revenues and to perform and observe the other agreements contained herein are absolute and unconditional and are not subject to any defense or any right of set-off, counterclaim or recoupment arising out of any breach by the Corporation or the Trustee of any obligation to the City or otherwise with respect to the Water System, whether hereunder or otherwise, or out of indebtedness or liability at any time owing to the City by the Corporation or the Trustee. Until such time as all of the Installment Payments, all of the Additional Payments and all other amounts coming due and payable hereunder have been fully paid or prepaid, the City (a) will not suspend or discontinue payment of any Installment Payments, Additional Payments or such other amounts, (b) will perform and observe all other agreements contained in this Agreement, and (c) will not terminate this Agreement for any cause, including, without limiting the generality of the foregoing, the occurrence of any acts or circumstances that may constitute failure of consideration, eviction or constructive eviction, destruction of or damage to the Water System, failure to complete the acquisition and construction of the 2012 Project by the estimated completion date thereof, sale of the Water System, the taking by eminent domain of title to or temporary use of any component of the Water System, commercial frustration of purpose, any change in the tax or law other laws of the United States of America or the State of California or any political subdivision of either thereof or any failure of the Corporation or the Trustee to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with the Trust Agreement or this Agreement.

Nothing contained in this Section 4.7 releases the Corporation from the performance of any of the agreements on its part contained herein or in the Trust Agreement, and if the Corporation fails to perform any such agreements, the City may institute such action against the Corporation as the City deems necessary to compel performance so long as such action does not abrogate the obligations of the City contained in the preceding paragraph. The City may, however, at the City's own cost and expense and in the City's own name or in the name of the Corporation prosecute or defend any action or proceeding or take any other action involving third persons which the City deems reasonably necessary in order to secure or protect the City's rights hereunder, and in such event the Corporation hereby agrees to cooperate fully with the City and to take such action necessary to effect the substitution of the City for the Corporation in such action or proceeding if the City may request.

SECTION 4.8. Additional Payments. In addition to the Installment Payments, the City shall pay when due the following amounts to the following parties:

(a) to the Corporation, all costs and expenses incurred by the Corporation to comply with the provisions of this Agreement and the Trust Agreement; and

(b) to the Trustee upon request therefor, all of its costs and expenses payable as a result of the performance of and compliance with its duties hereunder or under the Trust Agreement or any related documents;

(c) to the Corporation and the Trustee, all amounts required to indemnify the Corporation and the Trustee under Section 5.2 hereof and Section 10.03 of the Trust Agreement; and

(d) all costs and expenses of auditors, engineers and accountants.

Subject to the provisions of Section 7.03 of the Trust Agreement, the Additional Payments are payable from, but are not secured by a pledge or lien upon, the Net Revenues. The rights of the Trustee and the Corporation under this Section 4.8, and the obligations of the City under this Section 4.8, survive the termination of this Agreement and with regard to the Trustee, the resignation or removal of the Trustee.

ARTICLE V

COVENANTS OF THE CITY

SECTION 5.1. Disclaimer of Warranties. The Trustee makes no warranty or representation, either express or implied, as to the value, design, condition, merchantability or fitness for any particular purpose or fitness for the use contemplated by the City of the Project or any component thereof, or any other representation or warranty with respect to any of the Project or any component thereof. The Corporation is not liable for incidental, indirect, special or consequential damages, in connection with or arising out of this Agreement or the Trust Agreement for the existence, furnishing, functioning or use of the Project.

SECTION 5.2. Release and Indemnification Covenants. The City agrees to indemnify the Corporation, the Trustee and the Certificate Insurer, and their respective officers, agents, successors and assigns, against all claims, losses and damages, including legal fees and expenses, arising out of (a) the use, maintenance, condition or management of, or from any work or thing done on or about the Water System by the City, (b) any breach or default on the part of the City in the performance of any of its obligations under this Agreement or the Trust Agreement, (c) any act or omission of the City or of any of its agents, contractors, servants, employees or licensees with respect to the Water System, and (d) any act or omission of any lessee of the City with respect to the Water System. No indemnification is made under this Section 5.2 or elsewhere in this Agreement for willful misconduct or negligence under this Agreement by the Corporation, the Trustee or the Certificate Insurer, or their respective officers, agents, employees, successors or assigns. The provisions of this Section 5.2 survive the expiration of the Term of this Agreement and the resignation or removal of the Trustee.

SECTION 5.3. Sale or Eminent Domain of Water System. Except as provided herein, the City covenants that the Water System shall not be encumbered, sold, leased, pledged, any charge placed thereon, or otherwise disposed of, as a whole or substantially as a whole if such encumbrance, sale, lease, pledge, charge or other disposition would materially impair the ability of the City to pay the Installment Payments or the principal of or interest on any Parity Debt, or would materially adversely affect its ability to comply with the terms of this Agreement or any Parity Bond Instrument. The City may not enter into any agreement which impairs the operation of the Water System or any part of it necessary to secure adequate Net Revenues to pay the Installment Payments or any Parity Debt, or which otherwise would impair the rights of the Certificate Owners or the Trustee with respect to the Net Revenues. If any substantial part of the Water System is sold, the payment therefor shall either (a) be used for the acquisition or construction of improvements and extensions or replacement facilities or (b) be applied on a pro rata basis to (i) prepay the Installment Payments on the next available prepayment date under Section 7.2, and (ii) prepay any Parity Debt in accordance with the related Parity Bond Instrument.

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

Section 7.2, and (ii) prepay any Parity Debt in accordance with the related Parity Bond Instrument.

SECTION 5.4. Insurance. The City shall at all times maintain with responsible insurers all such insurance on the Water System as is customarily maintained with respect to works and properties of like character against accident to, loss of or damage to the Water System. All amounts collected from insurance against accident to or destruction of any portion of the Water System shall be used, at the option of the City, either (a) to repair or rebuild such damaged or destroyed portion of the Water System, or (b) to prepay on a pro rata basis (i) the Installment Payments on the next available prepayment date under Section 7.2, and (ii) any Parity Debt in accordance with the related Parity Bond Instrument.

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

Any policy of insurance required under this Section 5.4 may be maintained as part of or in conjunction with any other insurance coverage carried by the City, and may be maintained in whole or in part in the form of self-insurance by the City or in the form of the participation by the City in a joint powers agency or other program providing pooled insurance.

SECTION 5.5. Records and Accounts. The City will keep proper books of record and accounts of the Water System in which complete and correct entries shall be made of all transactions relating to the Water System. Said books shall, upon prior request, be subject to the reasonable inspection of the Certificate Insurer and the Owners of not less than 10% of the Outstanding Certificates, or their representatives authorized in writing, upon not less than 2 Business Days' prior notice to the City.

The City will cause the books and accounts of the Water System to be audited annually by an Independent Accountant not more than 9 months after the close of each Fiscal Year, and shall make a copy of such report available for inspection by the Certificate Insurer and the Certificate Owners at the office of the City and at the Trust Office of the Trustee. Such report may be part of a combined financial audit or report covering all or part of the City's finances.

SECTION 5.6. Rates and Charges.

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

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

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

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

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

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

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

SECTION 5.7. Superior and Subordinate Obligations. The City may not issue or incur any additional bonds or other obligations during the Term of this Agreement having any priority in payment of principal or interest out of the Gross Revenues or the Net Revenues over the Installment Payments. Nothing herein limits or affects the ability of the City to issue or incur (a) Parity Debt under Section 5.8, or (b) obligations which are either unsecured or which are secured by an interest in the Net Revenues which is junior and subordinate to the pledge of and lien upon the Net Revenues established hereunder.

SECTION 5.8. Issuance of Parity Debt. In addition to the 2003 Certificates and this Installment Sale Agreement, the City may, by Parity Debt Instrument, issue or incur other loans, advances or indebtedness payable from Net Revenues, to provide financing for the Water System, in such principal amount as shall be determined by the City. The City may issue or incur any such Parity Debt subject to the following specific conditions which are hereby made conditions precedent to the issuance and delivery of such Parity Debt:

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

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

System. The items any or all of which may be added to such Net Revenues for the purpose of issuing or incurring Parity Debt hereunder are the following:

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

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

(c) The Parity Debt Instrument providing for the issuance of such Parity Debt under this Section 5.8 shall provide that the proceeds of such Parity Debt shall be applied to the acquisition, construction, improvement, financing or refinancing of additional facilities, improvements or extensions of existing facilities within the Water System, or otherwise for facilities, improvements or property which the City determines are of benefit to the Water System, or for the purpose of refunding any Water Revenue Obligations in whole or in part, including all costs (including costs of issuing such Parity Debt and including capitalized interest on such Parity Debt during any period which the City deems necessary or advisable) relating thereto;

SECTION 5.9. Governmental Loans. The City may borrow money from a Governmental Agency and incur a Governmental Loan to finance improvements to the Water System. A Governmental Loan may be treated as Parity Debt for purposes of this Installment Sale Agreement, so long as the City complies with Section 5.8 of this Installment Sale Agreement before incurring said Governmental Loan.

SECTION 5.10. Operation of Water System in Efficient and Economical Manner. The City covenants and agrees to operate the Water System in an efficient and economical manner and to operate, maintain and preserve the Water System in good repair and working order.

SECTION 5.11. Compliance with Financing Documents. The City will observe and perform all of the obligations imposed on it under this Agreement and under any Parity Bond Instrument. The City shall not take any action which constitutes an event of default under and

as defined hereunder or under any Parity Bond Instrument, and shall not take any action which, if not cured, with the passage of time would constitute an event of default under and as defined hereunder or in any Parity Bond Instrument.

SECTION 5.12. Assignment and Amendment Hereof. This Agreement may not be assigned by the City in whole or in part. This Agreement may be amended by the City and the Corporation, but only (a) for the purpose of providing for the issuance of any Parity Debt under and in accordance with Section 5.8, or (b) otherwise under the circumstances and to the extent permitted under Sections 8.01 or 8.02 of the Trust Agreement.

ARTICLE VI

EVENTS OF DEFAULT

SECTION 6.1. Events of Default Defined. The following are Events of Default:

(a) Failure by the City to pay any Installment Payment when due and payable hereunder.

(b) Failure by the City to pay any Additional Payment when due and payable hereunder, and the continuation of such failure for a period of 30 days.

(c) Failure by the City to observe and perform any covenant, condition or agreement on its part to be observed or performed, other than as referred to in the preceding clauses (a) or (b), for a period of 60 days after written notice specifying such failure and requesting that it be remedied has been given to the City by the Corporation, the Certificate Insurer or the Trustee; *provided, however,* that if the City notifies the Corporation and the Trustee that in its reasonable opinion the failure stated in the notice can be corrected, but not within such 60-day period, such failure will not constitute an event of default hereunder if the City commences to cure such failure within such 60 day period and thereafter diligently and in good faith cures the failure in a reasonable period of time.

(d) The filing by the City of a voluntary petition in bankruptcy, or failure by the City promptly to lift any execution, garnishment or attachment, or adjudication of the City as a bankrupt, or assignment by the City for the benefit of creditors, or the entry by the City into an agreement of composition with creditors, or the approval by a court of competent jurisdiction of a petition applicable to the City in any proceedings instituted under the provisions of the Federal Bankruptcy Code, as amended, or under any similar acts which may hereafter be enacted.

(e) The occurrence of any event defined to be an event of default under any Parity Bond Instrument.

For purposes of determining whether any Event of Default has occurred under and as described in the preceding clause (a), no effect will be given to payments made by the Certificate Insurer under the Certificate Insurance Policy.

SECTION 6.2. Remedies on Default. Whenever any Event of Default has occurred and is continuing, the Trustee as assignee of the Corporation has the right, at its option and without any further demand or notice, to take any one or more of the following actions:

(a) Declare all principal components of the unpaid Installment Payments, together with accrued interest thereon at the Overdue Rate from the immediately preceding Interest Payment Date on which payment was made, to be immediately due and payable, whereupon the same shall immediately become due and payable. Notwithstanding the foregoing provisions of this subsection (a), however, if, at any time after the principal components of the unpaid Installment Payments have been so

declared due and payable under this subsection (a), and before any judgment or decree for the payment of the moneys due has been obtained or entered, the City deposits with the Trustee a sum sufficient to pay all principal components of the Installment Payments coming due prior to such declaration and all matured interest components (if any) of the Installment Payments, with interest on such overdue principal and interest components calculated at the Overdue Rate, and the reasonable expenses of the Trustee (including any fees and expenses of its attorneys), and any and all other defaults known to the Trustee (other than in the payment of the principal and interest components of the Installment Payments due and payable solely by reason of such declaration) have been made good, then, and in every such case, the Trustee will rescind and annul such declaration and its consequences. However, no such rescission and annulment extends to or affects any subsequent default, or impairs or exhausts any right or power consequent thereon. As provided in Section 6.6, the Trustee is required to exercise the remedies provided herein in accordance with the Trust Agreement.

(b) Take whatever action at law or in equity may appear necessary or desirable to collect the Installment Payments then due or thereafter to become due during the Term of this Agreement, or enforce performance and observance of any obligation, agreement or covenant of the City under this Agreement.

(c) As a matter of right, in connection with the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Trustee and the Certificate Owners hereunder, cause the appointment of a receiver or receivers of the Gross Revenues and other amounts pledged hereunder, with such powers as the court making such appointment may confer.

SECTION 6.3. No Remedy Exclusive. No remedy herein conferred upon or reserved to the Corporation is intended to be exclusive and every such remedy will be cumulative and in addition to every other remedy given under this Agreement or now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon any default impairs any such right or power or will be construed to be a waiver thereof. Each right and power may be exercised from time to time and as often as the Trustee deems expedient. In order to entitle the Corporation to exercise any remedy reserved to it in this Article VI, it is not necessary to give any notice, other than such notice as may be required in this Article VI or by law.

SECTION 6.4. Agreement to Pay Attorneys' Fees and Expenses. If either party to this Agreement defaults under any of the provisions hereof and the nondefaulting party, the Trustee or the Owner of any Certificates employs attorneys or incurs other expenses for the collection of moneys or the enforcement or performance or observance of any obligation or agreement on the part of the defaulting party herein contained, the defaulting party agrees that it will on demand therefor pay to the nondefaulting party, the Trustee or such Owner, as the case may be, the reasonable fees of such attorneys and such other expenses so incurred. The provisions of this Section 6.4 survive the expiration of the Term of this Agreement.

SECTION 6.5. No Additional Waiver Implied by One Waiver. If any agreement herein is breached by either party and is thereafter waived by the other party, such waiver is limited to the particular breach so waived and does not waive any other breach.

SECTION 6.6. Trustee, the Certificate Insurer and Certificate Owners to Exercise Rights. Such rights and remedies as are given to the Corporation under this Article VI have been assigned by the Corporation to the Trustee under the Trust Agreement, to which assignment the City hereby consents. The Trustee, the Certificate Insurer and the Owners of the Certificates will exercise such rights and remedies as provided in the Trust Agreement.

ARTICLE VII
PREPAYMENT OF INSTALLMENT PAYMENTS

SECTION 7.1. Security Deposit. Notwithstanding any other provision hereof, the City may on any date secure the payment of Installment Payments, in whole or in part, by irrevocably depositing with the Trustee an amount of cash which, together with other available amounts, is either (a) sufficient to pay all such Installment Payments, including the principal and interest components thereof, when due under Section 4.4(a), or (b) invested in whole or in part in non-callable Federal Securities in such amount as will, in the opinion of an Independent Accountant (which opinion is addressed and delivered to the Trustee and the Certificate Insurer), together with interest to accrue thereon and together with any cash which is so deposited, be fully sufficient to pay all such Installment Payments when due under Section 4.4(a) or when due on any optional prepayment date under Section 7.2, as the City instructs at the time of said deposit.

If the City posts a security deposit under this Section for the payment of all remaining Installment Payments, all obligations of the City hereunder, and the pledge of Net Revenues and all other security provided by this Agreement for said obligations, will cease and terminate, excepting only the obligation of the City to make, or cause to be made, all Installment Payments from such security deposit. Said security deposit constitutes a special fund for the payment of such Installment Payments in accordance with the provisions hereof.

Payments made by the Certificate Insurer under the Certificate Insurance Policy will not be considered in determining whether the City has paid and discharged any or all of the Installment Payments under the preceding provisions of this Section 7.1.

SECTION 7.2. Optional Prepayment. The City may exercise its option to prepay the principal components of the Installment Payments in whole or in part on any date on which the Certificates are subject to optional prepayment under Section 4.01(a) of the Trust Agreement. Such option shall be exercised by payment of a prepayment price equal to the sum of (a) the aggregate principal components of the Installment Payments to be prepaid, (b) the interest component of the Installment Payment required to be paid on or accrued to such date, and (c) the premium (if any) then required to be paid upon the corresponding prepayment of the Certificates under Section 4.01(a) of the Trust Agreement. The Trustee will deposit such prepayment price in the Installment Payment Fund to be applied to the prepayment of Certificates under Section 4.01(a) of the Trust Agreement. If the City prepays the Installment Payments in part but not in whole, the principal components will be prepaid among such maturities and in such integral multiples of $5,000 as the City designates in written notice to the Trustee.

SECTION 7.3. Credit for Amounts on Deposit. If the City prepays the Installment Payments in full under this Article VII, such that the Trust Agreement is discharged by its terms, and upon payment in full of all Additional Payments and other amounts then due and payable hereunder, all available amounts then on deposit in the funds and accounts established under the Trust Agreement will be credited towards the amounts then required to be so prepaid.

ARTICLE VIII

MISCELLANEOUS

SECTION 8.1. Further Assurances. The City will execute and deliver any and all such further agreements, instruments, financing statements or other assurances as may be reasonably necessary or requested by the Corporation, the Certificate Insurer or the Trustee to carry out the intention or to facilitate the performance of this Agreement, including, without limitation, to perfect and continue the security interests herein intended to be created.

SECTION 8.2. Notices. Any notice, request, complaint, demand or other communication under this Agreement must be given by first class mail or personal delivery to the party entitled thereto at its address set forth below, or by telecopier or other form of telecommunication, at its number set forth below. Notice is effective either (a) upon transmission by fax or other form of telecommunication, (b) upon actual receipt after deposit in the United States of America mail, postage prepaid, or (c) in the case of personal delivery to any person, upon actual receipt. The Corporation, the City, the Trustee or the Certificate Insurer may, by written notice to the other parties, from time to time modify the address or number to which communications are to be given hereunder.

If to the City or the Corporation:	City of Martinez 525 Henrietta Street Martinez, CA 94533 Attention: Finance Manager Fax: (925) _____
If to the Trustee:	U.S. Bank National Association One California Street, Suite 1000 San Francisco, California 94111 Attention: Corporate Trust Administration Fax: (415) 273-4590

[If to the Certificate Insurer:]

The City shall give the Certificate Insurer a copy of any notice required to be delivered hereunder to Certificate Owners at the address set forth in this Section 8.2.

SECTION 8.3. Governing Law. This Agreement is construed in accordance with and governed by the laws of the State of California.

SECTION 8.4. Binding Effect. This Agreement inures to the benefit of and is binding on the Corporation, the City, the Certificate Insurer and their respective successors and assigns, subject to the limitations contained herein.

SECTION 8.5. Severability of Invalid Provisions. If any one or more of the provisions contained in this Agreement is for any reason held invalid, illegal or unenforceable in any respect, then such provision or provisions will be deemed severable from the remaining provisions contained in this Agreement and such invalidity, illegality or unenforceability will

not affect any other provision of this Agreement, and this Agreement will be construed as if such invalid or illegal or unenforceable provision had never been contained herein. The Corporation and the City each hereby declares that it would have entered into this Agreement and each and every other Section, paragraph, sentence, clause or phrase hereof irrespective of the fact that any one or more Sections, paragraphs, sentences, clauses or phrases of this Agreement may be held illegal, invalid or unenforceable.

SECTION 8.6. Article and Section Headings and References. The headings or titles of the several Articles and Sections hereof, and any table of contents appended to copies hereof, are solely for convenience of reference and do not affect the meaning, construction or effect of this Agreement. All references herein to "Articles," "Sections" and other subdivisions are to the corresponding Articles, Sections or subdivisions of this Agreement; the words "herein," "hereof," "hereby," "hereunder" and other words of similar import refer to this Agreement as a whole and not to any particular Article, Section or subdivision hereof; and words of the masculine gender shall mean and include words of the feminine and neuter genders.

SECTION 8.7. Payment on Non-Business Days. Whenever any payment is required to be made hereunder on a day which is not a Business Day, such payment will be made on the immediate following Business Day.

SECTION 8.8. Execution of Counterparts. This Agreement may be executed in any number of counterparts, each of which is an original and all of which together constitute one and the same instrument.

SECTION 8.9. Waiver of Personal Liability. No member of the City Council, officer, agent or employee of the City has any individual or personal liability for the payment of Installment Payments or Additional Payments or be subject to any personal liability or accountability by reason of this Agreement. Nothing herein relieves any such member of the City Council, officer, agent or employee from the performance of any official duty provided by law or by this Agreement.

SECTION 8.10. Trustee and the Certificate Insurer as Third Party Beneficiaries. The Trustee and the Certificate Insurer are hereby made a third party beneficiaries hereof and shall be entitled to the benefits of this Agreement with the same force and effect as if the Trustee and the Certificate Insurer were a party hereto.

IN WITNESS WHEREOF, the Corporation and the City have caused this Agreement to be executed in their respective names by their duly authorized officers, all as of the date first above written.

MARTINEZ PUBLIC IMPROVEMENT CORPORATION, *as Seller*

By _____

CITY OF MARTINEZ, *as Purchaser*

By _____
City Manager

APPENDIX A

SCHEDULE OF INSTALLMENT PAYMENTS

Installment Payment Date	Principal Component	Interest Component	Total Payment

APPENDIX B

DESCRIPTION OF 1999 PROJECT AND THE 2012 PROJECT

The 1999 Project

Expansion of Filtration Capacity

The Martinez Water Treatment Plant consists of two treatment units. The older unit, a 5-story partially underground facility that was built in 1948 discontinued operations in 1971 when the newer unit was commissioned. The old unit currently houses plant offices, laboratory, storage facilities and pumps. While maximum available standby pumping capacity is approximately 16 MGD, plant output is limited by a filtration capacity of 10.5 MGD in the newer unit. The majority of plant operation and distribution systems are monitored and controller by a SCADA System located in the ozone generator building.

To meet projected demand, the City determined that filtration capacity, and thereby plant output, must be expanded by approximately 3.5 MGD. A 1999 study confirmed that this can be accomplished by renovating filters in the older treatment unit and placing them back in operation in parallel with filters in the operating newer unit. Plant modifications to implement this included the following:

(i) Conveyance of filter influent from the newer unit to filter beds in the older unit.

(ii) Corrective measures to the under drain systems of the older unit.

(iii) Retrofit and upgrade of instrumentation and filter control of the older unit.

(iv) Provision of new filter surface wash, and filter to waste systems.

(v) Modifications to filter boxes at one or both units to prevent overflow.

Thomas Hill Reservoir and Hillside Pump Station

The Thomas Hill/Hillside Reservoir and Water main project provides reliable water supply and improves fire flows in the northwestern area of the City of Martinez. The project involved the replacement of the Thomas Hill reservoir and the Hillside reservoir with two, new, steel tanks, replacement of the Hillside Pumping Station and installation of new water mains to serve the reservoirs and construction of an access road to the Thomas Hill reservoir.

The Hillside reservoir is 41-feet in diameter, 24-feet side water depth, with a capacity of 0.2 mg. The then existing Hillside reservoir was removed. A 12-inch water main approximately 1,025 feet in length was installed to serve the reservoir and provide required fire flows. The new 12-inch water main ties into a 6-inch water main at the intersection of Panoramic Drive and

Arabian Heights Drive. The water main continues southwest in Arabian Heights Drive up the reservoir access road and tie into the reservoir valve vault.

The new Thomas Hill reservoir has a 102-foot diameter, 24-foot side water depth, with a capacity of 1.35 mg. The then existing Thomas Hill reservoir was removed. A new 14-inch water main approximately 1,725 feet in length was installed in City streets to serve the new reservoir. The water main ties into a 14-inch water main in Richardson Street then continues to Warren Street. At Warren Street the access road and water main follow Prospect Avenue for approximately 200 feet before continuing north along unimproved Park Street. Park Street loops back into West Park Street (which is also unimproved) from where a new access road is constructed up the hill to the southwest side of the new reservoir. The water main follows the access road and ties into the reservoir valve vault.

The project also involved converting the existing 14-inch water main serving the Thomas Hill reservoir into an overflow pipe. The overflow pipe was connected to the City's storm drain system by installing approximately 530 feet of 14- and 18-inch storm drain in Jones Street.

The 2012 Project

A portion of the proceeds of the Certificates will be used to finance the acquisition and construction of certain improvements to the Water System, as follows:

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

TRUST AGREEMENT

Dated as of January 1, 2012

among

U.S. BANK NATIONAL ASSOCIATION
as Trustee

MARTINEZ PUBLIC IMPROVEMENT CORPORATION,

and the

CITY OF MARTINEZ

Relating to

$[Principal Amount]
2012 Certificates of Participation
(City of Martinez Water Refunding and Improvement Project)

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TRUST AGREEMENT

This TRUST AGREEMENT, dated as of January 1, 2012, is among U.S. BANK NATIONAL ASSOCIATION, a national banking association organized and existing under the laws of the United States of America, as trustee (the "Trustee"), the MARTINEZ PUBLIC IMPROVEMENT CORPORATION, a nonprofit public benefit corporation organized and existing under the laws of the State of California (the "Corporation"), and the CITY OF MARTINEZ, a general law city and municipal corporation duly organized and existing under and by virtue of the laws of the State of California (the "City").

B A C K G R O U N D :

1. The City presently owns and operates facilities and property for the transportation, treatment and distribution of water for the residential, commercial and industrial consumers of water in the City (the "Water System"), and the City wishes to provide funds at this time to: (i) refund Certificates of Participation executed and delivered in the principal amount of $6,040,000 on August 17, 1999 (the "1999 Certificates"), the proceeds of which were applied to finance improvements to the Water System (the "1999 Project"); and (ii) finance various capital improvements (the "2012 Project") to the Water System, as more particularly described in the Installment Sale Agreement (as defined below).

2. The Corporation has been formed for the purpose of assisting the City in the financing of facilities and property useful to the City, and the Corporation has entered into an Installment Sale Agreement (the "Installment Sale Agreement") dated as of January 1, 2012, with the City under which the Corporation has agreed to acquire and construct the 2012 Project and sell the 1999 Project and the 2012 Project (together, the "Project") to the City in consideration of the agreement by the City to pay the purchase price of the Project in semiannual installments (the "Installment Payments").

3. For the purpose of obtaining the moneys required to refund the 1999 Certificates and finance the 2012 Project in accordance with the terms hereof and of the Installment Sale Agreement, the Corporation wishes to assign and transfer certain of its rights under the Installment Sale Agreement to the Trustee, and at the written direction of the Corporation the Trustee will execute and deliver 2012 Certificates of Participation (City of Martinez Water Refunding and Improvement Project) in the aggregate principal amount of $[_____], evidencing direct, undivided fractional interests in the Installment Payments.

4. The City has previously caused the execution and delivery of its $7,795,000 Certificates of Participation (2003 Refinancing Project) (the "2003 Certificates") under a Trust Agreement, dated as of March 1, 2003 between the City, the Corporation and the Trustee, evidencing the right to receive installment payments (the "2003 Installment Payments") payable by the City under an Installment Sale Agreement, dated as of March 1, 2003, between the City and the Corporation (the "2003 Installment Sale Agreement").

5. The Installment Sale Agreement will be executed and delivered on a parity with the 2003 Certificates and the 2003 Installment Payments.

A G R E E M E N T :

In consideration of the foregoing and the material covenants hereinafter contained, the City, the Corporation and the Trustee formally covenant, agree and bind themselves as follows:

ARTICLE I

DEFINITIONS

SECTION 1.01. Definitions. Unless the context clearly otherwise requires or unless otherwise defined herein, the capitalized terms defined in Appendix A attached to this Trust Agreement have the respective meanings specified in that Appendix when used in this Trust Agreement.

SECTION 1.02. Authorization. Each of the parties hereby represents and warrants that it has full legal authority and is duly empowered to enter into this Trust Agreement, and has taken all actions necessary to authorize the execution hereof by the officers and persons signing it.

SECTION 1.03. Interpretation.

(a) Unless the context otherwise indicates, words expressed in the singular include the plural and vice versa and the use of the neuter, masculine, or feminine gender is for convenience only and includes the neuter, masculine or feminine gender, as appropriate.

(b) Headings of articles and sections herein and the table of contents hereof are solely for convenience of reference, do not constitute a part hereof and do not affect the meaning, construction or effect hereof.

(c) All references herein to "Articles," "Sections" and other subdivisions are to the corresponding Articles, Sections or subdivisions of this Trust Agreement; the words "herein," "hereof," "hereby," "hereunder" and other words of similar import refer to this Trust Agreement as a whole and not to any particular Article, Section or subdivision hereof.

ARTICLE II

THE CERTIFICATES OF PARTICIPATION

SECTION 2.01. Authorization. The Trustee is hereby authorized and directed upon written request from the Corporation to register, execute and deliver, to the Original Purchaser Certificates in an aggregate principal amount of $[Principal Amount], which represent the direct, undivided fractional ownership interests of the Owners thereof in the Installment Payments.

SECTION 2.02. Date. Each Certificate will be dated as of the Closing Date. Interest represented by the Certificates is payable from the Interest Payment Date next preceding the date of execution thereof, unless:

(a) it is executed after a Record Date and on or before the following Interest Payment Date, in which event interest represented thereby is payable from such Interest Payment Date; or

(b) it is executed on or before the first Record Date, in which event interest represented thereby is payable from the Closing Date; or

(c) interest represented by such Certificate is in default as of the date of its execution, in which event interest represented thereby is payable from the Interest Payment Date to which interest represented thereby has previously been paid or made available for payment.

SECTION 2.03. Terms of Certificates.

Principal represented by the Certificates is payable on December 1 in each of the respective years and in the respective amounts, and interest represented thereby will be computed at the respective rates, as follows:

Maturity Date (December 1)	Principal Amount	Interest Rate

SECTION 2.04. Fully Registered Form; Interest. The Certificates will be delivered in the form of fully registered Certificates without coupons in the authorized denominations of $5,000 or any integral multiple thereof, except that no Certificate shall represent principal payable in more than one year. The Certificates will be assigned such alphabetical and numerical designation as the Trustee deems appropriate.

Interest represented by the Certificates is payable on each Interest Payment Date to and including the date of maturity or prepayment, whichever is earlier, as provided in Section 2.09. Said interest shall represent the portion of Installment Payments designated as interest and coming due on each of the respective Interest Payment Dates. The share of the portion of Installment Payments designated as interest with respect to any Current Interest Certificate will be computed by multiplying the portion of Installment Payments designated as principal represented by such Certificate by the rate of interest represented by such Certificate (on the basis of a 360-day year of twelve 30-day months).

SECTION 2.05. Book Entry System.

(a) Original Delivery. The Certificates will be initially delivered in the form of a separate single fully registered Certificate (which may be typewritten) for each maturity of the Certificates. Upon initial delivery, the ownership of each such Certificate will be registered on the Registration Books in the name of the Nominee. Except as provided in subsection (c), the ownership of all of the Outstanding Certificates will be registered in the name of the Nominee on the Registration Books.

With respect to Certificates the ownership of which is registered in the name of the Nominee, the City and the Trustee have no responsibility or obligation to any Depository System Participant or to any person on behalf of which the City holds an interest in the Certificates. Without limiting the generality of the immediately preceding sentence, the City and the Trustee have no responsibility or obligation with respect to (i) the accuracy of the records of the Depository, the Nominee or any Depository System Participant with respect to any ownership interest in the Certificates, (ii) the delivery to any Depository System Participant or any other person, other than a Certificate Owner as shown in the Registration Books, of any notice with respect to the Certificates, including any notice of prepayment, (iii) the selection by the Depository of the beneficial interests in the Certificates to be prepaid in the event the City elects to prepay the Certificates in part, (iv) the payment to any Depository System Participant or any other person, other than a Certificate Owner as shown in the Registration Books, of any amount with respect to principal, premium, if any, or interest represented by the Certificates or (v) any consent given or other action taken by the Depository as Owner of the Certificates. The City and the Trustee may treat and consider the person in whose name each Certificate is registered as the absolute owner of such Certificate for the purpose of payment of principal, premium, if any, and interest represented by such Certificate, for the purpose of giving notices of prepayment and other matters with respect to such Certificate, for the purpose of registering transfers of ownership of such Certificate, and for all other purposes whatsoever. The Trustee will pay the principal, interest and premium, if any, represented by the Certificates only to the respective Owners or their respective attorneys duly authorized in writing, and all such payments will be valid and effective to fully satisfy and discharge all obligations with respect to payment of principal, interest and premium, if any, represented by the Certificates to the extent of the sum or sums so paid. No person other than a Certificate Owner will receive a Certificate evidencing the obligation of the City to make payments of principal, interest and premium, if any, under this Trust Agreement. Upon delivery by the Depository to the Nominee of written notice to the effect that the Depository has determined to substitute a new Nominee in its place, such new nominee will become the Nominee hereunder for all purposes; and upon receipt of such a notice the City will promptly deliver a copy of the same to the Trustee.

(b) Representation Letter. In order to qualify the Certificates for the Depository's book-entry system, the City and the Trustee will execute and deliver to such Depository a letter representing such matters as necessary to so qualify the Certificates. The execution and delivery of such letter does not limit the provisions of subsection (a) above or impose on the City or the Trustee any obligation whatsoever with respect to persons having interests in the Certificates other than the Certificate Owners. Upon the written acceptance by the Trustee, the Trustee will agree to take all action reasonably necessary for all representations of the City in such letter with respect to the Trustee to at all times be complied with. In addition to the execution and delivery of such letter, the City may take any other actions, not inconsistent with this Trust Agreement, to qualify the Certificates for the Depository's book-entry program.

(c) Transfers Outside Book-Entry System. If either (i) the Depository determines not to continue to act as Depository for the Certificates, or (ii) the City determines to terminate the Depository as such, then the City shall thereupon discontinue the book-entry system with such Depository. In such event, the Depository will cooperate with the City and the Trustee in the delivery of replacement Certificates by providing the Trustee with a list showing the interests of the Depository System Participants in the Certificates, and by surrendering the Certificates, registered in the name of the Nominee, to the Trustee on or before the date such replacement Certificates are to be executed and delivered. The Depository, by accepting delivery of the Certificates, agrees to be bound by the provisions of this subsection (c). If, prior to the termination of the Depository acting as such, the City fails to identify another Securities Depository to replace the Depository, then the Certificates will no longer be required to be registered in the Registration Books in the name of the Nominee, but will be registered in whatever name or names the Owners transferring or exchanging Certificates shall designate, in accordance with the provisions hereof.

If the City determines that it is in the best interests of the beneficial owners of the Certificates that they be able to obtain certificated Certificates, the City may notify the Depository System Participants of the availability of such certificated Certificates through the Depository. In that event, the Trustee will execute, transfer and exchange Certificates as required by the Depository and others in appropriate amounts; and whenever the Depository requests, the Trustee and the City shall cooperate with the Depository in taking appropriate action (i) to make available one or more separate certificates evidencing the Certificates to any Depository System Participant having Certificates credited to its account with the Depository, or (ii) to arrange for another Securities Depository to maintain custody of a single certificate evidencing such Certificates, all at the City's expense.

(d) Payments to the Nominee. Notwithstanding any other provision of this Trust Agreement to the contrary, so long as any Certificate is registered in the name of the Nominee, all payments with respect to principal, interest and premium, if any, represented by such Certificate and all notices with respect to such Certificate will be made and given, respectively, as provided in the letter described in subsection (b) of this Section or as otherwise instructed by the Depository.

SECTION 2.06. Form and Execution of Certificates. The Certificates will be delivered substantially in the form set forth in Appendix B attached hereto, and will be executed by and in the name of the Trustee by the manual signature of an authorized signatory of the Trustee. If any person whose signature appears on any Certificate ceases to be an authorized signatory

before the date of delivery of said Certificate, such signature shall nevertheless be as effective as if such person had remained an authorized signatory until such date.

SECTION 2.07. Transfer and Exchange.

(a) Transfer of Certificates. The registration of any Certificate may, in accordance with its terms, be transferred upon the Registration Books by the person in whose name it is registered, in person or by a duly authorized attorney, upon surrender of such Certificate for cancellation at the Trust Office of the Trustee, accompanied by delivery of a written instrument of transfer in a form acceptable to the Trustee, duly executed. Whenever any Certificate is surrendered for registration of transfer, the Trustee will execute and deliver a new Certificate or Certificates representing the same maturity, interest rate and aggregate principal amount in any authorized denominations. The City will pay all costs of the Trustee incurred in connection with any such transfer, except that the Trustee may require the payment by the Certificate Owner of any tax or other governmental charge required to be paid with respect to such transfer.

(b) Exchange of Certificates. Certificates may be exchanged at the Trust Office of the Trustee, for a like aggregate principal amount of Certificates representing other authorized denominations of the same interest rate and maturity. The City will pay all costs of the Trustee incurred in connection with any such exchange, except that the Trustee may require the payment by the Certificate Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange.

(c) Limitations on Transfer or Exchange. The Trustee may refuse to transfer or exchange either (i) any Certificate during the period established by the Trustee for the selection of Certificates for prepayment, or (ii) the portion of any Certificate which the Trustee has selected for prepayment under the provisions of Section 4.02.

SECTION 2.08. Certificates Mutilated, Lost, Destroyed or Stolen. If any Certificate is mutilated, the Trustee, at the expense of the Owner of such Certificate, will execute and deliver a new Certificate of like principal amount, interest rate and maturity in replacement for the Certificate so mutilated, on surrender to the Trustee of the Certificate so mutilated. The Trustee will cancel and destroy every mutilated Certificate surrendered to it and, upon request of the City, will deliver a certificate of destruction to the City. If any Certificate is lost, destroyed or stolen, evidence of such loss, destruction or theft must be submitted to the Trustee, and, if such evidence is satisfactory to the Trustee and the City and if an indemnity is given satisfactory to the Trustee and the City, the Trustee, at the expense of the Certificate Owner, will execute and deliver a new Certificate of like principal amount, interest rate and maturity and numbered as the Trustee shall determine in lieu of and in replacement for the Certificate so lost, destroyed or stolen. The Trustee may require payment of an appropriate fee for each replacement Certificate delivered under this Section 2.08 and of the expenses which may be incurred by the Trustee in carrying out the duties under this Section 2.08. Any Certificate delivered under the provisions of this Section 2.08 in lieu of any Certificate alleged to be lost, destroyed or stolen is equally entitled to the benefits of this Trust Agreement with all other Certificates secured by this Trust Agreement. The Trustee is not required to treat both the original Certificate and any replacement Certificate as being Outstanding for the purpose of determining the principal amount of Certificates which may be executed and delivered hereunder or for the purpose of

determining any percentage of Certificates Outstanding hereunder, but both the original and replacement Certificate will be treated as one and the same. Notwithstanding any other provision of this Section 2.08, in lieu of delivering a replacement for a Certificate which has been mutilated, lost, destroyed or stolen, and which has matured, the Trustee may make payment with respect to such Certificate upon receipt of indemnity satisfactory to the Trustee and the City.

SECTION 2.09. Payment. The Trustee will pay interest represented by any Certificate on any Interest Payment Date, to the person appearing on the Registration Books as the Owner thereof as of the close of business on the Record Date immediately preceding such Interest Payment Date or maturity date, as applicable, by check mailed on the applicable Interest Payment Date to such Owner by first class mail postage prepaid at such Owner's address as it appears on the Registration Books. However, at the written request of the Owner of Certificates in an aggregate principal amount or Denominational Amount of at least $1,000,000, which written request is on file with the Trustee as of the Record Date preceding any Interest Payment Date, the Trustee will pay interest represented by such Certificates coming due on such Interest Payment Date or maturity date, as applicable, by wire transfer in immediately available funds to such account in the United States as specified in such written request. The principal and prepayment price represented by any Certificate at maturity or upon prior prepayment is payable in lawful money of the United States of America upon surrender of such Certificate at the Trust Office of the Trustee.

SECTION 2.10. Execution of Documents and Proof of Ownership. Any request, direction, consent, revocation of consent, or other instrument in writing required or permitted by this Trust Agreement to be signed or executed by Certificate Owners may be in any number of concurrent instruments of similar tenor, and may be signed or executed by such Owners in person or by their attorneys or agents appointed by an instrument in writing for that purpose, or by any bank, trust company or other depository for such Certificates. Proof of the execution of any such instrument, or of any instrument appointing any such attorney or agent, and of the ownership of Certificates shall be sufficient for any purpose of this Trust Agreement (except as otherwise herein provided), if made in the following manner:

(a) The fact and date of the execution by any Owner, attorney or agent of any such instrument and of any instrument appointing any such attorney or agent, may be proved by a certificate, which need not be acknowledged or verified, of an officer of any bank or trust company located within the United States of America, or of any notary public, or other officer authorized to take acknowledgments of deeds to be recorded in such jurisdictions, that the persons signing such instruments acknowledged before him the execution thereof. If any such instrument is executed by an officer of a corporation or association or a member of a partnership on behalf of such corporation, association or partnership, such certificate also constitutes sufficient proof of authority.

(b) The fact of the ownership of Certificates by any person and the amount, the maturity and the numbers of such Certificates and the date of holding the same is proved by the Registration Books.

Nothing contained in this Section 2.10 limits the Trustee to such proof, it being intended that the Trustee may accept any other evidence of the matters herein stated which the Trustee

may deem sufficient. Any request or consent of the Owner of any Certificate binds every future Owner of the same Certificate in respect of anything done or suffered to be done by the Trustee under such request or consent.

SECTION 2.11. Registration Books. The Trustee will keep or cause to be kept sufficient records for the registration and registration of transfer of the Certificates, which shall at all reasonable times upon prior notice be open to inspection by the City, the Corporation and the Certificate Insurer during regular business hours; and, upon presentation for such purpose, the Trustee shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on the Registration Books, Certificates as hereinbefore provided.

ARTICLE III

DISPOSITION OF PROCEEDS; 2012 PROJECT FUND; ESCROW FUND; COSTS OF ISSUANCE FUND AND RESERVE FUND

SECTION 3.01. Application of Proceeds. On the Closing Date, the Trustee shall deposit the proceeds received from the sale of the Certificates on the Closing Date to the Original Purchaser, being $_____ (constituting the par amount of the Certificates ($_____), plus original issue premium in the amount of $_____, less the Original Purchaser's discount of $_____), as follows:

(a) The Trustee will deposit the amount of $_____ in the Costs of Issuance Fund.

(b) The Trustee will deposit the amount of $_____ to the 2012 Project Fund.

(c) The Trustee will deposit the amount of $_____, constituting the remainder of such proceeds, to the Escrow Fund.

[The Trustee shall also credit the Surety Bond to the Reserve Fund.]

The Trustee may, in its discretion, establish a temporary fund or account to facilitate and record such deposits and transfer.

SECTION 3.02. Costs of Issuance Fund. The Trustee shall establish and maintain a special fund designated as the "Costs of Issuance Fund" to be held by the Trustee in trust for the benefit of the City and the Owners of the Certificates, and applied solely as provided herein. The Trustee shall disburse amounts in the Costs of Issuance Fund to pay Costs of Issuance from time to time upon the receipt of a written requisition of the City which states (i) the amounts to be disbursed for payment or reimbursement of Costs of Issuance, (ii) the name and address of the person or persons to whom said amounts are to be disbursed, and (iii) that all amounts to be disbursed are for Costs of Issuance properly chargeable to the Costs of Issuance Fund. The Trustee shall withdraw any funds remaining in the Costs of Issuance Fund on _____ 1, 2012, and transfer those funds to the City, and the City shall deposit any such funds so transferred to the 2012 Project Fund.

SECTION 3.03. 2012 Project Fund. The Trustee shall establish and maintain a separate fund to be known as the "2012 Project Fund". The Trustee shall disburse moneys in the 2012 Project Fund from time to time to pay 2012 Project Costs (or to reimburse the City for payment of 2012 Project Costs) upon receipt of a requisition signed by the City Representative, for the purpose of paying or reimbursing the payment of the 2012 Project Costs. Each such requisition shall be sufficient evidence to the Trustee of the facts stated therein, and the Trustee shall have no duty to confirm the accuracy of such facts. Each such requisition shall: (a) identify the total amount of such costs to be paid pursuant to such requisition, including all items of cost in such detail as may be available to the City; (b) state with respect to such disbursement (i) the requisition number, (ii) the amount to be disbursed for payment of such costs, and (iii) that each

item of cost identified therein has been properly incurred, and is a proper charge against the 2012 Project Fund and has not been the basis of any previous disbursement; and (c) be accompanied by an invoice, if any. The Trustee may conclusively rely on requisitions submitted in accordance with this Section 3.03 as complete authorization for the disbursements made pursuant thereto.. The Trustee shall maintain accurate records showing the timing, the amount and the payee relating to all disbursements from the 2012 Project Fund.

Upon completion of the 2012 Project, the Trustee shall withdraw all amounts on deposit in the 2012 Project Fund and deposit such amounts in the Installment Payment Fund, other than reasonable retainage amounts estimated by the City to be required to pay 2012 Project Costs. At such time that no further amounts are intended to be requisitioned from the 2012 Project Fund, the Trustee will thereupon close the 2012 Project Fund and transfer all remaining amounts therein to the Trustee for deposit into the Installment Payment Fund. The City may also instruct the Trustee to apply all or a portion of the amounts so transferred from the 2012 Project Fund to the Installment Payment Fund to the prepayment of Installment Payments under Section 7.2 of the Installment Sale Agreement and the corresponding redemption of the Certificates under Section 4.01(a) hereof.

SECTION 3.04. Reserve Fund. The Trustee shall establish and maintain a special fund designated as the "Reserve Fund" to be held by the Trustee in trust. The Surety Bond will be held in trust as a reserve for the payment when due of the Installment Payments on behalf of the City.

If on any Interest Payment Date the moneys available in the Installment Payment Fund are not at least equal to the amount of the Installment Payment then coming due and payable, the Trustee shall apply draw on the Surety Bond and the moneys resulting from such draw to make such payments on behalf of the City by transferring the amount necessary for this purpose to the Installment Payment Fund. Upon the discharge of this Trust Agreement under Section 12.01, the Trustee shall return the Surety Bond to the Certificate Insurer.

To the extent the Trustee has drawn on the Surety Bond to make an Installment Payment on behalf of the City, and the Trustee thereafter receives payment of said Installment Payment from the City, the Trustee shall pay said Installment Payment to the Certificate Insurer, as a reimbursement for the draw made on the Surety Bonds.

SECTION 3.05. Escrow Fund. There is hereby established with the Trustee as a separate fund, to be maintained distinct from all other funds of the Trustee, the Escrow Fund, to the credit of which a deposit shall be made as required by Section 3.01(c) ($_____). Money in the Escrow Fund shall be held by the Trustee and disbursed for the payment of the redemption price of the 1999 Certificates, which shall be paid on the dates, and in the amounts specified in Appendix C hereto.

Pending disbursement to pay the redemption price of the 1999 Certificates, the Trustee shall hold the moneys in the Escrow Fund uninvested. Any funds remaining in the Escrow Fund after the payment in full of the 1999 Certificates shall be transferred to the Debt Service Fund, and in any event not later than _____, 2012.

ARTICLE IV

PREPAYMENT OF CERTIFICATES

SECTION 4.01. Prepayment.

(a) Optional Prepayment. The Certificates maturing on or after December 1, 20__, are subject to optional prepayment in whole or in part on any date on or after December 1, 20__, from prepayments of the Installment Payments made at the option of the City under Section 7.2 of the Installment Sale Agreement. Certificates are subject to prepayment under this subsection at a prepayment price equal to the principal amount of Certificates or portions thereof to be prepaid plus accrued interest represented thereby to the prepayment date, without premium.

If the City prepays the Certificates in part but not in whole, the Trustee will select the maturity years of the Certificates to be prepaid as the City designates in written notice to the Trustee. The City shall give the Trustee forty five days prior notice of any such prepayment (which notice may be waived in the sole discretion of the Trustee).

(b) Mandatory Sinking Fund Prepayment.

The Certificates maturing on December 1, 20__, are subject to mandatory prepayment in part by lot on December 1 in each year on and after December 1, 20__ from the principal components of scheduled Installment Payments required to be paid by the City pursuant to the Installment Sale Agreement with respect to each such prepayment date, at a prepayment price equal to the principal amount thereof to be prepaid, together with accrued interest to the date fixed for prepayment, without premium, as follows:

Year (December 1)	Principal Amount of Certificates to be Prepaid

SECTION 4.02. Selection of Certificates for Prepayment. Whenever less than all Outstanding Certificates of any one maturity are called for prepayment, the Trustee will select Certificates for prepayment within such maturity by lot in any manner deemed fair by the Trustee. For the purposes of such selection, Certificates will be deemed to be composed of $5,000 portions, and any such portion may be separately prepaid. The Trustee shall promptly notify the City and the Corporation in writing of the Certificates or portions thereof so selected for prepayment. The selection by the Trustee of any Certificates for prepayment is final and conclusive.

SECTION 4.03. Notice of Prepayment. The Trustee shall give notice of the prepayment of the Certificates on behalf and at the expense of the City. Such notice must state the prepayment date and prepayment price and, if less than all of the then Outstanding Certificates of any maturity are to be called for prepayment, must designate the numbers of the Certificates to be prepaid, and must require that such Certificates be surrendered on the designated prepayment date at the Trust Office of the Trustee for prepayment, giving notice also that further interest represented by the Certificates will not accrue from and after the prepayment

date. Such notice must further state that on the specified date there will become due and payable upon each Certificate, the principal and premium, if any, together with interest accrued to said date, and that from and after such date interest with respect thereto shall cease to accrue and be payable.

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

The Corporation and the City shall have the right to rescind any prepayment pursuant to Section 4.01 by written notice to the Trustee on or prior to the date fixed for prepayment. Any notice of prepayment shall be cancelled and annulled if for any reason funds are not available on the date fixed for prepayment for the payment in full of the Certificates then called for prepayment, and such cancellation shall not constitute an Event of Default hereunder. The Trustee shall mail notice of rescission of prepayment in the same manner notice of prepayment was originally provided.

SECTION 4.04. Partial Prepayment of Certificates. Upon surrender of any Certificate prepaid in part only, the Trustee will execute and deliver to the Owner thereof, at the expense of the City, a new Certificate or Certificates of authorized denominations equal in aggregate principal amount to the unprepaid portion of the Certificate surrendered and of the same interest rate and the same maturity.

SECTION 4.05. Effect of Notice of Prepayment. Moneys for the prepayment (including the interest to the applicable date of prepayment) of Certificates having been set aside in the Installment Payment Fund, the Certificates will become due and payable on the date of such prepayment, and, upon presentation and surrender thereof at the Trust Office of the Trustee, said Certificates will be paid at the unpaid principal amount (or applicable portion thereof) represented thereby plus any applicable premium and plus interest accrued and unpaid to said date of prepayment.

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

All Certificates paid at maturity or prepaid prior to maturity under the provisions of this Article IV from amounts provided by the City for that purpose will be cancelled upon surrender thereof and destroyed under Section 12.10.

SECTION 4.06. Purchase of Certificates. In lieu of prepayment of Certificates as provided in this Article IV, amounts held by the Trustee for such prepayment shall, at the written request of the City Representative received by the Trustee no later than 60 days prior to the prepayment date, be applied by the Trustee to the purchase of Certificates at public or private sale as and when and at such prices (including brokerage, accrued interest and other charges) as the City may in its discretion direct, but not to exceed the prepayment price which would be payable if such Certificates were prepaid. The aggregate principal amount of Certificates of the same maturity purchased in lieu of prepayment under this Section 4.06 may not exceed the aggregate principal amount of Certificates of such maturity which would otherwise be subject to such prepayment.

ARTICLE V

INSTALLMENT PAYMENTS; INSTALLMENT PAYMENT FUND

SECTION 5.01. Assignment of Rights in Installment Sale Agreement. The Corporation hereby irrevocably assigns to the Trustee, without recourse to the Corporation, all of its rights in the Installment Sale Agreement (excepting only its rights under Sections 4.8, 5.2 and 6.4 thereof), including but not limited to the right to receive and collect all of the Installment Payments and all other amounts required to be deposited in the Installment Payment Fund. The Trustee hereby accepts such assignment. Such assignment neither creates any obligations nor gives rise to any duties on the part of the Trustee other than those obligations and duties contained herein. All Installment Payments and such other amounts to which the Corporation may at any time be entitled will be paid directly to the Trustee, and all of the Installment Payments collected or received by the Corporation will be deemed to be held and to have been collected or received by the Corporation as the agent of the Trustee, and if received by the Corporation at any time shall be deposited by the Corporation with the Trustee within one (1) Business Day after the receipt thereof. The Trustee shall deposit the Installment Payments and such other amounts in the Installment Payment Fund upon the receipt thereof.

SECTION 5.02. Establishment of Installment Payment Fund. The Trustee shall establish and maintain a special fund designated as the "Installment Payment Fund", into which the Trustee shall deposit all amounts paid to the Trustee for such purpose under the Installment Sale Agreement. The Trustee will hold amounts in the Installment Payment Fund in trust for the benefit of the City, the Certificate Insurer and the Owners of the Certificates. So long as any Certificates are Outstanding, neither the City nor the Corporation has any beneficial right or interest in the Installment Payment Fund or the moneys deposited therein, except only as provided in the Installment Sale Agreement or herein.

SECTION 5.03. Application of Moneys. Except as provided in Section 5.04, the Trustee shall apply amounts in the Installment Payment Fund solely for the purpose of paying the principal, interest and prepayment premiums (if any) represented by the Certificates when due, in accordance with the provisions of Article II and Article IV.

SECTION 5.04. Surplus. At the written request of the City, the Trustee shall withdraw and remit to the City any surplus remaining in the Installment Payment Fund after prepayment and payment of all Certificates, including all premiums and accrued interest (if any) and payment of any applicable fees and expenses to the Trustee and any amounts then due and payable to the Certificate Insurer, or provision for such prepayment or payment having been made in accordance with Section 12.01.

ARTICLE VI

MONEYS IN FUNDS; INVESTMENT

SECTION 6.01. Held in Trust. The moneys and Permitted Investments held by the Trustee under this Trust Agreement are irrevocably held in trust for the benefit of the City, the Certificate Insurer and the Owners of the Certificates solely for the purposes herein specified, and such moneys, and any income or interest earned thereon, shall be expended only as provided in this Trust Agreement, and are not subject to levy or attachment or lien by or for the benefit of any creditor of the Corporation, the Trustee, the City, the Certificate Insurer or the Owner of any Certificates.

SECTION 6.02. Investments Authorized. At the written request of the City filed with the Trustee from time to time, the Trustee shall invest amounts held by it in any fund or account established hereunder in Permitted Investments which mature not later than the date such moneys are required or estimated by the City to be required to be expended hereunder. In the absence of any written request of the City directing the investment of uninvested moneys held by the Trustee hereunder, the Trustee shall invest such moneys in Permitted Investments described in clause (D) of the definition thereof. Such investments, if registrable, shall be registered in the name of the Trustee, as trustee or in the name of its nominee, and shall be held by the Trustee. The Trustee may purchase or sell to itself or any affiliate, as principal or agent, investments authorized by this Section 6.02 and is entitled to its customary fee therefor. Such investments and reinvestments shall be made giving full consideration to the time at which funds are required to be available. The Trustee may act as purchaser or agent in the making or disposing of any investment. Whenever in this Trust Agreement any moneys are required to be transferred by the City to the Trustee, such transfer may be accomplished by transferring a like amount of Permitted Investments. For purposes of acquiring any investments hereunder, the Trustee may commingle funds held by it hereunder. The Trustee is not responsible or liable for any loss suffered in connection with any investment of funds made by it in accordance with this Section 6.02.

The City shall invest amounts held by it in any fund or account established hereunder or under the Installment Sale Agreement in any investments which are authorized for the investment of City funds under the laws of the State of California.

SECTION 6.03. Accounting. The Trustee shall furnish to the City, not less than monthly, an accounting (in the form customarily used by the Trustee) of all investments and other transactions made by the Trustee under this Trust Agreement. The City acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the City the right to receive brokerage confirmations of security transactions as they occur, the City specifically waives receipt of such confirmations to the extent permitted by law.

SECTION 6.04. Allocation of Earnings. Any income, profit or loss on such investments will be deposited in or charged to the respective funds from which such investments were made; except that: (a) income received on the investment of amounts on deposit in the Reserve Fund, to the extent not required to be retained therein in order to maintain the Reserve Requirement, shall be transferred either (i) to the Installment Payment Fund as set forth in Section 3.04, or (ii) to the Rebate Fund as set forth in Section 9.04(f); and (b) any income received

on the investment of amounts on deposit in the 2012 Project Fund shall be transferred to the Rebate Fund if and to the extent the Trustee receives written directions from a City Representative to do so in accordance with Section 9.04(f).

SECTION 6.05. Valuation and Disposition of Investments.

(a) Except as otherwise provided in subsection (b) of this Section, all investments of amounts deposited in any fund or account established hereunder, or otherwise containing gross proceeds of the Certificates (within the meaning of Section 148 of the Tax Code) shall be acquired, disposed of and valued (as of the date that valuation is required by this Trust Agreement or the Tax Code) at Fair Market Value as such term is defined in subsection (d) below. The Trustee has no duty in connection with the determination of Fair Market Value other than to follow the investment directions of the City in any written directions of a City Representative.

(b) Investments in the Reserve Fund, and investments in any funds or accounts (or portions thereof) that are subject to a yield restriction under applicable provisions of the Tax Code and (unless valuation is undertaken at least annually) investments in the Reserve Fund shall be valued at their present value (within the meaning of Section 148 of the Tax Code). The City shall inform the Trustee which funds are subject to a yield restriction.

(c) Except as provided in subsection (b), for the purpose of determining the amount in any fund, the Trustee shall value any Permitted Investments credited to such fund at least quarterly at the Fair Market Value thereof. The Trustee may sell or present for prepayment, any Permitted Investment so purchased by the Trustee whenever necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund to which such Permitted Investment is credited, and the Trustee is not liable or responsible for any loss resulting from any such Permitted Investment.

(d) For purposes of this Section 6.05, the term "Fair Market Value" means the price at which a willing buyer would purchase the investment from a willing seller in a bona fide, arm's length transaction (determined as of the date the contract to purchase or sell the investment becomes binding) if the investment is traded on an established securities market (within the meaning of Section 1273 of the Tax Code) and, otherwise, the term "Fair Market Value" means the acquisition price in a bona fide arm's length transaction (as referenced above) if (i) the investment is a certificate of deposit that is acquired in accordance with applicable regulations under the Tax Code, (ii) the investment is an agreement with specifically negotiated withdrawal or reinvestment provisions and a specifically negotiated interest rate (for example, a guaranteed investment contract, a forward supply contract or other investment agreement) that is acquired in accordance with applicable regulations under the Tax Code, (iii) the investment is a United States Treasury Security – State and Local Government Series that is acquired in accordance with applicable regulations of the United States Bureau of Public Debt, or (iv) any commingled investment fund in which the City and any related parties do not own more than a 10% beneficial interest therein if the return paid by the fund is without regard to the source of the investment.

ARTICLE VII

THE TRUSTEE

SECTION 7.01. Appointment of Trustee. U.S. Bank National Association is hereby appointed Trustee by the Corporation and the City for the purpose of receiving all moneys required to be deposited with the Trustee hereunder and to allocate, use and apply the same as provided herein. The City will maintain a Trustee having a corporate trust office in California, with a reported capital and surplus of at least $50,000,000, duly authorized to exercise trust powers and subject to supervision or examination by Federal or state authority, so long as any Certificates are Outstanding. If such bank, national banking association or trust company publishes a report of condition at least annually under law or to the requirements of any supervising or examining authority above referred to then for the purpose of this Section 7.01 the combined capital and surplus of such bank, national banking association or trust company is as set forth in its most recent report of condition so published and must be at least $50,000,000.

The City and the Corporation will maintain a Trustee acceptable to the Certificate Insurer and qualified under the provisions of the foregoing provisions of this Section 7.01, so long as any Certificates are Outstanding.

The Trustee is hereby authorized to pay or prepay the Certificates when duly presented for payment at maturity, or on prepayment, or on purchase by the Trustee as directed by the City prior to maturity in accordance with Section 4.06, and to cancel all Certificates upon payment thereof. The Trustee shall keep accurate records of all funds administered by it and of all Certificates paid and discharged.

SECTION 7.02. Acceptance of Trusts. The Trustee hereby accepts the trusts imposed upon it hereby, and agrees to perform said trusts, but only upon and subject to the following express terms and conditions:

(a) The Trustee, prior to the occurrence of an Event of Default and after curing of all Events of Default which may have occurred, undertakes to perform such duties and only such duties as are specifically set forth herein, and no implied covenants or obligations will be read into this Trust Agreement against the Trustee. If an Event of Default occurs (which has not been cured or waived), the Trustee may exercise such of the rights and powers vested in it hereby, and shall use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

(b) No provision hereof requires the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers, if the repayment of such funds or adequate indemnity against such risk or liability is not assured to it. The Trustee is entitled to interest on any amounts advanced by it in the performance of its duties hereunder.

(c) The Trustee may execute any of the trusts or powers hereof and perform the duties required of it hereunder by or through attorneys, agents or receivers and the Trustee is not responsible for any misconduct or negligence on the part of any attorney, agent or receiver appointed with due care by it hereunder. The Trustee is entitled to advice of counsel concerning all matters of trust and its duty hereunder and is protected in any action taken or suffered by it hereunder in reliance on such advice.

(d) The Trustee is not responsible for the validity hereof or for any recital herein, or in the Certificates, or for any of the supplements thereto or instruments of further assurance, or for the sufficiency of the security for the Certificates issued hereunder or intended to be secured hereby and the Trustee is not bound to ascertain or inquire as to the observance or performance of any covenants, conditions or agreements on the part of the Corporation or the City under the Installment Sale Agreement. The Trustee is not responsible or liable for any loss suffered in connection with any investment of funds made by it in accordance with Article VI.

(e) The Trustee is not accountable for the use or application of any Certificates or the proceeds thereof. The Trustee may become the Owner of Certificates secured hereby with the same rights which it would have if not the Trustee; may acquire and dispose of other bonds or evidence of indebtedness of the City with the same rights it would have if it were not the Trustee; and may act as a depository for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Owners of Certificates, whether or not such committee represents the Owners of the majority in aggregate principal amount of the Certificates then Outstanding.

(f) In the absence of bad faith on its part, Trustee is protected in acting upon any notice, request, consent, certificate, order, requisition, affidavit, letter, telegram or other paper or document believed by it to be genuine and correct and to have been signed or sent by the proper person or persons. Any action taken or omitted to be taken by the Trustee in good faith hereunder on the request or authority or consent of any person who at the time of making such request or giving such authority or consent is the Owner of any Certificate, is conclusive and binding on all future Owners of the same Certificate and upon Certificates issued in exchange therefor or in place thereof.

(g) As to the existence or non-existence of any fact or as to the sufficiency or validity of any instrument, paper or proceeding, the Trustee may rely on a certificate signed by an Corporation Representative or a City Representative as sufficient evidence of the facts therein contained and prior to the occurrence of an Event of Default of which the Trustee has been given notice or is deemed to have notice, as provided in Section 7.02(i), shall also be at liberty to accept a similar certificate to the effect that any particular dealing, transaction or action is necessary or expedient, but may at its discretion secure such further evidence deemed by it to be necessary or advisable, but shall in no case be bound to secure the same. The Trustee may accept a certificate of an Corporation Representative or a City Representative to the effect that an authorization in the form therein set forth has been adopted by the Corporation or the City, as the case may be, as conclusive evidence that such authorization has been duly adopted, and is in full force and effect.

(h) The permissive right of the Trustee to do things enumerated herein shall not be construed as a duty and the Trustee is not answerable for other than its negligence or willful misconduct. The immunities and exceptions from liability of the Trustee extend to its officers, directors, employees and agents.

(i) The Trustee is not required to take notice or be deemed to have notice of any Event of Default except the failure by the City to make any of the Installment Payments to the Trustee when due or the failure by the Corporation or the City to file with the Trustee any document required hereby or by the Installment Sale Agreement to be so filed subsequent to the delivery of the Certificates, unless the Trustee is specifically notified in writing of such default by the Corporation, the City, the Certificate Insurer or the Owners of at least 25% in aggregate principal amount of Certificates then Outstanding. All notices or other instruments required hereby or by the Installment Sale Agreement to be delivered to the Trustee must, in order to be effective, be delivered at the Trust Office of the Trustee, and in the absence of such notice so delivered the Trustee may conclusively assume there is no Event of Default except as aforesaid.

(j) At any and all reasonable times the Trustee, and its duly authorized agents, attorneys, experts, engineers, accountants and representatives, have the right (but not the duty) to inspect the Water System including all books, papers and records of the City pertaining to the Water System and the Certificates, and to take such memoranda from and with regard thereto as may be desired.

(k) The Trustee is not required to give any bond or surety in respect of the execution of the said trusts and powers or otherwise in respect of the premises.

(l) Notwithstanding anything elsewhere herein with respect to the execution of any Certificates, the withdrawal of any cash, the release of any property, or any action whatsoever within the purview hereof, the Trustee has the right, but is not required, to demand any showings, certificates, opinions, appraisals or other information, or corporate action or evidence thereof, in addition so that by the terms hereof required as a condition of such action, by the Trustee deemed desirable for the purpose of establishing any right to the execution of any Certificates, the withdrawal of any cash, or the taking of any other action by the Trustee.

(m) Before taking any action referred to in Section 11.02 or this Article at the direction of the Certificate Insurer or the Certificate Owners, the Trustee may require that a satisfactory indemnity bond or other indemnification acceptable to the Trustee be furnished by the Certificate Insurer or the Certificate Owners, or any of them, for the reimbursement of all expenses to which it may be put and to protect it against all liability, except liability which is adjudicated to have resulted from its negligence or willful misconduct in connection with any such action.

(n) All moneys received by the Trustee shall, until used or applied or invested as herein provided, be held in trust for the purposes for which they were received but need not be segregated from other funds except to the extent required by

law. The Trustee has no liability for interest on any moneys received hereunder except such as may be agreed upon.

(o) The Trustee is not responsible for the sufficiency of the Installment Sale Agreement or its right to receive moneys under the Installment Sale Agreement.

(p) The Trustee is not liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Certificate Insurer or the Owners of a majority in aggregate principal amount of the Outstanding Certificates relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee, hereunder.

(q) The Trustee is not liable for any error of judgment made in good faith by a responsible officer of the Trustee unless it is proved that the Trustee was negligent in ascertaining the pertinent facts relating thereto.

(r) The Trustee shall have no responsibility with respect to any information, statement, or recital in any official statement or any other disclosure material prepared or distributed with respect to the Certificates.

(s) The Trustee agrees to accept and act upon instructions or directions pursuant to this Trust Agreement sent by unsecured e-mail, facsimile transmission or other similar unsecured electronic methods, provided, however, that, the Trustee shall have received an incumbency certificate listing persons designated to give such instructions or directions and containing specimen signatures of such designated persons, which such incumbency certificate shall be amended and replaced whenever a person is to be added or deleted from the listing. If the City elects to give the Trustee e-mail or facsimile instructions (or instructions by a similar electronic method) and the Trustee in its discretion elects to act upon such instructions, the Trustee's understanding of such instructions shall be deemed controlling. The Trustee shall not be liable for any losses, costs or expenses arising directly or indirectly from the Trustee's reliance upon and compliance with such instructions notwithstanding such instructions conflict or are inconsistent with a subsequent written instruction. The City agrees to assume all risks arising out of the use of such electronic methods to submit instructions and directions to the Trustee, including without limitation the risk of the Trustee acting on unauthorized instructions, and the risk of interception and misuse by third parties.

(t) The Trustee shall not be considered in breach of or in default in its obligations hereunder or progress in respect thereto in the event of enforced delay ("unavoidable delay") in the performance of such obligations due to unforeseeable causes beyond its control and without its fault or negligence, including, but not limited to, Acts of God or of the public enemy or terrorists, acts of a government, acts of the other party, fires, floods, epidemics, quarantine restrictions, strikes, freight embargoes, earthquakes, explosion, mob violence, riot, inability to procure or general sabotage or rationing of labor, equipment, facilities, sources of energy, material or supplies in the open market, litigation or arbitration involving a party or others relating to zoning or other governmental action or inaction pertaining to the 2012 Project, malicious mischief,

condemnation, and unusually severe weather or delays of suppliers or subcontractors due to such causes or any similar event and/or occurrences beyond the control of the Trustee.

(u) The Trustee shall not be liable in connection wit the performance of its duties hereunder, except for its own negligence or willful misconduct.

SECTION 7.03. Fees, Charges and Expenses of Trustee. The Trustee is entitled to payment and reimbursement from the City and the Corporation for reasonable fees for its services rendered hereunder and all advances, counsel fees (including expenses) and other expenses reasonably and necessarily made or incurred by the Trustee in connection with such services. Upon the occurrence of an Event of Default, but only upon such occurrence, the Trustee has a first lien with right of payment prior to payment on account of principal, premium, if any, and interest represented by any Certificate upon the amounts held hereunder for the foregoing fees, charges and expenses incurred by it respectively.

SECTION 7.04. Notice to Certificate Insurer and Certificate Owners of Default. If an Event of Default occurs of which the Trustee has been given or is deemed to have notice, as provided in Section 7.02(i), then the Trustee shall promptly give written notice thereof by first class mail, postage prepaid, (a) to the Certificate Insurer by telephone confirmed in writing, and (b) by first class mail, postage prepaid, to the Owner of each Outstanding Certificate, unless such Event of Default has been cured before the giving of such notice; *provided, however,* that unless such Event of Default consists of the failure by the City to make any Installment Payment when due, the Trustee may elect not to give such notice to the Certificate Owners if and so long as the Trustee in good faith determines that it is in the best interests of the Certificate Owners not to give such notice.

SECTION 7.05. Removal of Trustee. So long as no Event of Default has occurred and is continuing the City may, upon at least 30 days' prior written notice and with the consent of the Corporation and the Certificate Insurer, remove the Trustee initially appointed, and any successor thereto, by an instrument or concurrent instruments in writing delivered to the Trustee, the Corporation and the Certificate Insurer, and may appoint a successor or successors thereto; provided that any such successor is a commercial bank, national banking association or trust company meeting the requirements set forth in Section 7.01.

SECTION 7.06. Resignation by Trustee. The Trustee and any successor Trustee may at any time resign by giving written notice by registered or certified mail to the City and the Certificate Insurer. Upon receiving such notice of resignation, the City shall promptly appoint a successor Trustee. Any resignation or removal of the Trustee and appointment of a successor Trustee takes effect on acceptance of appointment by the successor Trustee. Upon such acceptance, the City will mail notice thereof to the Certificate Insurer and to the Certificate Owners at their respective addresses set forth on the Registration Books.

SECTION 7.07. Appointment of Successor Trustee. If the Trustee is removed or resigns under Sections 7.05 or 7.06, respectively, with the prior written consent of the Certificate Insurer the City shall promptly appoint a successor Trustee. If the City for any reason whatsoever fails to appoint a successor Trustee within 30 days following the delivery to the Trustee of the instrument described in Section 7.05 or within 30 days following the receipt of notice by the City

under Section 7.06, at the expense of the City the Certificate Insurer or the Trustee may apply to a court of competent jurisdiction for the appointment of a successor Trustee meeting the requirements of Section 7.01. Any such successor Trustee appointed by such court shall become the successor Trustee hereunder notwithstanding any action by the City purporting to appoint a successor Trustee following the expiration of such 30 day period.

SECTION 7.08. Merger or Consolidation. Any company or association into which the Trustee may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company or association to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided that such company or association is eligible under Section 7.01, shall be the successor to the Trustee and vested with all of the title to the trust estate and all of the trusts, powers, discretions, immunities, privileges and all other matters as was its predecessor, without the execution or filing of any paper or further act, anything herein to the contrary notwithstanding.

SECTION 7.09. Concerning any Successor Trustee. Every successor Trustee appointed hereunder shall execute, acknowledge and deliver to its predecessor and also to the Certificate Insurer, the Corporation and the City an instrument in writing accepting such appointment hereunder and thereupon such successor, without any further act, deed or conveyance, will become fully vested with all the estates, properties, rights, powers, trusts, duties and obligations of its predecessors; but such predecessor shall, nevertheless, on the written request of the Corporation, or of its successor, execute and deliver an instrument transferring to such successor all the estates, properties, rights, powers and trusts of such predecessor hereunder; and every predecessor Trustee shall deliver all securities and moneys held by it as the Trustee hereunder to its successor. Should any instrument in writing from the Corporation be required by any successor Trustee for more fully and certainly vesting in such successor the estate, rights, powers and duties hereby vested or intended to be vested in the predecessor, any and all such instruments in writing shall, on request, be executed, acknowledged and delivered by the Corporation.

SECTION 7.10. Non-Liability of Trustee. The recitals, statements and representations by the City and the Corporation contained herein or in the Certificates shall be taken and construed as made by and on the part of the City and the Corporation, as the case may be, and not by the Trustee, and the Trustee does not assume, and shall not have, any responsibility or obligation for the correctness of any thereof.

The Trustee makes no representation or warranty, express or implied as to the title, value, design, compliance with specifications or legal requirements, quality, durability, operation, condition, merchantability or fitness for any particular purpose or fitness for the use contemplated by the City of the Water System. In no event is the Trustee liable for special or consequential damages in connection with or arising from the Installment Sale Agreement for the existence, furnishing or use of the Water System.

SECTION 7.11. Nature of Trust Engagement. The Trustee undertakes to perform such duties and only such duties as are specifically set forth herein and no implied covenants or obligations shall be read into the Trust Agreement against the Trustee. In accepting the trusts hereby created, the Trustee acts solely as Trustee and not in its individual capacity and all

persons, including without limitation the Certificate Insurer, the Certificate Owners, the City and the Corporation having any claim against the Trustee arising from the Trust Agreement shall look only to the funds and accounts hereunder for payment except as otherwise provided herein. Under no circumstances is the Trustee liable in its individual capacity for the obligations represented by the Certificates.

SECTION 7.12. Certificate Insurer's Exercise of Rights Relating to the Trustee. The Certificate Insurer is deemed to be the sole holder of the Certificates insured by it for the purpose of exercising any voting right or privilege or giving any consent or direction or taking any other action that the Owners are entitled to take under this Article VII.

ARTICLE VIII

MODIFICATION OR AMENDMENT OF AGREEMENTS

SECTION 8.01. Amendments Permitted Without Consent of Owners. This Trust Agreement and the rights and obligations of the Owners of the Certificate, and the Installment Sale Agreement and the rights and obligations of the respective parties thereto, may be modified or amended at any time by a supplemental agreement, with the prior written consent of the Certificate Insurer but without the consent of any of the Certificate Owners, only to the extent permitted by law and only for any one or more of the following reasons:

(a) to add to the covenants and agreements of any party, other covenants to be observed, or to surrender any right or power herein reserved to the City,

(b) to cure, correct or supplement any ambiguous or defective provision contained herein or therein,

(c) in any respect whatsoever in regard to questions arising hereunder or thereunder, as the parties hereto or thereto may deem necessary or desirable and which do not, in the opinion of Bond Counsel, materially adversely affect the security of the Certificate Owners,

(d) to provide for matters relating to the issuance of Parity Debt or the delivery of a Qualified Reserve Fund Credit Instrument, or

(e) if and to the extent permitted in the opinion of Bond Counsel filed with the Trustee, the City and the Corporation, to delete or modify any of the provisions hereof or thereof relating to the exemption from federal income taxation of interest represented by the Certificates.

Any such supplemental agreement entered into under this Section takes effect on the execution and delivery by the parties hereto or thereto as the case may be.

SECTION 8.02. Amendments Permitted With Consent of Owners. Except as permitted under Section 8.01, this Trust Agreement and the rights and obligations of the Owners of the Certificates, and the Installment Sale Agreement and the rights and obligations of the parties thereto, may be modified or amended at any time by a supplemental agreement which takes effect when the written consents of the Certificate Insurer and the Owners of a majority in aggregate principal amount of the Certificates then Outstanding, exclusive of Certificates disqualified as provided in Section 12.03, have been filed with the Trustee.

The Trustee may in its discretion, but shall not be obligated to, enter into any such Supplemental Trust Agreement authorized by Sections 8.01 and Section 8.02 which materially adversely affects the Trustee's own rights, duties or immunities under this Trust Agreement or otherwise.

No modification or amendment under this Section 8.02 may (a) extend or have the effect of extending the fixed maturity of any Certificate or reducing the interest rate with respect

thereto or extending the time of payment of interest, or reducing the amount of principal thereof or reducing any premium payable upon the prepayment thereof, without the express consent of the Owner of such Certificate, or (b) reduce or have the effect of reducing the percentage of Certificates required for the affirmative vote or written consent to an amendment or modification of the Installment Sale Agreement, without the consent of the Owners of 100% in aggregate principal amount of the Outstanding Certificates, or (c) modify any of the rights or obligations of the Trustee without its written assent thereto.

No such supplemental agreement may become effective unless there is filed with the Trustee the written consents of the Owners of a majority in aggregate principal amount of the Certificates then Outstanding (exclusive of Certificates disqualified as provided in Section 12.04) and the Trustee has given the notice required below. Each such consent will be effective only if accompanied by proof of ownership of the Certificates for which such consent is given, which proof shall be such as is permitted by Section 2.10. Any such consent binds the Owner of the Certificate giving such consent and each subsequent Owner (whether or not such subsequent Owner has notice thereof) unless such consent is revoked in writing by the Owner giving such consent or a subsequent Owner by filing such revocation with the Trustee prior to the date when the notice hereinafter in this Section provided for has been mailed.

After the Certificate Insurer and the Owners of the required percentage of Certificates have filed their consents to such supplemental agreement, the Trustee shall mail a notice to the Owners of the Certificates in the manner hereinbefore provided in this Section for the mailing of such supplemental agreement of the notice of adoption thereof, stating in substance that such supplemental agreement has been consented to by the Owners of the required percentage of Certificates and will be effective as provided in this Section (but failure to mail copies of said notice shall not affect the validity of such supplemental agreement or consents thereto). A record, consisting of the papers required by this Section to be filed with the Trustee, shall be conclusive proof of the matters therein stated. Such supplemental agreement shall become effective upon the mail of such last-mentioned notice, and such supplemental agreement shall be deemed conclusively binding upon the parties hereto, the Certificate Insurer and the Owners of all Certificates at the expiration of 60 days after such filing, except in the event of a final decree of a court of competent jurisdiction setting aside such consent in a legal action or equitable proceeding for such purpose commenced within such 60 day period.

SECTION 8.03. Effect of Supplemental Agreement. From and after the time any supplemental agreement becomes effective under this Article VIII, this Trust Agreement or the Installment Sale Agreement, as the case may be, shall be deemed to be modified and amended in accordance therewith, the respective rights, duties and obligations of the parties hereto or thereto and all Owners of Certificates Outstanding, as the case may be, shall thereafter be determined, exercised and enforced hereunder subject in all respects to such modification and amendment, and all the terms and conditions of any supplemental agreement shall be deemed to be part of the terms and conditions of this Trust Agreement or the Installment Sale Agreement for any and all purposes.

SECTION 8.04. Endorsement or Replacement of Certificates Delivered After Amendments. The Trustee may determine that Certificates shall bear a notation, by endorsement or otherwise, in form approved by the Trustee, as to such action. In that case, upon demand of the Owner of any Certificate Outstanding at such effective date and

presentation of such Owner's Certificate for the purpose at the Trust Office of the Trustee, a suitable notation shall be made on such Certificate. The Trustee may determine that the delivery of substitute Certificates, so modified as in the opinion of the Trustee is necessary to conform to such Certificate Owners' action, which substitute Certificates shall thereupon be prepared, executed and delivered at the expense of the City. In that case, upon demand of the Owner of any Certificate then Outstanding, such substitute Certificate shall be exchanged at the Trust Office of the Trustee, without cost to such Owner, for a Certificate of the same character then Outstanding, upon surrender of such Outstanding Certificate.

SECTION 8.05. Amendatory Endorsement of Certificates. The provisions of this Article VIII do not prevent any Certificate Owner from accepting any amendment as to the particular Certificates held by such Owner, provided that proper notation thereof is made on such Certificates.

ARTICLE IX

OTHER COVENANTS

SECTION 9.01. Compliance With and Enforcement of Installment Sale Agreement. The City covenants with the Trustee, for the benefit of the Owners of the Certificates and the Certificate Insurer, to perform all obligations and duties imposed on it under the Installment Sale Agreement.

SECTION 9.02. Observance of Laws and Regulations. The City will observe and perform all valid and lawful obligations or regulations now or hereafter imposed on it by contract, or prescribed by any law of the United States or of the State of California, or by any officer, board or commission having jurisdiction or control, as a condition of the continued enjoyment of any and every right, privilege or franchise now owned or hereafter acquired by the City, including its right to exist and carry on business as a public agency, to the end that such rights, privileges and franchises shall be maintained and preserved, and will not become abandoned, forfeited or in any manner impaired.

SECTION 9.03. Recordation and Filing. The City will record and file all such documents as may be required by law (and shall take all further actions which may be necessary or be reasonably required by the Trustee), all in such manner, at such times and in such places as may be required by law in order fully to preserve, protect and perfect the security of the Trustee, the Certificate Insurer and the Certificate Owners.

SECTION 9.04. Tax Covenants.

(a) Private Business Use Limitation. The City shall assure that the proceeds of the Certificates are not used in a manner which would cause any of the obligations of the City under the Installment Sale Agreement to become "private activity bonds" under and within the meaning of Section 141(a) of the Tax Code.

(b) Private Loan Limitation. The City shall assure that no more than 5% of the aggregate amount of the proceeds of the Certificates are used, directly or indirectly, to make or finance a loan (other than loans constituting nonpurpose obligations as defined in the Tax Code or constituting assessments) to persons other than state or local government units.

(c) Federal Guarantee Prohibition. The City shall not take any action or permit or suffer any action to be taken if the result of the same would be to cause the obligations of the City under the Installment Sale Agreement to be "federally guaranteed" within the meaning of Section 149(b) of the Tax Code.

(d) No Arbitrage. The City shall not take, or permit or suffer to be taken by the Trustee or otherwise, any action with respect to the proceeds of the Certificates or of any other obligations which, if such action had been reasonably expected to have been taken, or had been deliberately and intentionally taken, on the Closing Date, would have caused the obligations of the City under the Installment Sale Agreement to be "arbitrage bonds" within the meaning of Section 148(a) of the Tax Code.

(e) Rebate of Excess Investment Earnings to United States. The City shall calculate or cause to be calculated the Excess Investment Earnings in all respects at the times and in the manner required under the Tax Code. The City shall pay the full amount of Excess Investment Earnings to the United States of America in such amounts, at such times and in such manner as may be required under the Tax Code. Such payments shall be made by the City from any source of legally available funds of the City, including but not limited to from amounts on deposit in the Rebate Fund.

The City shall keep or cause to be kept, and retain or cause to be retained for a period of 6 years following the retirement of the Certificates, records of the determinations made under this subsection (e). In order to provide for the administration of this subsection (e), the City may provide for the employment of independent attorneys, accountants and consultants compensated on such reasonable basis as the City may deem appropriate. The Trustee has no duty or obligation to monitor or enforce compliance by the City of any of the requirements herein.

(f) Establishment of Rebate Fund. At the written request of a City Representative, the Trustee shall establish and maintain a special fund designated as the "Rebate Fund" to be held by the Trustee for the benefit of the City. The Trustee shall deposit into the Rebate Fund any amounts provided to it by the City for that purpose, and shall also transfer into the Rebate Fund any earnings received from the investment of amounts in the 2012 Project Fund or the Reserve Fund (to the extent permitted by Section 6.04), if and to the extent so directed in writing by a City Representative. At the written direction of the City, amounts on deposit in the Rebate Fund shall be disbursed by the Trustee for the purpose of making payments of Excess Investment Earnings in accordance with subsection (e) of this Section. If the City determines that any amounts held by the Trustee in the Rebate Fund are not required to make payments of Excess Investment Earnings, such amounts shall be transferred to the Installment Payment Fund at the written direction of the City.

SECTION 9.05. Continuing Disclosure. The City shall comply with and carry out all of the provisions of that certain Continuing Disclosure Certificate executed and delivered by the City as of the Closing Date, as originally executed and as it may be amended from time to time in accordance with its terms. Notwithstanding any other provision of this Trust Agreement, failure of the City to comply with such Continuing Disclosure Certificate does not constitute an Event of Default. However, any Participating Underwriter (as that term is defined in such Continuing Disclosure Certificate) or any Owner or beneficial owner of the Certificates may take such actions as may be necessary and appropriate to compel performance by the City of its obligations under this Section, including seeking mandate or specific performance by court order.

SECTION 9.06. Rights Under Certificate Insurance Policy. So long as the Certificate Insurance Policy remains in force and effect, the Trustee shall comply with all of the provisions thereof which are required to be complied with to ensure timely payment of the principal and interest represented by the Certificates when due. Without limiting the generality of the foregoing, the Trustee shall comply with the following provisions:

(a) In the event that, on the 2nd Business Day, and again on the Business Day, prior to any payment date on the Certificates, the Trustee has not received sufficient moneys to pay

all principal and interest represented by the Certificates due on the 2nd following or following, as the case may be, Business Day, the Trustee shall immediately notify the Certificate Insurer or its designee on the same Business Day by telephone or telegraph, confirmed in writing by registered or certified mail, of the amount of the deficiency. If the deficiency is made up in whole or in part prior to or on the payment date, the Trustee shall so notify the Certificate Insurer or its designee. In addition, if the Trustee has notice that any Certificate Owner has been required to disgorge payments of principal or interest represented by the Certificates to a trustee in bankruptcy or creditors or others under a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Certificate Owner within the meaning of any applicable bankruptcy laws, then the Trustee shall notify the Certificate Insurer or its designee of such fact by telephone or telegraphic notice, confirmed in writing by registered or certified mail.

(b) The Trustee is hereby irrevocably designated, appointed, directed and authorized to act as attorney-in-fact for Owners of the Certificates as follows:

(i) If and to the extent there is a deficiency in amounts required to pay interest on the Certificates, the Trustee shall (A) execute and deliver to U.S. Bank Trust National Association, in New York, New York, or its successors under the Certificate Insurance Policy (the "Insurance Trustee"), in form satisfactory to the Insurance Trustee, an instrument appointing the Certificate Insurer as agent for such Owners in any legal proceeding related to the payment of such interest and an assignment to the Certificate Insurer of the claims for interest to which such deficiency relates and which are paid by the Certificate Insurer, (B) receive as designee of the respective Owners (and not as Trustee) in accordance with the tenor of the Certificate Insurance Policy payment from the Insurance Trustee with respect to the claims for interest so assigned, and (C) disburse the same to such respective Owners; and

(ii) If and to the extent of a deficiency in amounts required to pay principal of the Certificates, the Trustee shall (A) execute and deliver to the Insurance Trustee in form satisfactory to the Insurance Trustee an instrument appointing the Certificate Insurer as agent for such Owner in any legal proceeding relating to the payment of such principal and an assignment to the Certificate Insurer of any of the Certificates surrendered to the Insurance Trustee of so much of the principal amount thereof as has not previously been paid or for which moneys are not held by the Trustee and available for such payment (but such assignment shall be delivered only if payment from the Insurance Trustee is received), (B) receive as designee of the respective Owners (and not as Trustee) in accordance with the tenor of the Certificate Insurance Policy payment therefor from the Insurance Trustee, and (C) disburse the same to such Owners.

(c) Payments with respect to claims for interest and principal represented by the Certificates disbursed by the Trustee from proceeds of the Certificate Insurance Policy shall not be considered to discharge the obligation of the City with respect to such Certificates, and the Certificate Insurer shall become the owner of such unpaid Certificate and claims for the interest

in accordance with the tenor of the assignment made to it under the provisions of this subsection or otherwise. Irrespective of whether any such assignment is executed and delivered, the City and the Trustee hereby agree for the benefit of the Certificate Insurer that:

(i) They recognize that to the extent the Certificate Insurer makes payments, directly or indirectly (as by paying through the Trustee), on account of principal or interest represented by the Certificates, the Certificate Insurer will be subrogated to the rights of such Owners to receive the amount of such principal and interest from the City, with interest thereon as provided and solely from the sources stated in this Trust Agreement and the Certificates; and

(ii) They will accordingly pay to the Certificate Insurer the amount of such principal and interest (including principal and interest recovered under subparagraph (ii) of the first paragraph of the Certificate Insurance Policy, which principal and interest shall be deemed past due and not to have been paid), with interest thereon as provided in this Trust Agreement and the Certificates, but only from the sources and in the manner provided herein for the payment of principal of and interest on the Certificates to the Owners, and will otherwise treat the Certificate Insurer as the owner of such rights to the amount of such principal and interest.

(d) The City agrees to reimburse the Certificate Insurer immediately and unconditionally upon demand, to the extent permitted by law, for all reasonable expenses, including attorneys' fees and expenses, incurred by the Certificate Insurer in connection with (i) the enforcement by the Certificate Insurer of the City's obligations, or the preservation or defense of any rights of the Certificate Insurer, under this Trust Agreement and any other document executed in connection with the issuance of the Certificates, and (ii) any consent, amendment, waiver or other action with respect to this Trust Agreement or any related document, whether or not granted or approved, together with interest on all such expenses from and including the date incurred to the date of payment at Citibank's Prime Rate plus 3% or the maximum interest rate permitted by law, whichever is less. In addition, the Certificate Insurer reserves the right to charge a fee in connection with its review of any such consent, amendment or waiver, whether or not granted or approved.

(e) The Corporation and the City agree not to use the Certificate Insurer's name in any public document including, without limitation, a press release or presentation, announcement or forum without the Certificate Insurer's prior consent. If the Corporation or the City is advised by counsel that it has a legal obligation to disclose the Certificate Insurer's name in any press release, public announcement or other public document, the Corporation or the City shall provide the Certificate Insurer with at least 3 Business Days' prior written notice of its intent to use the Certificate Insurer's name together with a copy of the proposed use of the Certificate Insurer's name and of any description of a transaction with the Certificate Insurer and shall obtain the Certificate Insurer's prior consent as to the form and substance of the proposed use of the Certificate Insurer's name and any such description.

(f) The Corporation and the City will not enter into any agreement and will not consent to or participate in any arrangement under which Certificates are tendered or

purchased for any purpose other than the prepayment and cancellation or legal defeasance of such Certificates, without the prior written consent of the Certificate Insurer.

SECTION 9.07. Rights of the Certificate Insurer. For so long as either the Certificate Insurance Policy or the Surety Bond is outstanding, or amounts are owed to the Certificate Insurer, notwithstanding anything to the contrary set forth in this Trust Agreement, the City and the Corporation agree as follows:

(a) Notices. Any notice to be given to any party under this Trust Agreement shall also be given to the Certificate Insurer at _____.

(b) Amendments or Supplements. Any amendment or supplement to the Trust Agreement requiring the consent of the Owners of the Certificates shall also require the consent of the Certificate Insurer. The Corporation and the City agree to send a copy of any amendment or supplement requiring the consent of the Insurer to S&P. The Corporation and the City shall give the Certificate Insurer notice of any amendment or supplement made to the Trust Agreement which do not require consent of the Owners of the Bonds.

(c) Events of Default. Upon the occurrence of an Event of Default under the Trust Agreement, the Certificates Insurer shall be deemed the Owner of all Certificates, and shall have all the rights as the Owner of the Certificate as are specified in Article 9 hereof, provided that the Certificate Insurer shall not be in default under the Certificate Insurance Policy or the Surety Bond. Any acceleration of payments due with respect to the Certificates shall be subject to the consent of the Certificate Insurer.

(d) Certificate Insurer as Third Party Beneficiary. The Certificate Insurer is a third-party beneficiary hereunder and shall have the power to enforce any right, remedy or claim conferred, given or granted under this Trust Agreement.

(e) Subrogation. If principal and/or interest due with respect to the Certificates shall be paid by the Certificate Insurer, the Certificates shall remain outstanding under the Trust Agreement for all purposes, and shall not be deemed defeased or otherwise satisfied, or paid by the Corporation or the City, and the assignment and pledge of the Installment Payments and other amounts pledged to the payment of debt service with respect to the Certificates under this Trust Agreement, and all covenants, agreements and other obligations of the Corporation and the City to the Owners of the Certificates shall continue to exist and shall run to the benefit of the Insurer, and the Certificate Insurer shall be subrogated to the rights of such Owners.

SECTION 9.08. Further Assurances. The Corporation and the City will make, execute and deliver any and all such further resolutions, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance hereof and of the Installment Sale Agreement, and for the better assuring and confirming unto the Certificate Insurer and the Owners of the Certificates the rights and benefits provided herein.

ARTICLE X

LIMITATION OF LIABILITY

SECTION 10.01. Limited Liability of City and Corporation. Except for the payment of Installment Payments when due in accordance with the Installment Sale Agreement and the performance of the other covenants and agreements of the City contained in the Installment Sale Agreement and herein, the City has no pecuniary obligation or liability to the Corporation, the Trustee, the Certificate Insurer or the Owners of the Certificates with respect hereto or the terms, execution, delivery or transfer of the Certificates, or the distribution of Installment Payments to the Owners by the Trustee, except as expressly set forth herein.

The Corporation has no pecuniary obligation or liability to the Certificate Insurer, the City or the Trustee, or to any of the Owners of the Certificates, with respect to the performance by the City of its obligations under the Installment Sale Agreement or this Trust Agreement, with respect hereto or the terms, execution, delivery or transfer of the Certificates, or with respect to the distribution of Installment Payments to the Owners by the Trustee.

SECTION 10.02. No Liability for Trustee Performance. Neither the City nor the Corporation has any obligation or liability to any of the other parties or to the Certificate Insurer or the Owners of the Certificates with respect to the performance by the Trustee of any duty imposed on it hereunder.

SECTION 10.03. Indemnification of Corporation and Trustee. The City, to the extent permitted by law, shall indemnify the Corporation and Trustee, and their respective officers, agents and employees, against all claims, losses, costs, expenses, liability and damages, including legal fees and expenses, arising out of or in connection with any of the following:

(a) the use, maintenance, condition or management of, or from any work or thing done on, the Water System by the City,

(b) any breach or default on the part of the City in the performance of any of its obligations hereunder and any other agreement made and entered into for purposes of the Water System,

(c) any act of the City or of any of its agents, contractors, servants, employees, licensees with respect to the Water System,

(d) any act of any assignee of, or purchaser from the City or of any of its agents, contractors, servants, employees or licensees with respect to the Water System,

(e) the actions of any other party, including but not limited to the ownership, operation or use of the Water System by the City,

(f) the Trustee's exercise and performance of its powers and duties hereunder, or

(g) the execution, delivery and sale of the Certificates.

No indemnification is made under this Section or elsewhere herein for the willful misconduct or negligence by the Trustee or the Corporation, or their respective officers, agents, employees, successors or assigns. The City's obligations under Section 7.03 and this Section 10.03 survive the maturity and payment of the Certificates and the resignation or removal of the Trustee.

SECTION 10.04. Opinion of Counsel. Before being required to take any action, the Trustee may require an opinion of counsel acceptable to the Trustee, or an opinion of Bond Counsel acceptable to the Trustee with respect to any federal tax matters, or a verified certificate of any party hereto, or both, concerning the proposed action. If it does so in good faith, Trustee is protected in relying on any such opinion or certificate obtained by it.

SECTION 10.05. Limitation of Rights to Parties and Certificate Owners. Nothing herein or in the Certificates expressed or implied gives any person other than the City, the Corporation, the Trustee, the Certificate Insurer and the Owners of the Certificates, any legal or equitable right, remedy or claim under or in respect hereof or any covenant, condition or provision hereof; and all such covenants, conditions and provisions are and shall be for the sole and exclusive benefit of the City, the Corporation, the Trustee, the Certificate Insurer and the Owners.

ARTICLE XI

EVENTS OF DEFAULT AND REMEDIES OF CERTIFICATE OWNERS

SECTION 11.01. Assignment of Rights. Under Section 5.01, the Corporation assigns to the Trustee all of the Corporation's rights in and to the Installment Sale Agreement (excepting only the Corporation's rights under Sections 4.8, 5.2 and 6.4 thereof), including without limitation all of the Corporation's rights to exercise such rights and remedies conferred on the Corporation under the Installment Sale Agreement as may be necessary or convenient (a) to enforce payment of the Installment Payments and any other amounts required to be deposited in the Installment Payment Fund, and (b) otherwise to exercise the Corporation's rights and take any action to protect the interests of the Trustee, the Certificate Insurer or the Certificate Owners upon the occurrence of an Event of Default.

SECTION 11.02. Remedies. If an Event of Default occurs, then and in each and every such case during the continuance of such Event of Default, with the prior written consent of the Certificate Insurer, the Trustee may, and at the written direction of the Certificate Insurer or (with the prior written consent of the Certificate Insurer) at the prior written direction of the Owners of a majority in aggregate principal amount of the Certificates then Outstanding after receiving indemnification to its satisfaction, the Trustee shall exercise any and all remedies available under law or granted under the Installment Sale Agreement.

SECTION 11.03. Application of Funds. All moneys received by the Trustee under any right given or action taken under the provisions of this Article XI or Article VI of the Installment Sale Agreement shall be applied by the Trustee in the following order:

> First, to the payment of the fees, costs and expenses of the Trustee in declaring and enforcing such Event of Default, including reasonable compensation to its or their agents, attorneys and counsel; and any outstanding fees and expenses of the Trustee incurred in the performance of its duties under the Trust Agreement and then to the Certificate Owners in declaring and enforcing such Event of Default, including reasonable compensation to its or their agents, attorneys and counsel.
>
> Second, to the payment of the whole amount then owing and unpaid with respect to the Certificates for principal, and interest, and in case such moneys shall be insufficient to pay in full the whole amount so owing and unpaid with respect to the Certificates, then to the payment of such principal, and interest without preference or priority of principal over interest, or of interest over principal, or of any installment of interest over any other installment of interest, ratably to the aggregate of such principal and interest.
>
> Third, to the payment of any amounts due or to become due to the Certificate Insurer under the Certificate Insurance Policy.

SECTION 11.04. Institution of Legal Proceedings. If one or more Events of Default occur and are continuing, with the prior written consent of the Certificate Insurer the Trustee in its discretion may, and upon the written request of the Certificate Insurer or (with the prior written consent of the Certificate Insurer) at the written request of the Owners of a majority in principal amount of the Certificates then Outstanding, and upon being indemnified to its satisfaction therefor, shall, proceed to protect or enforce its rights or the rights of the Certificate Insurer or the Owners of Certificates by a suit in equity or action at law, either for the specific performance of any covenant or agreement contained herein, or in aid of the execution of any power herein granted, or by mandamus or other appropriate proceeding for the enforcement of any other legal or equitable remedy as the Trustee shall deem most effectual in support of any of its rights or duties hereunder.

SECTION 11.05. Non-waiver. Nothing in this Article XI or in any other provision hereof or in the Certificates, affects or impairs the obligation of the City, which is absolute and unconditional, to pay or prepay the Installment Payments as provided in the Installment Sale Agreement, or affects or impairs the right of action, which is also absolute and unconditional, of the Certificate Insurer and the Certificate Owners to institute suit to enforce and collect such payment. No delay or omission of the Trustee or of the Certificate Insurer or any Owner of any of the Certificates to exercise any right or power arising upon the happening of any Event of Default impairs any such right or power or waives any such Event of Default or acquiesces therein, and every power and remedy given by this Article XI to the Trustee, the Certificate Insurer or the Owners of Certificates may be exercised from time to time and as often as the Trustee, the Certificate Insurer or the Certificate Owners deem expedient.

SECTION 11.06. Remedies Not Exclusive. No remedy herein conferred upon or reserved to the Trustee or the Certificate Owners is intended to be exclusive of any other remedy, and every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing, at law or in equity or by statute or otherwise.

SECTION 11.07. Power of Trustee to Control Proceedings. If the Trustee, upon the occurrence of an Event of Default, takes any action, by judicial proceedings or otherwise, under its duties hereunder, whether on its own discretion or at the request of the Certificate Insurer or the Owners of a majority in aggregate principal amount of the Certificates then Outstanding, it shall have full power, in the exercise of its discretion for the best interests of the Certificate Insurer and the Owners of the Certificates, with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action.

SECTION 11.08. Limitation on Certificate Owners' Right to Sue. No Owner of any Outstanding Certificate has the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon this Trust Agreement, unless:

(a) such Owner has previously given to the Trustee written notice of the occurrence of an Event of Default;

(b) the Owners of a majority in aggregate principal amount of all the Certificates then Outstanding have requested the Trustee in writing to exercise the

powers hereinbefore granted or to institute such action, suit or proceeding in its own name;

(c) said Owners shall have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; and

(d) the Trustee has refused or failed to comply with such request for a period of 60 days after such written request has been received by, and said tender of indemnity has been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are hereby declared, in every case, to be conditions precedent to the exercise by any Owner of Certificates of any remedy hereunder; it being understood and intended that no one or more Owners of Certificates shall have any right in any manner whatever by its or their action to enforce any right hereunder, except in the manner herein provided, and that all proceedings at law or in equity with respect to an Event of Default shall be instituted, had and maintained in the manner herein provided and for the equal benefit of the Certificate Insurer and all Owners of the Outstanding Certificates.

The right of any Owner of any Certificate to receive payment of said Owner's direct, undivided fractional interest in the Installment Payments as the same become due, or to institute suit for the enforcement of such payment, shall not be impaired or affected without the consent of such Owner, notwithstanding the foregoing provisions of this Section or any other provision hereof.

SECTION 11.09. Rights of the Certificate Insurer. Anything in this Trust Agreement to the contrary notwithstanding, upon the occurrence and continuation of an Event of Default, the Certificate Insurer is entitled to control and direct the enforcement of all rights and remedies granted hereunder to the Certificate Owners, or to the Trustee for the benefit of the Certificate Owners, including but not limited to the right to approve all waivers of any Events of Default. The rights granted to the Certificate Insurer hereunder shall be deemed terminated and shall not be exercisable by the Certificate Insurer during any period during which the Certificate Insurer is in payment default under the Certificate Insurance Policy.

ARTICLE XII

MISCELLANEOUS

SECTION 12.01. Discharge of this Trust Agreement. If and when the obligations represented by any Outstanding Certificates are paid and discharged in any one or more of the following ways:

(a) by paying or causing to be paid the principal, interest and prepayment premiums (if any) represented by such Certificates Outstanding when due; or

(b) by irrevocably depositing with the Trustee or any other fiduciary, under an escrow deposit and trust agreement, security for the payment of Installment Payments relating to such Certificates as more particularly described in Section 7.1 of the Installment Sale Agreement, said security to be held by the Trustee on behalf of the City to be applied by the Trustee or by such other fiduciary to pay or prepay such Installment Payments as the same become due, under Section 7.1 of the Installment Sale Agreement;

then, notwithstanding that such Certificates have not been surrendered for payment, all rights hereunder of the Owners of such Certificates and all obligations of the Corporation, the Trustee and the City with respect to such Certificates shall cease and terminate, except only the obligations of the Trustee under Sections 2.07 and 2.08, and the obligation of the Trustee to pay or cause to be paid, from Installment Payments paid by or on behalf of the City from funds deposited under the preceding paragraph (b) of this Section, to the Owners of such Certificates not so surrendered and paid all sums represented thereby when due and in the event of deposits under the preceding paragraph (b), such Certificates will continue to represent direct, undivided fractional interests of the Owners thereof in the Installment Payments.

Any funds held by the Trustee, at the time of discharge of the obligations represented by all Outstanding Certificates as a result of one of the events described in the preceding paragraphs (a) or (b) of this Section, which are not required for the payment to be made to Owners, shall, upon payment in full of all fees and expenses of the Trustee (including attorneys' fees) then due, be paid over to the City.

Notwithstanding the foregoing provisions of this Section 12.01, if the principal, and interest represented by the Certificates are paid by the Certificate Insurer under the Certificate Insurance Policy, (a) the Certificates will remain Outstanding and will not be deemed to have been paid and discharged under this Section 12.01, (b) the obligations of the Trustee and the City will continue in full force and effect with respect to such Certificates, and (c) the Certificate Insurer will be fully subrogated to the rights of all Owners of the Certificates so paid.

SECTION 12.02. Notices. Any notice, request, complaint, demand or other communication hereunder shall be given by first class mail or personal delivery to the party entitled thereto at its address set forth below, or by telecopier or other form of telecommunication, at its number set forth below. Notice is effective either (a) upon transmission by fax or other form of telecommunication, (b) upon actual receipt after deposit in the United States mail, postage prepaid, or (c) in the case of personal delivery to any person,

upon actual receipt. The City, the Corporation, the Trustee or the Certificate Insurer may, by written notice to the other parties, from time to time modify the address or number to which communications are to be given hereunder.

If to the City or the Corporation:	City of Martinez 525 Henrietta Street Martinez, CA 94533 Attention: Finance Manager Fax: (925) _____
If to the Trustee:	U.S. Bank National Association One California Street, Suite 1000 San Francisco, California 94111 Attention: Corporate Trust Administration Fax: (415) 273-4590
If to the Certificate Insurer:	[to come]

The Corporation, the City and the Trustee shall give the Certificate Insurer a copy of any notice required to be delivered hereunder to Certificate Owners at the address set forth in this Section 12.02.

SECTION 12.03. Records. The Trustee will keep complete and accurate records of all moneys received and disbursed hereunder, which are available for inspection by the City, the Corporation, the Certificate Insurer and any Owner, or the agent of any of them, upon prior written request during regular business hours.

SECTION 12.04. Disqualified Certificates. In determining whether the Owners of the requisite aggregate principal amount of Certificates have concurred in any demand, request, direction, consent or waiver hereunder, Certificates which are owned or held by or for the account of the City or the Corporation (but excluding Certificates held in any employees' retirement fund) will be disregarded and deemed not to be Outstanding for the purpose of any such determination. For the purpose of determining whether the Trustee is protected in relying on any such demand, request, direction, consent or waiver, only Certificates which the Trustee knows to be so owned or held shall be disregarded. Upon request of the Trustee, the Corporation and the City shall specify in a certificate to the Trustee those Certificates disqualified pursuant to this Section and the Trustee may conclusively rely on such certificate.

SECTION 12.05. Payment of Certificates After Discharge. Notwithstanding any provisions hereof, but subject to any applicable laws of the State of California relating to the escheat of funds or property, any moneys held by the Trustee for the payment of the principal or interest represented by any Certificates and remaining unclaimed for 2 years after the principal represented by all of the Certificates has become due and payable (whether at maturity or upon call for prepayment or by acceleration as provided herein), if such moneys were so held at such date, or 2 years after the date of deposit of such moneys if deposited after said date when all of the Certificates became due and payable, shall be repaid to the City free from the trusts created hereby upon receipt of an indemnification agreement acceptable to the City and the Trustee indemnifying the Trustee with respect to claims of Owners of Certificates

which have not yet been paid, and all liability of the Trustee with respect to such moneys shall thereupon cease; *provided, however,* that before the repayment of such moneys to the City as aforesaid, the Trustee may (at the cost of the City) first mail, by first class mail postage prepaid, to the Owners of Certificates which have not yet been paid, at the respective addresses shown on the Registration Books, a notice, in such form as may be deemed appropriate by the Trustee with respect to the Certificates so payable and not presented and with respect to the provisions relating to the repayment to the City of the moneys held for the payment thereof. Any moneys so held by the Trustee will be held uninvested.

SECTION 12.06. Governing Law. This Trust Agreement shall be construed and governed in accordance with the laws of the State of California.

SECTION 12.07. Binding Effect; Successors; Benefits Limited to Parties. This Trust Agreement is binding on and inures to the benefit of the parties and their respective successors and assigns. Whenever herein either the Corporation, the City, the Certificate Insurer or the Trustee is named or referred to, such reference includes the successors or assigns thereof, and all the covenants and agreements contained herein by or on behalf of the Corporation, the City, the Certificate Insurer or the Trustee will bind and inure to the benefit of the respective successors and assigns thereof whether so expressed or not. Nothing herein expressed or implied confers on, or to gives to, any person or entity, other than the Corporation, the City, the Trustee, the Certificate Insurer or the Certificate Owners, any right, remedy or claim hereunder or by reason hereof or of any covenant, condition or stipulation contained herein. All covenants, stipulations, promises and agreements contained herein by or on behalf of the Corporation or the City are for the sole and exclusive benefit of the Corporation, the City, the Trustee, the Certificate Insurer and the Certificate Owners.

SECTION 12.08. Third-Party Beneficiary. The Certificate Insurer is a third-party beneficiary of this Trust Agreement.

SECTION 12.09. Execution in Counterparts. This Trust Agreement may be executed in several counterparts, each of which is an original and all of which constitute one and the same agreement.

SECTION 12.10. Delivery of Cancelled Certificates. Whenever provision is made herein for the surrender to or cancellation by the Trustee of any Certificates, the Trustee shall cancel and destroy such Certificates and shall deliver a certificate of destruction with respect thereto to the City.

SECTION 12.11. Corporation and City Representatives. Whenever under the provisions hereof the approval of the Corporation or the City is required, or a written certificate, requisition, direction or order is required to be delivered by the City or the Corporation to the Trustee, or the Corporation or the City is required to take some action at the request of the other, such approval or such request shall be given, and such certificate, requisition, direction or order shall be executed, for the Corporation by an Corporation Representative and for the City by a City Representative, and any party hereto is authorized to rely upon any such approval, request, certificate, requisition, direction or order.

SECTION 12.12. Headings. The headings or titles of the several Articles and Sections hereof, and any table of contents appended to copies hereof, are solely for convenience of reference and do not affect the meaning, construction or effect hereof. All references herein to "Articles", "Sections", and other subdivisions are to the corresponding Articles, Sections or subdivisions hereof; and the words "herein", "hereof", "hereunder" and other words of similar import refer to this Trust Agreement as a whole and not to any particular Article, Section or subdivision hereof.

SECTION 12.13. Waiver of Notice. Whenever the giving of notice by mail or otherwise is required hereunder, the giving of such notice may be waived in writing by the person entitled to receive it, and the giving or receipt of such notice is not a condition precedent to the validity of any action taken in reliance on such waiver.

SECTION 12.14. Severability of Invalid Provisions. If any one or more of the provisions contained herein or in the Certificates are for any reason be held to be invalid, illegal or unenforceable in any respect, then such invalidity, illegality or unenforceability will not affect any other provision hereof, and this Trust Agreement shall be construed as if such invalid or illegal or unenforceable provision had never been contained herein. The parties hereto hereby declare that they would have entered into this Trust Agreement and each and every other section, paragraph, sentence, clause or phrase hereof and authorized the delivery of the Certificates pursuant thereto irrespective of the fact that any one or more sections, paragraphs, sentences, clauses or phrases hereof may be held illegal, invalid or unenforceable.

IN WITNESS WHEREOF, the parties have executed this Trust Agreement as of the date and year first above written.

U.S. BANK NATIONAL ASSOCIATION, *as Trustee*

By _____
Authorized Officer

MARTINEZ PUBLIC IMPROVEMENT CORPORATION

By _____
Executive Director

CITY OF MARTINEZ

By _____
City Manager

APPENDIX A

DEFINITIONS

Unless the context clearly otherwise requires or unless otherwise defined herein, the capitalized terms in this Trust Agreement have the respective meanings specified in this Appendix A.

"Additional Payments" means the amounts payable by the City under Section 4.8 of the Installment Sale Agreement.

"Corporation" means the Martinez Public Improvement Corporation, a nonprofit public benefit corporation duly organized and existing under the laws of the State of California.

"Corporation Representative" means the Chairman, Executive Director or Treasurer of the Corporation, or any other person authorized by resolution of the Board of Directors of the Corporation to act on behalf of the Corporation under or with respect to the Installment Sale Agreement and this Trust Agreement.

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

"Bond Counsel" means (a) Jones Hall, A Professional Law Corporation, or (b) any other attorney or firm of attorneys of nationally recognized expertise with respect to legal matters relating to obligations the interest on which is excludable from gross income for purposes of federal income taxation under Section 103 of the Tax Code.

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

["Certificate Insurance Policy" means the financial guaranty insurance policy issued by the Certificate Insurer, insuring payment when due of principal and interest represented by the Certificates.]

["Certificate Insurer" means _____, including its successors, as issuer of the Certificate Insurance Policy.]

"Certificates" means the $[Principal Amount] aggregate principal amount of certificates of participation, designated the 2012 Certificates of Participation (City of Martinez Water Refunding and Improvement Project), executed and delivered hereunder and at any time Outstanding hereunder.

"Charges" means fees, tolls, assessments, rates and rentals prescribed under the laws of the State by the City for the services and facilities of the Water System furnished by the City.

"City" means the City of Martinez, a general law city and municipal corporation duly organized and existing under the laws of the State of California.

"City Representative" means the Mayor, City Manager or Finance Manager of the City, or any other person authorized by resolution of the City Council of the City to act on behalf of the City under or with respect to the Installment Sale Agreement and this Trust Agreement.

"Closing Date" means _____, 2012, being the day when the Certificates, duly executed by the Trustee, are delivered to the Original Purchaser.

"Costs of Issuance" means all items of expense directly or indirectly payable by or reimbursable to the City relating to the execution and delivery of the Installment Sale Agreement or the execution, sale and delivery of the Certificates, including but not limited to filing and recording costs, settlement costs, underwriter's discount and original issue discount (if any), printing costs, reproduction and binding costs, initial fees and charges of the Trustee and its counsel, initial charges of the Corporation, out-of-pocket expenses incurred by the City, financing discounts, legal fees and charges, financial and other professional consultant fees, costs of rating agencies for credit ratings, Certificate Insurance premium, fees for execution, transportation and safekeeping of the Certificates and charges and fees in connection with the foregoing.

"Costs of Issuance Fund" means the fund by that name established and held by the Trustee under Section 3.02.

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

(a) The principal amount of all Water Revenue Obligations payable by their terms in such period;

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

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

"Depository System Participant" means any participant in the Depository's book-entry system.

"DTC" means The Depository Trust Company, New York, New York, and its successors and assigns.

"Event of Default" means an event of default under the Installment Sale Agreement, as described in Section 6.1 thereof.

"Fair Market Value" means the price at which a willing buyer would purchase the investment from a willing seller in a bona fide, arm's length transaction (determined as of the

date the contract to purchase or sell the investment becomes binding) if the investment is traded on an established securities market (within the meaning of section 1273 of the Tax Code) and, otherwise, the term "Fair Market Value" means the acquisition price in a bona fide arm's length transaction (as referenced above) if (i) the investment is a certificate of deposit that is acquired in accordance with applicable regulations under the Tax Code, (ii) the investment is an agreement with specifically negotiated withdrawal or reinvestment provisions and a specifically negotiated interest rate (for example, a guaranteed investment contract, a forward supply contract or other investment agreement) that is acquired in accordance with applicable regulations under the Tax Code, (iii) the investment is a United States Treasury Security--State and Local Government Series that is acquired in accordance with applicable regulations of the United States Bureau of Public Debt, or (iv) any commingled investment fund in which the City and related parties do not own more than a ten percent (10%) beneficial interest therein if the return paid by the fund is without regard to the source of the investment.

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

"Fiscal Consultant" means any consultant or firm of such consultants appointed by the City and who, or each of whom: (a) is judged by the City to have experience in matters relating to the financing of water system enterprises; (b) is in fact independent and not under domination of the City; (c) does not have any substantial interest, direct or indirect, with the City other than as purchaser of the Certificates or any Parity Debt; and (d) is not connected with the City as an officer or employee of the City, but who may be regularly retained to make reports to the City.

"Fiscal Year" means the twelve-month period beginning on July 1 of any year and ending on June 30 of the next succeeding year, or any other twelve-month period selected by the City as its fiscal year.

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

"Governmental Loan" means a loan made by a Governmental Agency to the City which is secured by a pledge of Net Revenues and incurred by the City to finance improvements to the Water System pursuant to Section 5.9 of the Installment Sale Agreement.

"Gross Revenues" means, for any period of computation, all gross charges received for, and all other gross income and revenues derived by the City from, the ownership or operation of the Water System or otherwise arising from the Water System during such period, including but not limited to (a) all Charges received by the City for use of the Water System, (b) all receipts derived from the investment of funds held by the City or the Trustee under this Trust Agreement, (c) transfers from (but exclusive of any transfers to) any rate stabilization reserve

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

"Independent Accountant" means any accountant or firm of such accountants appointed and paid by the City, and who, or each of whom (a) is in fact independent and not under domination of the City; (b) does not have any substantial interest, direct or indirect, with the City; and (c) is not connected with the City as an officer or employee of the City, but who may be regularly retained to make annual or other audits of the books of or reports to the City.

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

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

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

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

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

"Installment Payment" means all payments required to be paid by the City on any date under Section 4.4 of the Installment Sale Agreement, including any amounts payable upon delinquent installments and including any prepayment thereof under Section 7.2 or 7.3 of the Installment Sale Agreement.

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

"Installment Payment Fund" means the fund by that name established and held by the Trustee under Section 5.02.

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

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

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

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

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

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

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

"Nominee" means (a) initially, Cede & Co. as nominee of DTC, and (b) any other nominee of the Depository designated under Section 2.05(a).

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

"Outstanding", when used as of any particular time with respect to Certificates, means (subject to the provisions of Section 12.05) all Certificates theretofore executed and delivered by the Trustee hereunder except (a) Certificates theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation; (b) Certificates paid and discharged in accordance with Section 12.01, provided that, if such Certificates are to be prepaid prior to maturity, notice of such prepayment has been given as provided in Section 4.03 or provision satisfactory to the Trustee has been made for the giving of such notice; and (c) Certificates in lieu of or in exchange for which other Certificates has been executed and delivered by the Trustee under Section 2.08.

"Owner", when used with respect to a Certificate, means the person in whose name the ownership of such Certificate shall be registered on the Registration Books.

"Parity Debt" means the 2003 Certificates (and 2003 Installment Sale Agreement), and all other bonds, notes or other obligations (including without limitation long-term contracts, loans,

sub-leases or other legal financing arrangements) of the City payable from and secured by a pledge of and lien upon any of the Net Revenues issued or incurred pursuant to Section 5.8 of the Installment Sale Agreement.

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

"Permitted Investments" means any of the following:

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

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

1. U.S. Export-Import Bank (Eximbank)
   Direct obligations or fully guaranteed certificates of beneficial ownership

2. Farmers Home Administration (FmHA)
   Certificates of Beneficial Ownership

3. Federal Financing Bank

4. Federal Housing Administration Debentures (FHA)

5. General Services Administration
   Participation Certificates

6. Government National Mortgage Association (GNMA or Ginnie Mae)
   GNMA - guaranteed mortgage-backed bonds
   GNMA - guaranteed pass-through obligations
   (these obligations are not acceptable for certain cash flow sensitive issues)

7. U.S. Maritime Administration Guaranteed Title XI financing

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

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

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

D. Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of AAAm-G; AAA-m; or AA-m and if rated by Moody's rated Aaa, Aal or Aa2 including funds for which the Trustee, its parent holding company, if any, or any affiliates or subsidiaries of the Trustee provide investment advisory or other management services.

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

F. Certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by FDIC, including BIF and SAIF which may include those of the Trustee and its affiliates.

G. Investment Agreements, including GIC's, Forward Purchase Agreements and Reserve Fund Put Agreements acceptable to XLCA.

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

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

J. Federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of "Prime – 1" or "A3" or better by Moody's and "A-1" or "A" or better by S&P which may include those of the Trustee and its affiliates.

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

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

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

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

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

2. The written repurchase agreement must include the following:

a. Securities which are acceptable for transfer are:

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

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

(3) Obligations of FNMA and FHLMC

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

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

d. Valuation of Collateral.

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

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

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

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

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

N. Other forms of investments (including repurchase agreements) approved in writing by the Certificate Insurer.

"Project" means the 1999 Project and the 2012 Project.

"Rate Stabilization Fund" means any fund established and held by the City as a fund for the stabilization of rates and charges imposed by the City with respect to the Water System, which fund is established, held and maintained in accordance with Section 4.6 of the Installment Sale Agreement.

"Rating Agency" means, as of any date, each nationally-recognized municipal bond rating agency which then maintains a rating on the Certificates.

"Rebate Fund" means the fund by that name established and held by the Trustee under Section 9.04(f).

"Record Date" means the close of business on the 15th day of the month preceding each Interest Payment Date, whether or not such 15th day is a Business Day.

"Registration Books" means the records maintained by the Trustee under Section 2.11 for registration of the ownership and transfer of ownership of the Certificates.

"Reserve Fund" means the fund by that name established and held by the Trustee under Section 3.04.

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

"Securities Depositories" means DTC; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other securities depositories as the City may designate in a written request of the City delivered to the Trustee.

"S&P" means Standard & Poor's Corporation, its successors and assigns.

["Surety Bond" means the debt service reserve surety bond of the Certificate Insurer in the amount of $_____ credited to the Reserve Fund.]

"Tax Code" means the Internal Revenue Code of 1986 as in effect on the Closing Date or (except as otherwise referenced herein) as it may be amended to apply to obligations issued on the Closing Date, together with applicable proposed, temporary and final regulations promulgated, and applicable official guidance published, under the Tax Code.

"Term" means, when used with respect to the Installment Sale Agreement, the time during which the Installment Sale Agreement is in effect, as provided in Section 4.2 thereof.

"Trust Agreement" means this Trust Agreement, together with any amendments or supplements hereto permitted to be made hereunder.

"Trust Office" means, with respect to the Trustee, the corporate trust office of the Trustee at its address set forth in Section 12.02; provided, however, that for purposes of the payment, prepayment, cancellation, surrender, transfer or exchange of certificates, such term shall mean the office or agency of the Trustee at which, at any particular time, its corporate trust agency business shall be conducted, or at such other or additional offices as may be specified by the Trustee in writing to the City.

"Trustee" means U.S. Bank National Association, or any successor thereto acting as Trustee hereunder.

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

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

"2012 Project Fund" means the fund by that name established and held by the Trustee under Section 3.03.

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

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

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

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

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

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

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

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

"Water Revenue Fund" means the fund by that name held by the City as set forth in Section 4.5 of the Installment Sale Agreement.

"Water Revenue Obligations", means collectively, the 2003 Certificates, the Installment Sale Agreement and any Parity Debt (including Governmental Loans) issued after the date hereof in accordance with Sections 5.8 of the Installment Sale Agreement.

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

APPENDIX B

[FORM OF CERTIFICATE OF PARTICIPATION]

R-__ ***$_____***

2012 CERTIFICATE OF PARTICIPATION
(CITY OF MARTINEZ WATER REFUNDING AND IMPROVEMENT PROJECT)

Evidencing the Direct, Undivided Fractional Interest of the Owner Hereof in Installment Payments to be Made by the

CITY OF MARTINEZ, CALIFORNIA

As the Purchase Price For Certain Property Under an Installment Sale Agreement with the Martinez Public Improvement Corporation

RATE OF INTEREST: MATURITY DATE: ORIGINAL ISSUE DATE: CUSIP:
_____, 2012

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT: DOLLARS

THIS IS TO CERTIFY THAT the Registered Owner identified above, or registered assigns, as the registered owner (the "Registered Owner") of this Certificate of Participation (this "Certificate") is the owner of a direct, undivided fractional interest in Installment Payments (the "Installment Payments") payable by the City of Martinez, a municipal corporation duly organized and existing under the laws of the State of California (the "City") under an Installment Sale Agreement dated as of January 1, 2012 (the "Installment Sale Agreement") between the City and the Martinez Public Improvement Corporation, a nonprofit public benefit corporation duly organized and existing under the laws of the State of California (the "Corporation"), as the purchase price for certain property which is to be used in the water system of the City (the "Water System"). The Installment Payments and certain other rights and interests under the Installment Sale Agreement have been assigned to U.S. Bank National Association, as trustee (the "Trustee"), having a corporate trust office in San Francisco, California or such other place as designated by the Trustee (the "Trust Office").

The Registered Owner of this Certificate is entitled to receive, subject to the terms of the Installment Sale Agreement, on the Maturity Date identified above, or any earlier prepayment date, the Principal Amount identified above representing a direct, undivided fractional share of the portion of the Installment Payments designated as principal, and to receive on June 1 and December 1 of each year, commencing June 1, 2012 (the "Interest Payment Dates") until

payment in full of said principal, the Registered Owner's direct, undivided fractional share of the Installment Payments designated as interest coming due during the interest period immediately preceding each of the Interest Payment Dates. Interest represented hereby shall be payable from the Interest Payment Date next preceding the date of execution of this Certificate unless (a) this Certificate is executed after the close of business on the 15th day of the month immediately preceding an Interest Payment Date and on or before such Interest Payment Date, in which event interest shall be payable from such Interest Payment Date, or (b) unless this Certificate is executed on or before May 15, 2012, in which event interest shall be payable from the Original Issue Date identified above. The Registered Owner's share of the portion of the Installment Payments designated as interest is the result of the multiplication of the aforesaid share of the portion of the Installment Payments designated as principal by the Rate of Interest per annum identified above, calculated on the basis of a 360-day year comprised of twelve 30-day months. Principal and prepayment premium (if any) represented hereby is payable in lawful money of the United States of America upon surrender hereof at the Trust Office of the Trustee. Interest represented hereby is payable by check mailed by first class mail by the Trustee on each Interest Payment Date to the Registered Owner at such Owner's address as it appears on the registration books of the Trustee as of the close of business on the 15th day of the preceding month; *provided, however,* that at the written request of the owner of Certificates in an aggregate principal amount of at least $1,000,000, which written request is on file with the Trustee as of the 15th day of the month preceding an Interest Payment Date, interest represented by such Certificates shall be paid on such Interest Payment Date by wire transfer in immediately available funds to such account within the United States of America as shall be specified in such request.

This Certificate has been executed and delivered by the Trustee under the terms of a Trust Agreement dated as of January 1, 2012, among the Trustee, the Corporation and the City (the "Trust Agreement"). The City has certified that it is authorized to enter into the Installment Sale Agreement and the Trust Agreement under the laws of the State of California, for the purpose of refunding Certificates of Participation executed and delivered in 1999, and financing the acquisition, construction and improvement of properties used for the public purposes of the City relating to its Water System. Reference is hereby made to the Installment Sale Agreement and the Trust Agreement (copies of which are on file at the Trust Office of the Trustee) for a description of the terms on which the Certificates are delivered, the rights thereunder of the owners of the Certificates, the rights, duties and immunities of the Trustee, and the rights and obligations of the City under the Installment Sale Agreement, to all of the provisions of the Installment Sale Agreement and the Trust Agreement the Registered Owner of this Certificate, by acceptance hereof, assents and agrees.

The City is obligated under the Installment Sale Agreement to pay the Installment Payments from the Net Revenues of the Water System (as those terms are defined in the Installment Sale Agreement). The obligation of the City to pay the Installment Payments does not constitute an obligation of the City for which the City is obligated to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation. The obligation of the City to pay the Installment Payments does not constitute a debt of the City, the State of California or any of its political subdivisions, and does not constitute an indebtedness within the meaning of any constitutional or statutory debt limitation or restriction.

The Certificates maturing on or after December 1, 20__, are subject to optional prepayment in whole or in part on any date on or after December 1, 20__, from prepayments of the Installment Payments made at the option of the City under the Installment Sale Agreement, at a prepayment price equal to the principal amount of Certificates or portions thereof to be prepaid, plus accrued interest represented thereby to the prepayment date, without premium:

The Certificates maturing on December 1, 20__, are subject to mandatory prepayment in part by lot on December 1 in each year on and after December 1, 20__ from the principal components of scheduled Installment Payments required to be paid by the City pursuant to the Installment Sale Agreement with respect to each such prepayment date, at a prepayment price equal to the principal amount thereof to be prepaid, together with accrued interest to the date fixed for prepayment, without premium, as follows:

Year (December 1)	Principal Amount of Certificates to be Prepaid

As provided in the Trust Agreement, notice of prepayment shall be mailed by the Trustee by first class mail, postage prepaid, not less than 30 nor more than 60 days before the prepayment date, to the registered owners of the Certificates to be prepaid, but neither failure to receive such notice nor any defect in the notice so mailed shall affect the sufficiency of the proceedings for prepayment or the cessation of accrual of interest represented thereby. If this Certificate is called for prepayment and payment is duly provided therefor as specified in the Trust Agreement, interest represented hereby shall cease to accrue from and after the date fixed for prepayment. Any notice of prepayment is rescindable as provided in the Trust Agreement.

This Certificate is transferable by the Registered Owner hereof, in person or by his attorney duly authorized in writing, at the Trust Office of the Trustee, but only in the manner, subject to the limitations and upon payment of the charges, if any, provided in the Trust Agreement and upon surrender and cancellation of this Certificate. Upon such transfer a new Certificate or Certificates, of authorized denomination or denominations, representing the same aggregate principal amount and representing the same rate of interest, will be delivered to the transferee in exchange herefor. The City, the Corporation and the Trustee may treat the Registered Owner hereof as the absolute owner hereof for all purposes, whether or not this Certificate shall be overdue, and the City, the Corporation and the Trustee shall not be affected by any notice to the contrary.

To the extent and in the manner permitted by the terms of the Trust Agreement, the provisions of the Trust Agreement may be amended by the parties thereto with the written consent of the owners of a majority in aggregate principal amount of the Certificates then outstanding, and may be amended without such consent under certain circumstances; provided that no such amendment shall extend the fixed maturity of any Certificate or reduce the interest or principal represented thereby, without the express consent of the owner of such Certificate.

The Trustee has executed this Certificate solely in its capacity as Trustee under the Trust Agreement and not in its individual or personal capacity. The Trustee is not liable for the

obligations evidenced by the Certificates except from amounts held by it in its capacity as Trustee under the Trust Agreement.

The City has certified, recited and declared that all things, conditions and acts required by the laws of the State of California, the Installment Sale Agreement and the Trust Agreement to exist, to have happened and to have been performed precedent to and in the delivery of the Certificates, do exist, have happened and have been performed in due time, form and manner as required by law.

IN WITNESS WHEREOF, this Certificate has been executed and delivered by U.S. Bank National Association, as trustee, acting under the Trust Agreement.

Execution Date:

U.S. BANK NATIONAL ASSOCIATION,
as Trustee

By: _____
Authorized Officer

STATEMENT OF INSURANCE

[to come]

ASSIGNMENT

For value received the undersigned do(es) hereby sell, assign and transfer unto

_____

_____

_____

(Name, Address and Tax Identification or Social Security Number of Assignee)

the within registered Certificate and hereby irrevocably constitute(s) and appoint(s) _____ attorney, to transfer the same on the registration books of the Trustee with full power of substitution in the premises.

Dated: _____

Signature Guaranteed:

_____

Note: Signature(s) must be guaranteed by an eligible guarantor institution (banks, stockbrokers, saving and loan associations and credit unions with membership in an approved signature medallion program) under Securities and Exchange Commission Rule 17Ad-15.

_____

Note: The signature(s) on this Assignment must correspond with the name(s) as written on the face of the within Certificate in every particular without alteration or enlargement or any change whatsoever.

APPENDIX C

REDEMPTION AND PREPAYMENT SCHEDULE FOR THE 1999 CERTIFICATES

Payment Date	Principal Redeemed	Interest	Total
_____, 2012	$	$	$

PURCHASE CONTRACT

$_____
CITY OF MARTINEZ
2012 Certificates of Participation
(City of Martinez Water Refunding and Improvement Project)

_____, 2012

City of Martinez
525 Henrietta Street
Martinez, CA 94533

Ladies and Gentlemen:

The undersigned (the "**Underwriter**"), offers to enter into this purchase contract (the "**Purchase Contract**") with the City of Martinez (the "**City**"), which will be binding upon the City and the Underwriter upon the acceptance hereof by the City. This offer is made subject to its acceptance by the City by execution of this Purchase Contract and its delivery to the Underwriter on or before 5:00 p.m., California time, on the date hereof. All terms used herein and not otherwise defined have the meanings given to such terms in the Trust Agreement (as hereafter defined).

1. Purchase and Sale. Upon the terms and conditions and upon the basis of the representations, warranties and agreements hereinafter set forth, the Underwriter hereby agrees to purchase, and the City hereby agrees to cause to be delivered to the Underwriter, all (but not less than all) of the certificates of participation captioned above (the "**Certificates**") at a purchase price of $_____ (being an amount equal to the principal amount of the Certificates of $_____, *plus* net original issue premium of $_____, *less* an underwriter's discount of $_____).

2. Purpose; Authorizing Instruments and Law; Security for the Certificates. The proceeds of the sale of the Certificates will be used primarily to (i) prepay and defease certain outstanding certificates of participation executed and delivered in 1999 in order to finance improvements to the City's system for the transportation, treatment and distribution of water (the "**Water System**"), and (ii) finance the acquisition and construction of improvements to the Water System.

The City will acquire certain facilities from the Martinez Public Improvement Corporation (the "**Corporation**") under an Installment Sale Agreement, dated as of January 1, 2012, by and between the City and the Corporation (the "**Installment Sale Agreement**"). The Certificates will evidence and represent fractional undivided interests of the owners thereof in installment payments (the "**Installment Payments**") to be made by the City to the Corporation pursuant to the Installment Sale Agreement. The Certificates will be executed and delivered pursuant to a Trust Agreement, dated as of January 1, 2012 (the "**Trust Agreement**"), by and among U.S. Bank National Association, as trustee (the "**Trustee**"), the Corporation and the City. The Certificates shall be as described in the Trust Agreement and the Official Statement (as hereafter defined).

The payment of Installment Payments is secured by a pledge of the "**Net Revenues**" (as defined in the Installment Sale Agreement) of the Water System.

The City's pledge of Net Revenues to the Installment Payments is on a parity with the City's pledge of Net Revenues to the payment of installment payments securing a portion of a series of certificates of participation captioned "$7,795,000 Certificates of Participation (2003 Refinancing Project)" (the "**Outstanding Parity Debt**") executed and delivered in March 2003 under a Trust Agreement dated as of March 1, 2003, among the City, the Corporation and the Trustee.

Concurrently with execution and delivery of the Certificates, _____ (the "**Insurer**") will issue (i) a financial guaranty insurance policy (the "**Financial Guaranty Insurance Policy**") to insure payment of principal of and interest with respect to the Certificates, and (ii) a debt service reserve fund surety bond (the "**Surety Bond**").

3. Public Offering. The Underwriter agrees to make a bona fide public offering of all the Certificates initially at the public offering prices (or yields) set forth on Appendix A attached hereto and incorporated herein by reference. Subsequent to the initial public offering, the Underwriter reserves the right to change the public offering prices (or yields) as it deems necessary in connection with the marketing of the Certificates, provided that the Underwriter may not change the interest rates set forth on Appendix A. The Certificates may be offered and sold to certain dealers at prices lower than such initial public offering prices.

4. Delivery of Official Statement; Continuing Disclosure. Pursuant to the authorization of the City, the Underwriter has distributed copies of the Preliminary Official Statement dated _____, 2012, relating to the Certificates (the "**Preliminary Official Statement**") to prospective purchasers of the Certificates. By its acceptance of this proposal, the City hereby ratifies such use by the Underwriter of the Preliminary Official Statement; and the City agrees to approve a final Official Statement relating to the Certificates (the "**Official Statement**") which will consist of the Preliminary Official Statement with such changes as may be made thereto, with the approval of the City and the Underwriter, and to provide copies thereof to the Underwriter as set forth in Section 6(o) hereof. The Underwriter hereby agrees to deposit the Official Statement with a nationally recognized municipal securities information depository. The City hereby authorizes the Underwriter to use and distribute, in connection with the offer and sale of the Certificates, the Preliminary Official Statement, the Official Statement, the Trust Agreement, the Continuing Disclosure Certificate (defined below), the Installment Sale Agreement and this Purchase Contract and all information contained herein, and all other documents, certificates and statements furnished by the City to the Underwriter in connection with the transactions contemplated by this Purchase Contract.

In connection with distribution of the Preliminary Official Statement, the City will execute a certificate in the form attached hereto as Appendix B.

The City will undertake, pursuant to the Trust Agreement and a Continuing Disclosure Certificate (the "**Continuing Disclosure Certificate**"), to provide certain annual financial information and notices of the occurrence of certain listed events. A description of such undertaking is set forth in the Preliminary Official Statement and will also be set forth in the Official Statement.

5. The Closing. At 8:00 a.m., California time, on _____ , 2012, or at such other time or on such earlier or later business day as may be mutually agreed upon by the City and the Underwriter, the City will cause to be delivered (i) the Certificates, through the facilities of The Depository Trust Company, to the Underwriter in New York, New York, and (ii) the closing documents hereinafter mentioned at the offices of Jones Hall, A Professional Law Corporation ("**Special Counsel**"), San Francisco, California, or another place to be mutually agreed upon by the City and the Underwriter. The Underwriter will accept such delivery and pay the purchase price of the Certificates as set forth in Section 1 hereof in immediately available funds. This payment and delivery, together with the delivery of the aforementioned documents, is herein called the "**Closing**."

6. Representations, Warranties and Covenants. The City represents, warrants to and covenants with to the Underwriter that:

(a) *Due Organization Existence and Authority*. The City is a municipal corporation and general law city duly organized and existing under the Constitution and laws of the State of California (the "**State**"), with full right, power and authority to execute, deliver and perform its obligations under this Purchase Contract, the Trust Agreement, the Installment Sale Agreement and the Continuing Disclosure Certificate (collectively, the "**City Documents**") and to carry out and consummate the transactions on its part contemplated by the City Documents and the Official Statement.

(b) *Due Authorization and Approval*. By all necessary official action of the City, the City has duly authorized and approved the execution and delivery of, and the performance by the City of the obligations on its part contained in the City Documents; and as of the date hereof, such authorizations and approvals are in full force and effect and have not been amended, modified or rescinded. The City has complied, and will at the Closing be in compliance in all respects, with its obligations under the City Documents and the documents relating to the Outstanding Parity Debt (the "**Outstanding Parity Debt Documents**").

(c) *Official Statement Accurate and Complete*. The Preliminary Official Statement was as of its date, and the Official Statement is, and at all times subsequent to the date of the Official Statement up to and including the Closing will be, true and correct in all material respects, and the Preliminary Official Statement and the Official Statement contain and up to and including the Closing will contain no misstatement of any material fact and do not, and up to and including the Closing will not, omit any statement necessary to make the statements contained therein, in the light of the circumstances in which such statements were made, not misleading.

(d) *Underwriter's Consent to Amendments and Supplements to Official Statement*. The City will advise the Underwriter promptly of any proposal to amend or supplement the Official Statement and will not effect or consent to any such amendment or supplement without the consent of the Underwriter, which consent will not be unreasonably withheld. The City will advise the Underwriter promptly of the institution of any proceedings known to it by any governmental agency prohibiting or otherwise affecting the use of the Official Statement in connection with the offering, sale or distribution of the Certificates.

(e) *City Agreement to Amend or Supplement Official Statement*. If after the date of this Purchase Contract and until 25 days after the end of the "**underwriting period**"

(as defined below), any event occurs as a result of which the Official Statement as then amended or supplemented would include an untrue statement of a material fact, or omit to state any material fact necessary in order to make the statements contained therein, in the light of the circumstances under which they were made, not misleading, and, in the reasonable opinion of the Underwriter, an amended or supplemented Official Statement should be delivered in connection with the offers or sales of the Certificates to reflect such event, the City promptly will prepare at its expense an amendment or supplement which will correct such statement or omission and the City shall promptly furnish to the Underwriter a reasonable number of copies of such amendment or supplement. Unless the Underwriter otherwise advises the City in writing that the end of the underwriting period is another specified date, the end of the underwriting period shall be the day of Closing.

(f) *No Material Change in Finances*. At the time of the Closing, there shall not have been any material adverse changes in the financial condition of the City since the date hereof.

(g) *No Breach or Default*. As of the time of acceptance hereof and as of the time of the Closing, the City is not and will not be, in any manner which would adversely affect the transactions on the part of the City contemplated hereby and by the City Documents, in breach of or in default under any applicable constitutional provision, law or administrative rule or regulation of the State or the United States, or any applicable judgment or decree or any trust agreement, loan agreement, bond, note, resolution, ordinance, agreement or other instrument to which the City is a party or is otherwise subject, and no event has occurred and is continuing which, with the passage of time or the giving of notice, or both, would constitute, in any manner which would adversely affect the transactions on the part of the City contemplated hereby and by the City Documents, a default or event of default under any such instrument.

As of the time of acceptance hereof and as of the time of the Closing, the authorization, execution and delivery of the City Documents and compliance with the provisions of each of such agreements or instruments do not and will not conflict with or constitute a breach of or default under any applicable constitutional provision, law or administrative rule or regulation of the State or the United States, or any applicable judgment, decree, license, permit, trust agreement, loan agreement, bond, note, resolution, ordinance, agreement or other instrument to which the City (or any of its officers in their respective capacities as such) is subject, or by which it or any of its properties is bound, nor will any such authorization, execution, delivery or compliance result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of its assets or properties or under the terms of any such law, regulation or instrument, except as may be provided by the City Documents.

(h) *No Litigation*. As of the time of acceptance hereof and as of the date of the Closing, no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, government agency, public board or body, is pending with respect to which the City has been served with process, to the best knowledge of the City after due investigation, threatened

(i) in any way questioning the corporate existence of the City or the titles of the officers of the City to their respective offices;

(ii) affecting, contesting or seeking to prohibit, restrain or enjoin the execution and delivery of the Certificates, or in any way contesting or affecting the validity of the City Documents or the consummation of the transactions contemplated thereby, or contesting the exclusion of interest evidenced and represented by the Certificates from gross income for federal income tax purposes or contesting the powers of the City to enter into the City Documents;

(iii) which may result in any material adverse impact on the financial condition of the City; or

(iv) contesting the completeness or accuracy of the Preliminary Official Statement or the Official Statement or any supplement or amendment thereto or asserting that the Preliminary Official Statement or the Official Statement contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading,

and there is no known basis for any action, suit, proceeding, inquiry or investigation of the nature described in clauses (i) through (iv) of this sentence.

(i) *Further Cooperation; Blue Sky*. The City will furnish such information, execute such instruments and take such other action in cooperation with the Underwriter as the Underwriter may reasonably request in order (i) to qualify the Certificates for offer and sale under the Blue Sky or other securities laws and regulations of such states and other jurisdictions of the United States as the Underwriter may designate and (ii) to determine the eligibility of the Certificates for investment under the laws of such states and other jurisdictions; provided, however, that the City shall not be required to execute a general or special consent to service of process or qualify to do business in connection with any such qualification or determination in any jurisdiction.

(j) *Consents and Approvals*. All authorizations, approvals, licenses, permits, consents and orders of or filings with any governmental authority, legislative body, board, agency or commission having jurisdiction in the matters which are required for the due authorization of, which would constitute a condition precedent to or the absence of which would adversely affect the due performance by the City of its obligations in connection with, the City Documents have been duly obtained or made, except as may be required under the Blue Sky or securities laws of any state in connection with the offering and sale of the Certificates.

(k) *Validity and Enforceability of City Documents*. The City Documents, when executed and delivered by the City and other parties thereto, will be legally valid and binding obligations of the City enforceable in accordance with their respective terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws or equitable principles relating to or limiting creditors' rights generally.

(l) *No Other Obligations*. Other than the Outstanding Parity Debt, there is no other lien or encumbrance on the Net Revenues of the Water System on a senior or parity basis with the Certificates.

(m) *Certificates*. Any certificate signed by any official of the City and delivered to the Underwriter shall be deemed to be a representation and warranty by the City to the Underwriter as to the statements made therein.

(n) *Compliance With Rule 15c2-12*.

(i) The Preliminary Official Statement heretofore delivered to the Underwriter is deemed final by the City as of its date and as of the date hereof, except for the omission of such information as is permitted to be omitted in accordance with paragraph (b)(1) of Rule 15c2-12. The City hereby covenants and agrees that, within seven business days from the date hereof, the City shall cause a final printed form of the Official Statement to be delivered to the Underwriter in sufficient quantity to comply with paragraph (b)(4) of Rule 15c2-12 and Rules of the Municipal Securities Rulemaking Board.

(ii) The City has not previously failed to comply with any continuing disclosure obligation undertaken pursuant to Rule 15c2-12.

7. Closing Conditions. The Underwriter has entered into this Purchase Contract in reliance upon the representations, warranties and covenants of the City herein and the performance by the City of its obligations hereunder, both as of the date hereof and as of the date of the Closing. The Underwriter's obligations under this Purchase Contract are and shall be subject to the following additional conditions:

(a) *Bring-Down Representation*. The representations, warranties and covenants of the City contained herein shall be true and correct at the date hereof and at the time of the Closing, as if made on the date of the Closing.

(b) *Executed Agreements and Performance Thereunder*. At the time of the Closing (i) the City Documents shall be in full force and effect, and may not have been amended, modified or supplemented except with the written consent of the Underwriter, (ii) there shall be in full force and effect such resolutions as, in the opinion of Special Counsel, shall be necessary in connection with the transactions contemplated by the Official Statement and the City Documents, including without limitation the City Resolution and the Corporation Resolution (defined below), (iii) the City shall perform or have performed its obligations required as specified in this Purchase Contract or the City Documents to be performed at or prior to Closing, (iv) the Corporation shall perform or have performed its obligations required as specified in the Trust Agreement or the Installment Sale Agreement (collectively, the "**Corporation Documents**") to be performed at or prior to Closing, and (v) the Official Statement may not have been supplemented or amended, except pursuant to Paragraph 6(e) or as otherwise may have been agreed to in writing by the Underwriter.

(c) *No Default*. At the time of the Closing, no default may occur and exist under the City Resolution, the Corporation Resolution, the Corporation Documents or the City Documents, and the City shall not be in default in the payment of any of its bonded indebtedness or any of its other obligations, which default would adversely impact the ability of the City to make Installment Payments.

(d) *Termination Events*. The Underwriter shall have the right to terminate this Purchase Contract, without liability therefor, by written notification to the Corporation and the City if at any time at or prior to the Closing, any of the following occurs:

(1) The occurrence of any event that causes any statement contained in the Official Statement to be materially misleading or results in a failure of the Official Statement to state a material fact necessary to make the statements in the Official Statement, in the light of the circumstances under which they were made, not misleading.

(2) The marketability of the Certificates or the market price thereof, in the opinion of the Underwriter, is materially adversely affected by an amendment to the Constitution of the United States or by any legislation in or by the Congress of the United States or by the State, or the amendment of legislation pending as of the date of this Purchase Contract in the Congress of the United States, or the recommendation to Congress or endorsement for passage (by press release, other form of notice or otherwise) of legislation by the President of the United States, the Treasury Department of the United States, the Internal Revenue Service or the Chairman or ranking minority member of the Committee on Finance of the United States Senate or the Committee on Ways and Means of the United States House of Representatives, or the proposal for consideration of legislation by either such Committee or by any member thereof, or the presentment of legislation for consideration as an option by either such Committee, or by the staff of the Joint Committee on Taxation of the Congress of the United States, or the favorable reporting for passage of legislation to either House of the Congress of the United States by a Committee of such House to which such legislation has been referred for consideration, or any decision of any federal or State court or any ruling or regulation (final, temporary or proposed) or official statement on behalf of the United States Treasury Department, the Internal Revenue Service or other federal or State authority materially adversely affecting the federal or State tax status of the City or the Corporation, or the interest on bonds or notes or obligations of the general character of the Certificates.

(3) Any legislation, ordinance, rule or regulation is introduced in, or enacted by, any governmental body, department or agency of the State, or a decision by any court of competent jurisdiction within the State or any court of the United States is rendered, which, in the reasonable opinion of the Underwriter, materially adversely affects the market price of the Certificates.

(4) Legislation is enacted by the Congress of the United States, or a decision by a court of the United States is rendered, or a stop order, ruling, regulation or official statement by, or on behalf of, the Securities and Exchange Commission or any other governmental agency having jurisdiction of the subject matter is issued or made to the effect that the execution, delivery, offering or sale of securities of the general character of the Certificates, or the execution, delivery, offering or sale of the Certificates, including all underlying obligations, as contemplated hereby or by the Official Statement, is in violation or would be in violation of, or that securities of the general character of the Certificates, or the Certificates, are not exempt from registration under, any provision of the federal securities laws, including the Securities Act of 1933, as amended and as then in

effect, or that the Trust Agreement needs to be qualified under the Trust Indenture Act of 1939, as amended and as then in effect.

(5) Additional material restrictions not in force as of the date hereof are imposed upon trading in securities generally by any governmental authority or by any national securities exchange which restrictions materially adversely affect the Underwriter's ability to trade the Certificates.

(6) A general banking moratorium is established by federal or State authorities.

(7) The United States becomes engaged in hostilities which have resulted in a declaration of war or a national emergency or there has occurred any other outbreak of hostilities or a national or international calamity or crisis, financial or otherwise, the effect of such outbreak, calamity or crisis on the financial markets of the United States, being such as, in the reasonable opinion of the Underwriter, would affect materially and adversely the ability of the Underwriter to market or deliver the Certificates.

(8) Any rating of the securities of the City is downgraded, suspended or withdrawn by a national rating service, which, in the Underwriter's reasonable opinion, materially adversely affects the marketability or market price of the Certificates.

(9) The commencement of any action, suit or proceeding described in paragraphs 6(h) hereof which, in the judgment of the Underwriter, materially adversely affects the market price of the Certificates.

(10) There is in force a general suspension of trading on the New York Stock Exchange.

(e) *Closing Documents*. At or prior to the Closing, the Underwriter shall receive (unless the context otherwise indicates) the following documents:

(1) *Final Opinion*. An approving opinion of Special Counsel dated the date of the Closing and substantially in the form included as Appendix D to the Official Statement, together with a letter from such counsel, dated the date of the Closing and addressed to the Underwriter, to the effect that the foregoing opinion addressed to the City may be relied upon by the Underwriter to the same extent as if such opinion were addressed to it.

(2) *Supplemental Opinion*. A supplemental opinion of Special Counsel addressed to the Underwriter, in form and substance acceptable to the Underwriter, and dated the date of the Closing substantially to the following effect:

(i) The statements contained in the Official Statement under the captions "THE CERTIFICATES," "SECURITY FOR THE CERTIFICATES," and "TAX MATTERS," and in Appendix A and Appendix D thereto, excluding any material that may be treated as included under such captions by cross-reference, insofar as such

statements expressly summarize certain provisions of the Certificates, the Trust Agreement, the Installment Sale Agreement and the form and content of Special Counsel's opinion, are accurate in all material respects; and

(ii) The Certificates are not subject to the registration requirements of the Securities Act of 1933, as amended, and the Trust Agreement is exempt from qualification pursuant to the Trust Indenture Act of 1939, as amended (provided no opinion need be expressed with respect to the Financial Guaranty Insurance Policy or the Surety Bond issued by the Insurer).

(3) *City Attorney Opinion*. An opinion of Walter & Pistole, Sonoma, California, as City Attorney, dated the date of the Closing and addressed to the Underwriter, in form and substance acceptable to the Underwriter substantially to the following effect:

(i) The City is a municipal corporation and general law city, duly organized and validly existing under the Constitution and the laws of the State of California.

(ii) The City has full legal power and lawful authority to enter into the City Documents.

(iii) The City Documents have been duly authorized, executed and delivered by the City and constitute the legal, valid and binding agreements of the City enforceable against the City in accordance with their respective terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization moratorium or similar laws or equitable principles relating to or limiting creditors' rights generally.

(iv) The resolutions ("**City Resolutions**") of the City approving and authorizing the execution and delivery of the City Documents, and approving the Official Statement, were duly adopted at one or more meetings of the City Council called and held pursuant to law and with all public notice required by law and at which a quorum was present and acting throughout and the City Resolutions are in full force and effect and have not been modified, amended or rescinded.

(v) The execution and delivery of the City Documents and compliance with the provisions thereof, under the circumstances contemplated thereby, do not and will not in any material respect conflict with, or constitute on the part of the City a breach of or default under, any agreement or other instrument to which the City is a party or by which it is bound or any existing law, regulation, court order or consent decree to which the City is subject.

(vi) No additional authorization, approval, consent, waiver or any other action by any person, board or body, public or private, not previously obtained is required as of the date of the Closing for the City to enter into the City Documents, or to perform its obligations thereunder.

(vii) Except as otherwise disclosed in the Official Statement, there is no litigation, proceeding, action, suit, or investigation at law or in equity before or by any court, governmental agency or body, pending or, to the best knowledge of such counsel after due investigation, threatened against the City, challenging the creation, organization or existence of the City, or the validity of the City Documents or seeking to restrain or enjoin the Installment Payments or in any way contesting or affecting the validity of the City Documents or any of the transactions referred to therein or contemplated thereby or contesting the authority of the City to enter into or perform its obligations under any of the City Documents, or under which a determination adverse to the City would have a material adverse effect upon the financial condition or the revenues of the City, or which, in any manner, questions or affects the right or ability of the City to enter into the City Documents or affects in any manner the right or ability of the City to make Installment Payments.

(4) *Trustee Counsel Opinion*. The opinion of counsel to the Trustee, dated the date of the Closing, addressed to the Underwriter, to the following effect:

(i) The Trustee has all necessary power to enter into, accept and administer the trust created under the Trust Agreement.

(ii) The Trust Agreement has been duly authorized, executed and delivered by the Trustee and the Trust Agreement constitutes the legal, valid and binding obligation of the Trustee enforceable in accordance with its terms, except as enforcement thereof may be limited by bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally and by the application of equitable principles, if equitable remedies are sought.

(iii) The Certificates have been executed by a duly authorized officer of the Trustee.

(5) *Corporation Counsel Opinion*. An opinion of Walter & Pistole, Sonoma, California, as general counsel to the Corporation, dated the date of the Closing and addressed to the Underwriter, in form and substance acceptable to the Underwriter substantially to the following effect:

(i) The Corporation is a nonprofit corporation duly organized and validly existing under the laws of the State of California.

(ii) The Corporation has full legal power and lawful authority to enter into the Corporation Documents.

(iii) The Corporation Documents have been duly authorized, executed and delivered by the Corporation and constitute the legal, valid and binding agreements of the Corporation enforceable against the Corporation in accordance with their respective terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization

moratorium or similar laws or equitable principles relating to or limiting creditors' rights generally.

(iv) The resolutions ("**Corporation Resolutions**") of the Corporation approving and authorizing the execution and delivery of the Corporation Documents, were duly adopted at meetings of the Board of Directors of the Corporation called and held pursuant to law and with all public notice required by law and at which a quorum was present and acting throughout. The Corporation Resolutions are in full force and effect and have not been modified, amended or rescinded.

(v) The execution and delivery of the Corporation Documents and compliance with the provisions thereof, under the circumstances contemplated thereby, do not and will not in any material respect conflict with, or constitute on the part of the Corporation a breach of or default under, any agreement or other instrument to which the Corporation is a party or by which it is bound or any existing law, regulation, court order or consent decree to which the Corporation is subject.

(vi) No additional authorization, approval, consent, waiver or any other action by any person, board or body, public or private, not previously obtained is required as of the date of the Closing for the Corporation to enter into the Corporation Documents, or to perform its obligations thereunder.

(vii) Except as otherwise disclosed in the Official Statement, there is no litigation, proceeding, action, suit, or investigation at law or in equity before or by any court, governmental agency or body, pending or, to the best knowledge of such counsel after due investigation, threatened against the Corporation, challenging the creation, organization or existence of the Corporation, or the validity of the Corporation Documents or in any way contesting or affecting the validity of the Corporation Documents or any of the transactions referred to therein or contemplated thereby or contesting the authority of the Corporation to enter into or perform its obligations under any of the Corporation Documents.

(6) *City Closing Certificate*. A certificate of the City, dated the date of the Closing, signed on behalf of the City by a duly authorized officer of the City, to the following effect:

(i) The representations, warranties and covenants of the City contained herein are true and correct in all material respects on and as of the date of the Closing as if made on the date of the Closing and the City has complied with all of the terms and conditions of this Purchase Contract required to be complied with by the City at or prior to the date of the Closing.

(ii) No event affecting the City has occurred since the date of the Official Statement which has not been disclosed therein or in any supplement or amendment thereto which event should be disclosed in the

Official Statement in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(7) *Corporation Closing Certificate*. A certificate of the Corporation, dated the date of the Closing, signed on behalf of the Corporation by a duly authorized officer of the Corporation, to the following effect:

(i) The Corporation is a nonprofit corporation duly created and lawfully existing under the laws of the State, with full right, power and authority to execute, deliver and perform its obligations under the Corporation Documents and to carry out and consummate the transactions on its part contemplated by the Corporation Documents and the Official Statement.

(ii) By all necessary official action, the Corporation has duly authorized and approved the execution and delivery of, and the performance by the Corporation of the obligations on its part contained in the Corporation Documents and as of the Closing Date, such authorizations and approvals are in full force and effect and have not been amended, modified or rescinded. The Corporation is in compliance in all material respects with the terms of the Corporation Documents.

(iii) The Corporation is not, in any manner which would adversely affect the transactions contemplated by the Corporation Documents, in breach of or in default under any applicable constitutional provision, law or administrative rule or regulation of the State or the United States, or any applicable judgment or decree or any trust agreement, loan agreement, bond, note, resolution, ordinance, agreement or other instrument to which the Corporation is a party or is otherwise subject, and no event has occurred and is continuing which, with the passage of time or the giving of notice, or both, would constitute, in any manner which would adversely affect the transactions contemplated by the Corporation Documents, a default or event of default under any such instrument. The authorization, execution and delivery of the Corporation Documents and compliance with the provisions of each of such agreements or instruments do not and will not conflict with or constitute a breach of or default under any applicable constitutional provision, law or administrative rule or regulation of the State or the United States or any applicable judgment, decree, license, permit, trust agreement, loan agreement, bond, note, resolution, ordinance, agreement or other instrument to which the Corporation (or any of its officers in their respective capacities as such) is subject, or by which it or any of its properties is bound, nor will any such authorization, execution, delivery or compliance result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of its assets or properties or under the terms of any such law, regulation or instrument, except as may be provided by the Corporation Documents.

(iv) There is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, government agency, public board or body, pending with respect to which the Corporation has been served

with process or, to the best knowledge of the Corporation after due investigation, threatened (a) in any way questioning the existence of the Corporation or the titles of the officers of the Corporation to their respective offices; (b) affecting, contesting or seeking to prohibit, restrain or enjoin the execution and delivery of the Certificates, or in any way contesting or affecting the validity of the Corporation Documents or the consummation of the transactions contemplated thereby, or contesting the powers of the Corporation to enter into the Corporation Documents; or (c) which may result in any material adverse impact on the financial condition of the Corporation, and there is no basis for any action, suit, proceeding, inquiry or investigation of the nature described in clauses (a) through (c) of this sentence.

(v) The Corporation Documents are valid and binding obligations of the Corporation enforceable in accordance with their respective terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws or equitable principles relating to or limiting creditors' rights generally.

(vi) All authorizations, approvals, licenses, permits, consents and orders of or filings with any governmental authority, legislative body, board, agency or commission having jurisdiction in the matters which are required for the due authorization of, which would constitute a condition precedent to or the absence of which would adversely affect the due performance by the Corporation of its obligations in connection with, the Corporation Documents have been duly obtained or made, except as may be required under the Blue Sky or securities laws of any state in connection with the offering and sale of the Certificates.

(vii) No event affecting the Corporation has occurred since the date of the Official Statement which has not been disclosed therein or in any supplement or amendment thereto which event should be disclosed in the Official Statement in order to make the statements with respect to the Corporation therein, in the light of the circumstances under which they were made, not misleading.

(8) *Trustee's Certificate*. A certificate of the Trustee, dated the date of Closing, addressed to the City and the Underwriter, in form and substance acceptable to the Underwriter, to the following effect:

(i) The Trustee has all necessary power to enter into, accept and administer the trust created under the Trust Agreement.

(ii) The Trust Agreement has been duly authorized, executed and delivered by the Trustee and the Trust Agreement constitutes the legal, valid and binding obligation of the Trustee enforceable in accordance with its terms, except as enforcement thereof may be limited by bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally and by the application of equitable principles, if equitable remedies are sought.

(iii) No consent, approval, authorization or other action by any governmental or regulatory authority having jurisdiction over the Trustee that has not been obtained is or will be required for the execution and delivery of the Trust Agreement or the performance by the Trustee of its duties and obligations under the Trust Agreement.

(iv) The Certificates have been executed by a duly authorized officer of the Trustee.

(v) The execution and delivery by the Trustee of the Trust Agreement and compliance with the terms thereof will not conflict with, or result in a violation or breach of, or constitute a default under, any loan agreement, indenture, bond, note, resolution or any other agreement or instrument to which the Trustee is a party or by which it is bound, or any law or any rule, regulation, order or decree of any court or governmental agency or body having jurisdiction over the Trustee or any of its activities or properties (except that no representation, warranty or agreement need be made by such counsel with respect to any federal or State securities or blue sky laws or regulations).

(vi) There is no action, suit, proceeding or investigation, at law or in equity, before or by any court or governmental agency, public board or body pending, or to the best knowledge of the Trustee, threatened against the Trustee which in the reasonable judgment of the Trustee would affect the existence of the Trustee or in any way contesting or affecting the validity or enforceability of the Trust Agreement or contesting the powers of the Trustee or its authority to enter into and perform its obligation thereunder.

(9) *Disclosure Counsel Letter.* A letter of Jones Hall, A Professional Law Corporation, disclosure counsel, dated the Closing Date, addressed to the City and the Underwriter, to the effect that:

(i) during the course of serving as counsel in connection with the execution and delivery of the Certificates and without having undertaken to determine independently or assuming any responsibility for the accuracy, completeness or fairness of the statements contained in the Official Statement, no information came to the attention of the attorneys in such firm rendering legal services in connection with the issuance of the Certificates that would lead them to believe that the Official Statement (excluding therefrom the financial statements, any financial or statistical data, or forecasts, charts, numbers, estimates, projections, assumptions or expressions of opinion included in the Official Statement, information regarding DTC and its book-entry system, or the Insurer and its Financial Guaranty Insurance Policy and Surety Bond, and the appendices to the Official Statement as to which no opinion need be expressed), as of the date thereof or the Closing Date, contains any untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(10) *Official Statement*. The Official Statement and each supplement or amendment, if any, thereto, executed on behalf of the City by a duly authorized officer of the City.

(11) *Documents*. An original executed copy of each of the Corporation Documents and each of the City Documents.

(12) *Resolutions*. Certified copies of the City Resolutions, certified by the City Clerk, and of the Corporation Resolutions, certified by the Secretary of the Corporation.

(13) *8038*. Evidence that the federal tax information form 8038-G has been prepared for filing.

(14) *Nonarbitrage Certificate*. A tax and nonarbitrage certificate in form satisfactory to Special Counsel, which shall be subject to receipt by Special Counsel of a certificate from the Underwriter in form and substance acceptable to Special Counsel.

(15) *CDIAC Statements*. A copy of the Notices of Sale required to be delivered to the California Debt Investment and Advisory Commission pursuant to Section 53583 of the California Government Code.

(16) *Financial Guaranty Insurance Policy; Surety Bond*. The Financial Guaranty Insurance Policy and the Surety Bond issued by the Insurer.

(17) *Insurer Certifications*. A certificate and/or opinion of counsel, satisfactory to the City and Special Counsel, of the Insurer regarding the enforceability of the Financial Guaranty Insurance Policy, the Surety Bond and the statements in the Official Statement regarding the Insurer, the Surety Bond and the Financial Guaranty Insurance Policy.

(18) *Ratings*. Evidence satisfactory to the Underwriter that the Certificates have been rated "_____" by Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("Standard & Poor's"), based on the Financial Guaranty Insurance Policy provided by the Insurer, evidence that Standard and Poor's has issued an underlying rating to the Certificates of "___", and evidence that none of these ratings has been revoked or downgraded.

(19) *Compliance with Outstanding Parity Debt Documents*. Evidence of compliance with the provisions of the Outstanding Parity Debt Documents with respect to issuance of obligations secured by Net Revenues on a parity with the Outstanding Parity Debt.

(20) *Additional Documents*. Such additional certificates, instruments and other documents as the Underwriter or its counsel may reasonably deem necessary.

If the City is unable to satisfy the conditions contained in this Section 7, or if the obligations of the Underwriter are terminated for any reason permitted by this Purchase

Contract, this Purchase Contract shall terminate and neither the Underwriter nor the City shall be under further obligation hereunder, except as further set forth in Section 8 hereof.

8. Expenses. The Underwriter shall be under no obligation to pay, and the City shall pay or cause to be paid, the expenses incident to the performance of the obligations of the City hereunder including but not limited to

(a) the costs of the preparation and printing, or other reproduction (for distribution on or prior to the date hereof) of the Corporation Documents, the City Documents, and the cost of preparing, printing, executing and delivering the Certificates;

(b) the fees and disbursements of the Trustee, any accountants or other experts or consultants retained by the City;

(c) the fees and disbursements of Special Counsel and Disclosure Counsel;

(d) the cost of preparation and printing of the Preliminary Official Statement and any supplements and amendments thereto and the cost of preparation and printing of the Official Statement, including a reasonable number of copies thereof for distribution by the Underwriter;

(e) the premium for the Financial Guaranty Insurance Policy and the Surety Bond and

(f) the fees of any rating agencies.

The Underwriter shall pay, and the City shall be under no obligation to pay, all expenses incurred by it in connection with the public offering and distribution of the Certificates, including without limitation the fees and expenses of its counsel, applicable CDIAC fees, and any advertising expenses.

9. Notice. Any notice or other communication to be given to the City under this Purchase Contract may be given by delivering the same in writing to such entity at the address first written above.

Any notice or other communication to be given to the Underwriter under this Purchase Contract may be given by delivering the same in writing to:

Brandis Tallman LLC
22 Battery Street, Suite 500
San Francisco, CA 94111

10. Entire Agreement. This Purchase Contract, when accepted by the City, shall constitute the entire agreement between the City and the Underwriter and is made solely for the benefit of the City and the Underwriter (including the successors or assigns of any Underwriter). No other person shall acquire or have any right hereunder by virtue hereof, except as provided herein. All of the City's representations, warranties and agreements in this Purchase Contract shall remain operative and in full force and effect, regardless of any investigation made by or on behalf of the Underwriter, until the earlier of (a) delivery of and payment for the Certificates hereunder, and (b) any termination of this Purchase Contract.

11. Counterparts. This Purchase Contract may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute but one and the same instrument.

12. Severability. If any one or more of the provisions contained herein is for any reason held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision hereof.

13. State Law Governs. The validity, interpretation and performance of this Purchase Contract shall be governed by the laws of the State.

14. No Assignment. The rights and obligations created by this Purchase Contract shall not be subject to assignment by the Underwriter or the City without the prior written consent of the other party hereto.

BRANDIS TALLMAN LLC

By_____
Authorized Representative

Accepted as of the date first stated above:

CITY OF MARTINEZ

By: _____
City Manager

APPENDIX A

MATURITY SCHEDULE

$_____
CITY OF MARTINEZ
2012 Certificates of Participation
(City of Martinez Water Refunding and Improvement Project)

$_____ Serial Certificates

Maturity Date (Dec. 1)	Principal Amount	Interest Rate	Yield	Price

$_____ _____% Term Certificates due December 1, 20__; Yield: _____%; Price: _____%

_____
C = priced to first par call date of _____, 20__.

APPENDIX B

CITY OF MARTINEZ
2012 Certificates of Participation
(City of Martinez Water Refunding and Improvement Project)

CERTIFICATE REGARDING FINALITY OF PRELIMINARY OFFICIAL STATEMENT

The undersigned hereby certifies and represents that he is the duly appointed and acting City Manager of the City of Martinez (the "**City**"), and as such is duly authorized to execute and deliver this Certificate and further hereby certifies and reconfirms on behalf of the City as follows:

(1) This Certificate is delivered in connection with the offering and sale of the certificates of participation captioned above (the "**Certificates**") in order to enable the underwriter of the Certificates to comply with Securities and Exchange Commission Rule 15c2-12 under the Securities Exchange Act of 1934 (the "**Rule**").

(2) In connection with the offering and sale of the Certificates, there has been prepared a Preliminary Official Statement, setting forth information concerning the Certificates, the City and the City's water system (the "**Preliminary Official Statement**").

(3) As used herein, "**Permitted Omissions**" shall mean the offering price(s), interest rate(s), selling compensation, aggregate principal amount, principal amount per maturity, delivery dates, ratings and other terms of the Certificates depending on such matters, all with respect to the Certificates.

(4) The Preliminary Official Statement is, except for the Permitted Omissions, deemed final within the meaning of Rule 15c2-12, and the information therein is accurate and complete except for the Permitted Omissions.

IN WITNESS WHEREOF, I have hereunto set my hand as of _____, 2012.

CITY OF MARTINEZ

By: _____
City Manager

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances will this Preliminary Official Statement constitute an offer to sell or a solicitation of an offer to buy nor will there be any sale of these securities in any jurisdiction in which such offer solicitation or sale would be unlawful.

PRELIMINARY OFFICIAL STATEMENT DATED _____, 2012

NEW ISSUE - BOOK-ENTRY ONLY

RATINGS:
_____:
Insured: "___"
Underlying: "___"
See "RATINGS"

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

$_____*
CITY OF MARTINEZ
2012 Certificates of Participation
(City of Martinez Water Refunding and Improvement Project)

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

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

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

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

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

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

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

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

Municipal Certificate Insurance. Concurrently with execution and delivery of the Certificates, _____ will issue its financial guaranty insurance policy for the Certificates, which unconditionally guarantees the payment of that portion of the principal of and interest represented by the Certificates that has become due for payment, but which is unpaid. See "CERTIFICATE INSURANCE AND DEBT SERVICE RESERVE FUND SURETY BOND" and "APPENDIX G - SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY."

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

MATURITY SCHEDULE

See inside front cover

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

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

BRANDIS TALLMAN LLC

The date of this Official Statement is _____ __, 2012.

_____

* Preliminary; subject to change.

MATURITY SCHEDULE*

$_____ Serial Certificates
(Base CUSIP†: _____)

Maturity Date (December 1)	Principal Amount	Interest Rate	Yield	Price	CUSIP† (_____)

$_____ _____% Term Certificates due December 1, 20__; Yield: _____%; Price: ____%
CUSIP† _____

* Preliminary; subject to change.

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

CITY OF MARTINEZ, CALIFORNIA

City Council

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

Elected Officials

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

City Staff

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

City Attorney

Walter & Pistole
Sonoma, California

Special Counsel and Disclosure Counsel
Jones Hall, A Professional Law Corporation
San Francisco, California

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

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

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

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

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

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

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

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

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

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

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APPENDIX D	PROPOSED FORM OF FINAL OPINION
APPENDIX E	FORM OF CONTINUING DISCLOSURE CERTIFICATE
APPENDIX F	BOOK ENTRY PROVISIONS
APPENDIX G	SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY
APPENDIX H	SPECIMEN DEBT SERVICE RESERVE FUND SURETY BOND

OFFICIAL STATEMENT

$_____*
CITY OF MARTINEZ
2012 Certificates of Participation
(City of Martinez Water Refunding and Improvement Project)

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

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

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

INTRODUCTION

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

Purposes. The Certificates are being executed and delivered to:

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

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

(iii) provide a debt service reserve fund for the Certificates by paying the premium for a debt service reserve fund surety bond, and

* Preliminary; subject to change.

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

See "FINANCING PLAN."

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

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

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

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

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

Certificate Insurance; Debt Service Reserve Fund Surety Bond. Concurrently with execution and delivery of the Certificates, _____ (the "**Insurer**") will issue its financial guaranty insurance policy (the **"Policy**") for the Certificates. The Policy unconditionally guarantees the payment of that portion of the principal of and interest represented by the Certificates that has become due for payment, but which is unpaid. See "CERTIFICATE INSURANCE AND DEBT SERVICE RESERVE FUND SURETY BOND" and "APPENDIX G - SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY."

The Insurer will also issue a debt service reserve fund surety bond for the Reserve Fund. See "SECURITY FOR THE CERTIFICATES - Reserve Fund" below, "CERTIFICATE INSURANCE AND DEBT SERVICE RESERVE FUND SURETY BOND" and "APPENDIX H - SPECIMEN DEBT SERVICE RESERVE FUND SURETY BOND" for more information.

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

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

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

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

The City and the Corporation. The City is located northeast of San Francisco in Contra Costa County. For other selected information concerning the City, see "APPENDIX B - CITY OF MARTINEZ GENERAL DEMOGRAPHIC AND FINANCIAL INFORMATION".

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

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

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

FINANCING PLAN

The 2012 Project

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

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

See "THE WATER SYSTEM – Projected Maintenance and Capital Improvements."

Prepayment Plan

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

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

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

Estimated Sources and Uses of Funds

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

SOURCES:	
Principal Amount of Certificates	$
Net Premium	
TOTAL SOURCES	$
USES:	
Deposit into Project Fund	$
Deposit into Escrow Fund [1]	
Costs of Issuance [2]	
Underwriter's Discount	
TOTAL USES	$

[1] To be used to defease and prepay the 1999 Certificates. See "–Prepayment Plan" above.

[2] Includes fees of Special Counsel, Disclosure Counsel and Trustee, premium for the Policy and a debt service reserve fund surety bond, and other costs of executing and delivering the Certificates.

THE CERTIFICATES

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

Authority for Execution and Delivery

The Certificates are being executed and delivered under the Trust Agreement, a resolution of the City Council adopted on _____, 2011, and a resolution of the Board of the Corporation adopted on _____, 2011. Under these resolutions, the Certificates may be executed and delivered in a maximum principal amount of $8,500,000.

General Certificate Terms

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

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

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

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

Notwithstanding the foregoing, while the Bonds are held in the book-entry only system of DTC, all such payments of principal, premium (if any) of, and interest with respect to, the Certificates will be made to Cede & Co. as the registered owner of the Certificates, for

subsequent disbursement to Participant and beneficial owners. See "APPENDIX F - BOOK ENTRY PROVISIONS."

Prepayment of the Certificates

Optional Prepayment*. The Certificates maturing on or after December 1, 20__, are subject to optional prepayment in whole or in part on any date on or after December 1, 20__, from prepayments of the Installment Payments made at the option of the City under the Installment Sale Agreement. The Certificates are subject to optional prepayment at a prepayment price equal to the principal amount of Certificates or portions thereof to be prepaid, plus accrued interest represented thereby to the prepayment date, without premium.

***Mandatory Sinking Account Prepayment*.** The Certificates maturing on December 1, 20__, are subject to mandatory prepayment in part by lot on December 1 in each year on and after December 1, 20__, from the principal components of scheduled Installment Payments required to be paid by the City under the Installment Sale Agreement with respect to each such prepayment date, at a prepayment price equal to the principal amount thereof to be prepaid, together with accrued interest to the date fixed for prepayment, without premium, as follows:

Year (December 1)	Principal Amount of Certificates to be Prepaid
(maturity)	

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

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

However, while the Certificates are subject to DTC's book-entry system, the Trustee will be required to give notice of prepayment only to DTC as provided in the letter of representations

* Preliminary; subject to change.

executed by the City and received and accepted by DTC. DTC and the Participants will have sole responsibility for providing any such prepayment notice to the beneficial owners of the Certificates to be prepaid. Any failure of DTC to notify any Participant, or any failure of Participants to notify the Beneficial Owner of any Certificates to be prepaid, of a notice of prepayment or its content or effect, will not affect the validity of the notice of prepayment, or alter the effect of prepayment set forth in the Trust Agreement.

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

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

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

Book-Entry System

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

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

SCHEDULE OF INSTALLMENT PAYMENTS

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

Bond Year Ending (Dec. 1)	2003 Certificates Debt Service	2012 Certificates Principal	2012 Certificates Interest	2012 Certificates Total Debt Service	Total Parity Debt Service

SECURITY FOR THE CERTIFICATES

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

General

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

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

Installment Payments

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

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

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

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

(a) all Charges received by the City for use of the Water System,

(b) all receipts derived from the investment of funds held by the City or the Trustee under the Trust Agreement,

(c) transfers from (but exclusive of any transfers to) any rate stabilization reserve accounts, and

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

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

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

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

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

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

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

Application of Revenues

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

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

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

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

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

(3) Reserve Fund. After making the payments, allocations and transfers described in subsections (1) and (2) above, if the balance in the Reserve Fund is less than the Reserve Requirement, the deficiency will be restored by transfers from the first moneys which become available in the Water Revenue Fund to the Trustee for deposit in the Reserve Fund in accordance with the Installment Sale Agreement; provided, however, that the Reserve Fund will be replenished in the following priority: (i) principal and interest on the Surety Bond will be paid from first Net Revenues, and (ii) after all such amounts are paid in full, amounts necessary to fund the Reserve Fund to the Reserve Requirement, after taking into account any amounts available under the Surety Bond, shall be deposited from next Net Revenues.

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

Limited Obligations

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

Outstanding Parity Debt

The 2003 Certificates were executed and delivered in March 2003 in the original principal amount of $7,795,000. The 2003 Certificates are secured by and payable from a combination of the 2003 Installment Payments, which are secured by a pledge of Net Revenues on a parity with the pledge securing the Installment Payments, and lease payments made by the City under a lease agreement between the City and the Corporation.

The 2003 Certificates mature in 2018 and are currently outstanding in the principal amount of $_____.

Limitations on Parity Debt

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

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

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

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

(b) The Net Revenues, calculated on sound accounting principles, as shown by the books of the City for the latest Fiscal Year or any more recent 12-month period selected by the City ending not more than 60 days prior to the adoption of the Parity Debt Instrument pursuant to which such Parity Debt is issued, as shown by the books of the City, plus, at the option of the City, any or all of the items described in paragraphs (i) and (ii) below, must at least equal 125% of Maximum Annual Debt Service, with Maximum Annual Debt Service calculated on all Water Revenue Obligations to be

Outstanding immediately subsequent to the issuance of such Parity Debt that have a lien on Net Revenues of the Water System.

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

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

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

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

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

Senior and Subordinate Obligations

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

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

that is junior and subordinate to the pledge of and lien upon the Net Revenues established under the Installment Sale Agreement.

Rate Covenants

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

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

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

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

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

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

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

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

Reserve Fund

Establishment and Reserve Requirement. Under the Trust agreement, the Trustee will establish and maintain a special fund designated as the "**Reserve Fund**" to be held by the Trustee in trust. The Reserve Fund will be initially funded and maintained in an amount equal to the "**Reserve Requirement**," which is defined in the Trust Agreement as the least of:

(i) Maximum Annual Debt Service under the Installment Sale Agreement;

(ii) 10% of the principal amount of the Certificates; or

(iii) 125% of Average Annual Debt Service under the Installment Sale Agreement.

Surety Bond. The City is initially funding the Reserve Fund with the deposit of a debt service reserve fund surety bond issued by the Insurer in the amount of the Reserve Requirement. See "CERTIFICATE INSURANCE AND DEBT SERVICE RESERVE FUND SURETY BOND" below.

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

To the extent the Trustee has drawn on the Surety Bond to make an Installment Payment on behalf of the City, and the Trustee thereafter receives payment of that Installment Payment from the City, the Trustee will pay that Installment Payment to the Insurer, as a reimbursement for the draw made on the Surety Bond.

Additional Covenants Regarding Water System

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

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

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

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

Any amounts received as awards as a result of the taking of all or any part of the Water System by the lawful exercise of eminent domain, if and to the extent that such right can be exercised against such property of the City, shall either (a) be used for the acquisition or construction of improvements and extension of the Water System, or (b) be applied on a pro rata basis to (i) prepay the Installment Payments on the next available prepayment date, and (ii) prepay any Parity Debt in accordance with the related Parity Debt Instrument.

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

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

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

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

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

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

CERTIFICATE INSURANCE AND DEBT SERVICE RESERVE FUND SURETY BOND

The following information has been supplied by the Insurer for inclusion in this Official Statement. No representation is made by the City or Underwriter as to the accuracy or completeness of the information.

The Insurer accepts no responsibility for the accuracy or completeness of this Official Statement or any other information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the Insurer and its affiliates set forth under this heading. In addition, the Insurer makes no representation regarding the Certificates or the advisability of investing in the Certificates.

General

TO COME

THE WATER SYSTEM

History

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

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

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

Management

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

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

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

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

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

Service Area

The City is the primary provider of water service within the corporate limits of the City and small areas in unincorporated Contra Costa County and the City of Pleasant Hill. The Water System's service area encompasses approximately 6 square miles, serving a population of approximately 37,000.

Water Storage and Distribution System

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

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

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

Sources of Water Supply

Existing Sources. The City's current water supply comes from the Contra Costa Water District and is delivered through the Contra Costa Canal, with intakes to the canal from Rock Slough, Old River, Victoria Canal, Middle River, Mallard Slough, and stored water in Contra Loma Reservoir, and Los Vaqueros Reservoir.

Historical Water Deliveries

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

Table 1
WATER DELIVERIES
(in acre-feet[2])
Fiscal Years 2006-07 through 2010-11

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

Source: City of Martinez.

Water Demand and Demand Management

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

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

1 Million gallons per day.

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

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

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

Environmental and Regulatory Issues Relating to the Water System

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

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

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

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

Projected Maintenance and Capital Improvements

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

The Water System Master Plan recommend conducting a separate Master Plan for the Water Treatment Plant, which is [in draft form is scheduled for adoption in December of 2011.] The recommended improvements in the draft plan were utilized in developing the projected improvements listed in Table 2 below.

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

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

- water main replacement projects,

• water main extension projects (including Alhambra Hills Drive, Palm Avenue, Muir Road and Morello Avenue),

• water storage projects (including Hillside Reservoir access and Webster Drive Hydropneumatic System Replacement project),

• a system-wide water meter replacement project, and

• Water Treatment Plant improvements (including major electrical improvements throughout the plant, chemical storage improvements, instrumentation upgrades, ozone system upgrades and piping, and valve and pump replacement).

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

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

Table 2
Capital Improvement Program Summary
($000s)

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

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

Source: City of Martinez.

Customer Base

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

Table 3
Active Water Service Connections

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

Source: City of Martinez.

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

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

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

[1] Represents Fire Service, Public Agencies and City Domestic.
Source: City of Martinez.

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

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

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

Source: City of Martinez.

Water Rates and Charges

Rate-Setting Process. The City establishes water rates through a 45-day notice and

public hearing process in compliance with Proposition 218. See "RISK FACTORS – Proposition 218." With the last water rate election the rates were indexed to the cost increase of raw water purchases. The annual water rate index increase has been between 2.5% and 3.5%.

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

The table below shows a 3-year history of water service charges for the Water System, which reflect the annual inflationary adjustment for each water rate class that commenced January 1, 2010. See "–Historical and Projected Rate Increases" below.

Table 6
Water Rate Structure

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

[1] Monthly service charge.
[2] By hundred cubic feet. Represents the combined volume charge and pumping charge for each Zone.
[3] Not subject to volume and pumping charges because no water sales in this zone.
Source: City of Martinez.

Connection Fees

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

Table 7
Connection Fees
Single Family Residential (single unit)

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

Source: City of Martinez.

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

Historical and Projected Rate Increases

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

Table 8
Water Rate Changes
2007 through 2009

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

Source: City of Martinez.

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

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

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

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

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

Billing, Collection and Delinquencies

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

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

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

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

Table 9
Historic Water Charge Delinquency Rates

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

Source: City of Martinez.

WATER SYSTEM FINANCIAL INFORMATION

Financial Statements

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

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

Historical Revenues and Expenses

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

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

	Audited 2007-08	Audited 2008-09	Audited 2009-10	Audited 2010-11
OPERATING REVENUES				
Water Sales	$9,253,618	$9,603,050	$9,484,712	$9,413,940
Rents and Leases	21,687	26,161	26,467	26,904
Other Fees	2,859	660	790	1,005
Charges for Services	296,209	396,312	298,565	232,981
Other Revenue	--	20,196	19,814	72,027
Total Operating Revenues	9,844,373	10,046,379	9,830,348	9,746,857
OPERATING EXPENSES				
Filtration Plant	1,725,310	1,999,796	1,982,923	1,852,767
Raw Water Costs	2,789,325	2,504,386	2,288,260	2,378,527
Maintenance, Repairs and Distribution	1,639,969	1,599,210	1,487,298	1,475,872
Administration	1,552,394	1,821,239	2,065,328	1,841,608
Depreciation and Amortization	1,980,578	1,956,723	1,961,199	1,974,438
Total Operating Expenses	9,687,576	9,881,354	9,785,008	9,523,212
Operating Income	156,797	165,025	45,340	223,645
NON-OPERATING REVENUE (EXPENSE)				
Interest Income	443,450	239,166	75,738	58,956
Less Interest Expense	(408,109)	(421,639	(382,095)	(369,121)
Total Nonoperating Revenues (Expenses)	35,341	(183,473)	(306,357)	(310,165)
Income (loss) Before Operating Transfers	192,138	(17,448)	(261,017)	(86,520)
TRANSFERS FROM (TO) THE CITY				
Transfers In	23,198	23,195	16,605	16,605
Transfers Out	(79,870)	(72,724)	0	0
Net Transfers	(56,675)	(49,529)	16,605	16,605
Change in Net Assets	135,463	(66,977)	(244,412)	(69,915)
Net Assets at Beginning of Year	40,400,666	40,536,129	40,467,152	40,224,740
Net Assets at End of Year	$40,536,129	$40,469,152	$40,224,740	$40,154,825

Source: City of Martinez.

Historical Revenues, Expenses and Debt Service Coverage

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

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

Fiscal Year	2006-07	2007-08	2008-09	2009-10	2010-11
Revenues					
Water Sales	$9,215,311	$9,523,618	$9,603,050	$9,484,712	$9,413,940
Other Revenues	973,091	764,205	682,495	421,374	391,873
Total Revenues	10,188,402	10,287,823	10,285,545	9,906,086	9,805,813
Operation and Maintenance Costs	7,760,258	7,706,998	7,924,631	7,823,809	7,548,774
Net Revenues	2,428,144	2,580,825	2,360,914	2,082,277	2,257,039
Debt Service [1]	893,808	891,326	889,642	891,092	890,698
Coverage Ratio	2.72 x	2.90 x	2.65 x	2.34 x	2.53 x

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

Source: City of Martinez.

Projected Revenues, Expenses and Debt Service Coverage

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

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

Fiscal Year	2011-12	2012-13	2013-14	2014-15	2015-16
Revenues					
Water Sales	$9,735,000	$9,856,300	$9,955,000	$10,054,000	$10,155,000
Other Revenues	380,400	380,400	380,400	380,400	380,400
Total Revenues	10,115,400	10,236,700	10,335,400	10,434,400	10,535,400
Operation and Maintenance Costs	8,300,000	8,457,000	8,626,000	8,796,000	8,967,000
Net Revenues	1,815,400	1,779,700	1,709,400	1,638,400	1,568,400
Debt Service [1] *	$865,834	$1,128,182	$1,131,918	$1,133,567	$1,132,872
Coverage Ratio *	2.10 x	1.58 x	1.51 x	1.45 x	1.38 x

* Preliminary; subject to change.
[1] Represents Debt Service on the Certificates and the 2003 Certificates. See "SECURITY FOR THE CERTIFICATES – Outstanding Parity Debt."
Source: City of Martinez.

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

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

THE CORPORATION

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

RISK FACTORS

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

Net Revenues; Rate Covenant

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

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

Operation and Maintenance Expenses

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

Limitations on Remedies Available to Bond Owners

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

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

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

Seismic Considerations

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

Loss of Tax-Exemption

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

Proposition 218

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Environmental Regulation

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

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

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

Secondary Market for Certificates

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

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

Future Parity Obligations

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

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

TAX MATTERS

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

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

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

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

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

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

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

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

CERTAIN LEGAL MATTERS

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

CONTINUING DISCLOSURE

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

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

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

UNDERWRITING

The Certificates are being purchased by Brandis Tallman LLC (the **"Underwriter"**). The Underwriter has agreed to purchase the Certificates at a purchase price of $_____ (which is equal to the principal amount of the Certificates ($_____), *plus* net original issue premium of $_____ and *less* an underwriter's discount of $_____).

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

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

ABSENCE OF MATERIAL LITIGATION

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

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

PROFESSIONAL FEES

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

RATINGS

It is anticipated that, on the Closing Date, _____ ("_____") will assign its municipal bond rating of "___" to the Certificates, with the understanding that the Insurer will deliver its Policy with respect to the Certificates on the Closing Date. In addition, _____ has assigned an underlying municipal bond rating of "___" to the Certificates.

These ratings reflect only the view of the rating agency, and any explanation of the significance of these ratings should be obtained from _____. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. The City has provided certain additional information and materials to the rating agency (some of which does not appear in this Official Statement.)

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

EXECUTION

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

CITY OF MARTINEZ

By: _____
City Manager

APPENDIX A

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

APPENDIX B

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

General Description

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

Population

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

CITY OF MARTINEZ
Population Estimates

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

Source: California Department of Finance for January 1.

Employment and Industry

The unemployment rate in the Oakland-Fremont-Hayward MD was 10.1% in September 2011, down from a revised 10.6% in August 2011, and below the year-ago estimate of 11.2%. This compares with an unadjusted unemployment rate of 11.4% for California and 8.8% for the nation during the same period. The unemployment rate was 10.2% in Alameda County, and 10.1% in Contra Costa County.

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

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

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

(1) Labor force data is by place of residence; includes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.
(2) Industry employment is by place of work; excludes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.
(3) Totals may not add due to rounding.
Source: Labor Division of the California State Employment Development Department.

Effective Buying Income

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

The following table summarizes the total effective buying income for the County, the State and the United States for the period 2006 through 2010.

Effective Buying Income
As of January 1, 2006 through 2010

Year	Area	Total Effective Buying Income (000's Omitted)	Median Household Effective Buying Income
2006	Contra Costa County	$28,611,520	$58,497
	California	764,120,963	46,275
	United States	6,107,092,244	41,255
2007	Contra Costa County	$30,138,295	$61,123
	California	814,894,438	48,203
	United States	6,300,794,040	41,792
2008	Contra Costa County	$30,737,690	$61,903
	California	832,531,445	48,952
	United States	6,443,994,426	42,303
2009	Contra Costa County	31,197,703	64,213
	California	844,823,319	49,736
	United States	6,571,536,768	43,252
2010	Contra Costa County	30,049,698	61,031
	California	801,393,028	47,177
	United States	6,365,020,076	41,368

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

Major Employers

The following table lists the major employers within the City:

CITY OF MARTINEZ
Major Employers
Fiscal Year 2007-08

Employers	Number of Employees	% of Total City Employment
Contra Costa County [1]	9,847	45.0%
Shell Oil Refinery	742	3.4
Kaiser Permanente	722	3.3
Veterans Administration Medical Center	650	3.0
Martinez Unified School District	380	1.7
Wal-Mart Store	234	1.1
Safeway Stores	174	0.8
Contra Costa Electric	150	0.7
City of Martinez	127	0.6
Home Depot	120	
Total	13,146	60.0%

(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, 2010.

The following table lists the major employers within the County:

COUNTY OF CONTRA COSTA
Major Employers
(As of November 2011)

Employer Name	Location	Industry
Bayer Health Care Phrmctcls	Richmond	Laboratories-Pharmaceutical (Mfrs)
Bio-Rad Laboratories Inc	Hercules	Laboratory Analytical Instruments (Mfrs)
Chevron Corp	San Ramon	Petroleum Products-Manufacturers
Chevron Global Downstream LLC	San Ramon	Petroleum Products (Whls)
Concord Naval Weapons Station	Concord	Federal Government-National Security
Contra-Costa Regional Med Ctr	Martinez	Hospitals
Department of Veterans Affairs	Martinez	Physicians & Surgeons
Doctor's Medical Ctr	San Pablo	Hospitals
John Muir Medical Ctr	Walnut Creek	Hospitals
John Muir Medical Ctr	Concord	Hospitals
John Muir Physical Rehab	Concord	Rehabilitation Services
Kaiser Permanente	Walnut Creek	Hospitals
Kaiser Permanente Medical Ctr	Martinez	Clinics
La Raza Market	Richmond	Grocers-Retail
Muirlab	Walnut Creek	Laboratories-Medical
PMI Group Inc	Walnut Creek	Insurance-Bonds
Richmond City Offices	Richmond	Government Offices-City, Village & Twp
San Ramon Regional Medical Ctr	San Ramon	Hospitals
Shell Oil Products Co	Martinez	Oil Refiners (Mfrs)
St Mary's	Moraga	Schools-Universities & Colleges Academic
St Mary's College of CA	Moraga	Schools-Universities & Colleges Academic
Sutter Delta Medical Ctr	Antioch	Hospitals
Tesoro Golden Eagle Refinery	Pacheco	Oil Refiners (Mfrs)
USS-Posco Industries	Pittsburg	Steel Mills (Mfrs)
VA Outpatient Clinic	Martinez	Physicians & Surgeons

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

Commercial Activity

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

Total taxable sales during the first two quarters of calendar year 2010 in the City were reported to be $200,819,000 a 34.3% increase over the total taxable sales of $149,533,000 reported during the first two quarters of calendar year 2009. The number of establishments selling merchandise subject to sales tax and the valuation of taxable transactions in the City is presented in the following table. Annual figures are not yet available for 2010.

CITY OF MARTINEZ
Taxable Transactions
(Dollars in Thousands)

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

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

Total taxable sales during the first two quarters of calendar year 2010 in the County were reported to be $5,676,643,000, a 0.27% decrease over the total taxable sales of $5,691,985,000 reported during the first two quarters of calendar year 2009. The number of establishments selling merchandise subject to sales tax and the valuation of taxable transactions in the County is presented in the following table. Annual figures are not yet available for 2010.

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

Year	Retail Permits on July 1	Retail Stores Taxable Transactions	Total Permits on July 1	Total Outlets Taxable Transactions
2005	11,776	10,072,084	23,692	13,480,075
2006	11,467	10,275,907	23,249	13,867,661
2007	11,131	10,109,704	23,181	14,086,295
2008	11,577	9,484,307	23,149	13,307,681
2009 (1)	14,045	8,473,578	21,395	11,883,049

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

Construction Activity

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

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

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

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

Source: Construction Industry Research Board, Building Permit Summary.

APPENDIX C

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

APPENDIX D

PROPOSED FORM OF FINAL OPINION

APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

$_____
CITY OF MARTINEZ
2012 Certificates of Participation
(City of Martinez Water Refunding and Improvement Project)

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

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

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

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

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

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

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

"*MSRB*" means the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information for purposes of the Rule, or any other repository of disclosure information that may be designated by the Securities and Exchange Commission as such for purposes of the Rule in the future.

"*Official Statement*" means the final official statement dated _____, 2012, executed by the City in connection with the issuance of the Bonds.

"*Participating Underwriter*" means Brandis Tallman, LLC, as the original underwriter 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, 2012, with the report for the 2010-11 fiscal year, provide to the MSRB, in an electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4 below; ***provided, however, that the first Annual Report due on March 31, 2012, shall consist solely of the City's audited financial statements for fiscal year 2010-11 and a copy of the Official Statement***. Not later than 15 Business Days prior to the Annual Report Date, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). If by 15 Business Days prior to the Annual Report Date the Dissemination Agent (if other than the City) has not received a copy of the Annual Report, the Dissemination Agent shall contact the City to determine if the City is in compliance with the previous sentence. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report, and later than the Annual Report Date, if not available by that date. If the City's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c). The City shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by the City hereunder.

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

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

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

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

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

(a) Audited Financial Statements of the Water System prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the City's audited financial statements for the Water System are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual

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

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

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

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

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

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

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

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

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

(d) Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which are available to the public on the MSRB's Internet web site or filed with the Securities and Exchange Commission. The City shall clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events.

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

(1) Principal and interest payment delinquencies.

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

(3) Unscheduled draws on debt service reserves reflecting financial difficulties.

(4) Unscheduled draws on credit enhancements reflecting financial difficulties.

(5) Substitution of credit or liquidity providers, or their failure to perform.

(6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security.

(7) Modifications to rights of security holders, if material.

(8) Bond calls, if material, and tender offers.

(9) Defeasances.

(10) Release, substitution, or sale of property securing repayment of the securities, if material.

(11) Rating changes.

(12) Bankruptcy, insolvency, receivership or similar event of the obligated person.

(13) The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.

(14) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) Whenever the City obtains knowledge of the occurrence of a Listed Event, and, if the Listed Event is described in subsections (a)(2), (a)(6), (a)(7), (a)(8) (if the event is a bond call), (a)(10), (a)(13) or (a)(14) above, the City determines that knowledge of the occurrence of that Listed Event would be material under applicable Federal securities law, the City shall, or shall cause the Dissemination Agent (if not the City) to, file a notice of such occurrence with the MSRB, in an electronic format as prescribed by the MSRB, and the Participating Underwriter in a timely manner not in excess of 10 business days after the occurrence of the Listed Event. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(8) and (9) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds under the Indenture.

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

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

Section 8. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any Dissemination Agent, with or without appointing a successor

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

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

(a) if the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the 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 Indenture for amendments to the Indenture with the consent of holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the 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 Report filed pursuant hereto containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

If an amendment is made to this Disclosure Certificate modifying the accounting principles to be followed in preparing financial statements, the Annual Report for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the City to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative.

A notice of any amendment made pursuant to this Section 9 shall be filed in the same manner as for a Listed Event under Section 5(c).

Section 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 11. Default. If the City fails to comply with any provision of this Disclosure Certificate, the Participating Underwriter or any holder or beneficial owner of the 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 Indenture, and the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance.

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

Section 13. Counterparts. This Disclosure Certificate may be executed in several counterparts, each of which shall be regarded as an original, and all of which shall constitute one and the same instrument.

Date: _____, 2012

CITY OF MARTINEZ

By_____
Authorized Representative

ACCEPTED AND AGREED:

Willdan Financial Services,
as Dissemination Agent

By _____
Authorized Representative

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: City of Martinez

Name of Issue: $_____ 2012 Certificates of Participation
(City of Martinez Water Refunding and Improvement Project)

Date of Issuance: _____, 2012

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

Dated:_____

CITY OF MARTINEZ

By_____
Name:
Title:

APPENDIX F

BOOK ENTRY PROVISIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

APPENDIX G

SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY

APPENDIX H

SPECIMEN DEBT SERVICE RESERVE FUND SURETY BOND

PURCHASE CONTRACT

$_____
CITY OF MARTINEZ
2012 Certificates of Participation
(City of Martinez Water Refunding and Improvement Project)

_____, 2012

City of Martinez
525 Henrietta Street
Martinez, CA 94533

Ladies and Gentlemen:

The undersigned (the "**Underwriter**"), offers to enter into this purchase contract (the "**Purchase Contract**") with the City of Martinez (the "**City**"), which will be binding upon the City and the Underwriter upon the acceptance hereof by the City. This offer is made subject to its acceptance by the City by execution of this Purchase Contract and its delivery to the Underwriter on or before 5:00 p.m., California time, on the date hereof. All terms used herein and not otherwise defined have the meanings given to such terms in the Trust Agreement (as hereafter defined).

1. Purchase and Sale. Upon the terms and conditions and upon the basis of the representations, warranties and agreements hereinafter set forth, the Underwriter hereby agrees to purchase, and the City hereby agrees to cause to be delivered to the Underwriter, all (but not less than all) of the certificates of participation captioned above (the "**Certificates**") at a purchase price of $_____ (being an amount equal to the principal amount of the Certificates of $_____, *plus* net original issue premium of $_____, *less* an underwriter's discount of $_____).

2. Purpose; Authorizing Instruments and Law; Security for the Certificates. The proceeds of the sale of the Certificates will be used primarily to (i) prepay and defease certain outstanding certificates of participation executed and delivered in 1999 in order to finance improvements to the City's system for the transportation, treatment and distribution of water (the "**Water System**"), and (ii) finance the acquisition and construction of improvements to the Water System.

The City will acquire certain facilities from the Martinez Public Improvement Corporation (the "**Corporation**") under an Installment Sale Agreement, dated as of January 1, 2012, by and between the City and the Corporation (the "**Installment Sale Agreement**"). The Certificates will evidence and represent fractional undivided interests of the owners thereof in installment payments (the "**Installment Payments**") to be made by the City to the Corporation pursuant to the Installment Sale Agreement. The Certificates will be executed and delivered pursuant to a Trust Agreement, dated as of January 1, 2012 (the "**Trust Agreement**"), by and among U.S. Bank National Association, as trustee (the "**Trustee**"), the Corporation and the City. The Certificates shall be as described in the Trust Agreement and the Official Statement (as hereafter defined).

The payment of Installment Payments is secured by a pledge of the "**Net Revenues**" (as defined in the Installment Sale Agreement) of the Water System.

The City's pledge of Net Revenues to the Installment Payments is on a parity with the City's pledge of Net Revenues to the payment of installment payments securing a portion of a series of certificates of participation captioned "$7,795,000 Certificates of Participation (2003 Refinancing Project)" (the "**Outstanding Parity Debt**") executed and delivered in March 2003 under a Trust Agreement dated as of March 1, 2003, among the City, the Corporation and the Trustee.

3. Public Offering. The Underwriter agrees to make a bona fide public offering of all the Certificates initially at the public offering prices (or yields) set forth on Appendix A attached hereto and incorporated herein by reference. Subsequent to the initial public offering, the Underwriter reserves the right to change the public offering prices (or yields) as it deems necessary in connection with the marketing of the Certificates, provided that the Underwriter may not change the interest rates set forth on Appendix A. The Certificates may be offered and sold to certain dealers at prices lower than such initial public offering prices.

4. Delivery of Official Statement; Continuing Disclosure. Pursuant to the authorization of the City, the Underwriter has distributed copies of the Preliminary Official Statement dated _____, 2012, relating to the Certificates (the "**Preliminary Official Statement**") to prospective purchasers of the Certificates. By its acceptance of this proposal, the City hereby ratifies such use by the Underwriter of the Preliminary Official Statement; and the City agrees to approve a final Official Statement relating to the Certificates (the "**Official Statement**") which will consist of the Preliminary Official Statement with such changes as may be made thereto, with the approval of the City and the Underwriter, and to provide copies thereof to the Underwriter as set forth in Section 6(o) hereof. The Underwriter hereby agrees to deposit the Official Statement with a nationally recognized municipal securities information depository. The City hereby authorizes the Underwriter to use and distribute, in connection with the offer and sale of the Certificates, the Preliminary Official Statement, the Official Statement, the Trust Agreement, the Continuing Disclosure Certificate (defined below), the Installment Sale Agreement and this Purchase Contract and all information contained herein, and all other documents, certificates and statements furnished by the City to the Underwriter in connection with the transactions contemplated by this Purchase Contract.

In connection with distribution of the Preliminary Official Statement, the City will execute a certificate in the form attached hereto as Appendix B.

The City will undertake, pursuant to the Trust Agreement and a Continuing Disclosure Certificate (the "**Continuing Disclosure Certificate**"), to provide certain annual financial information and notices of the occurrence of certain listed events. A description of such undertaking is set forth in the Preliminary Official Statement and will also be set forth in the Official Statement.

5. The Closing. At 8:00 a.m., California time, on _____ , 2012, or at such other time or on such earlier or later business day as may be mutually agreed upon by the City and the Underwriter, the City will cause to be delivered (i) the Certificates, through the facilities of The Depository Trust Company, to the Underwriter in New York, New York, and (ii) the closing documents hereinafter mentioned at the offices of Jones Hall, A Professional Law Corporation ("**Special Counsel**"), San Francisco, California, or another place to be mutually

agreed upon by the City and the Underwriter. The Underwriter will accept such delivery and pay the purchase price of the Certificates as set forth in Section 1 hereof in immediately available funds. This payment and delivery, together with the delivery of the aforementioned documents, is herein called the "**Closing**."

6. Representations, Warranties and Covenants. The City represents, warrants to and covenants with to the Underwriter that:

(a) *Due Organization Existence and Authority*. The City is a municipal corporation and general law city duly organized and existing under the Constitution and laws of the State of California (the "**State**"), with full right, power and authority to execute, deliver and perform its obligations under this Purchase Contract, the Trust Agreement, the Installment Sale Agreement and the Continuing Disclosure Certificate (collectively, the "**City Documents**") and to carry out and consummate the transactions on its part contemplated by the City Documents and the Official Statement.

(b) *Due Authorization and Approval*. By all necessary official action of the City, the City has duly authorized and approved the execution and delivery of, and the performance by the City of the obligations on its part contained in the City Documents; and as of the date hereof, such authorizations and approvals are in full force and effect and have not been amended, modified or rescinded. The City has complied, and will at the Closing be in compliance in all respects, with its obligations under the City Documents and the documents relating to the Outstanding Parity Debt (the "**Outstanding Parity Debt Documents**").

(c) *Official Statement Accurate and Complete*. The Preliminary Official Statement was as of its date, and the Official Statement is, and at all times subsequent to the date of the Official Statement up to and including the Closing will be, true and correct in all material respects, and the Preliminary Official Statement and the Official Statement contain and up to and including the Closing will contain no misstatement of any material fact and do not, and up to and including the Closing will not, omit any statement necessary to make the statements contained therein, in the light of the circumstances in which such statements were made, not misleading.

(d) *Underwriter's Consent to Amendments and Supplements to Official Statement*. The City will advise the Underwriter promptly of any proposal to amend or supplement the Official Statement and will not effect or consent to any such amendment or supplement without the consent of the Underwriter, which consent will not be unreasonably withheld. The City will advise the Underwriter promptly of the institution of any proceedings known to it by any governmental agency prohibiting or otherwise affecting the use of the Official Statement in connection with the offering, sale or distribution of the Certificates.

(e) *City Agreement to Amend or Supplement Official Statement*. If after the date of this Purchase Contract and until 25 days after the end of the "**underwriting period**" (as defined below), any event occurs as a result of which the Official Statement as then amended or supplemented would include an untrue statement of a material fact, or omit to state any material fact necessary in order to make the statements contained therein, in the light of the circumstances under which they were made, not misleading, and, in the reasonable opinion of the Underwriter, an amended or supplemented Official Statement should be delivered in connection with the offers or sales of the Certificates to

reflect such event, the City promptly will prepare at its expense an amendment or supplement which will correct such statement or omission and the City shall promptly furnish to the Underwriter a reasonable number of copies of such amendment or supplement. Unless the Underwriter otherwise advises the City in writing that the end of the underwriting period is another specified date, the end of the underwriting period shall be the day of Closing.

(f) *No Material Change in Finances*. At the time of the Closing, there shall not have been any material adverse changes in the financial condition of the City since the date hereof.

(g) *No Breach or Default*. As of the time of acceptance hereof and as of the time of the Closing, the City is not and will not be, in any manner which would adversely affect the transactions on the part of the City contemplated hereby and by the City Documents, in breach of or in default under any applicable constitutional provision, law or administrative rule or regulation of the State or the United States, or any applicable judgment or decree or any trust agreement, loan agreement, bond, note, resolution, ordinance, agreement or other instrument to which the City is a party or is otherwise subject, and no event has occurred and is continuing which, with the passage of time or the giving of notice, or both, would constitute, in any manner which would adversely affect the transactions on the part of the City contemplated hereby and by the City Documents, a default or event of default under any such instrument.

As of the time of acceptance hereof and as of the time of the Closing, the authorization, execution and delivery of the City Documents and compliance with the provisions of each of such agreements or instruments do not and will not conflict with or constitute a breach of or default under any applicable constitutional provision, law or administrative rule or regulation of the State or the United States, or any applicable judgment, decree, license, permit, trust agreement, loan agreement, bond, note, resolution, ordinance, agreement or other instrument to which the City (or any of its officers in their respective capacities as such) is subject, or by which it or any of its properties is bound, nor will any such authorization, execution, delivery or compliance result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of its assets or properties or under the terms of any such law, regulation or instrument, except as may be provided by the City Documents.

(h) *No Litigation*. As of the time of acceptance hereof and as of the date of the Closing, no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, government agency, public board or body, is pending with respect to which the City has been served with process, to the best knowledge of the City after due investigation, threatened

(i) in any way questioning the corporate existence of the City or the titles of the officers of the City to their respective offices;

(ii) affecting, contesting or seeking to prohibit, restrain or enjoin the execution and delivery of the Certificates, or in any way contesting or affecting the validity of the City Documents or the consummation of the transactions contemplated thereby, or contesting the exclusion of interest evidenced and

represented by the Certificates from gross income for federal income tax purposes or contesting the powers of the City to enter into the City Documents;

(iii) which may result in any material adverse impact on the financial condition of the City; or

(iv) contesting the completeness or accuracy of the Preliminary Official Statement or the Official Statement or any supplement or amendment thereto or asserting that the Preliminary Official Statement or the Official Statement contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading,

and there is no known basis for any action, suit, proceeding, inquiry or investigation of the nature described in clauses (i) through (iv) of this sentence.

(i) *Further Cooperation; Blue Sky*. The City will furnish such information, execute such instruments and take such other action in cooperation with the Underwriter as the Underwriter may reasonably request in order (i) to qualify the Certificates for offer and sale under the Blue Sky or other securities laws and regulations of such states and other jurisdictions of the United States as the Underwriter may designate and (ii) to determine the eligibility of the Certificates for investment under the laws of such states and other jurisdictions; provided, however, that the City shall not be required to execute a general or special consent to service of process or qualify to do business in connection with any such qualification or determination in any jurisdiction.

(j) *Consents and Approvals*. All authorizations, approvals, licenses, permits, consents and orders of or filings with any governmental authority, legislative body, board, agency or commission having jurisdiction in the matters which are required for the due authorization of, which would constitute a condition precedent to or the absence of which would adversely affect the due performance by the City of its obligations in connection with, the City Documents have been duly obtained or made, except as may be required under the Blue Sky or securities laws of any state in connection with the offering and sale of the Certificates.

(k) *Validity and Enforceability of City Documents*. The City Documents, when executed and delivered by the City and other parties thereto, will be legally valid and binding obligations of the City enforceable in accordance with their respective terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws or equitable principles relating to or limiting creditors' rights generally.

(l) *No Other Obligations*. Other than the Outstanding Parity Debt, there is no other lien or encumbrance on the Net Revenues of the Water System on a senior or parity basis with the Certificates.

(m) *Certificates*. Any certificate signed by any official of the City and delivered to the Underwriter shall be deemed to be a representation and warranty by the City to the Underwriter as to the statements made therein.

(n) *Compliance With Rule 15c2-12*.

(i) The Preliminary Official Statement heretofore delivered to the Underwriter is deemed final by the City as of its date and as of the date hereof, except for the omission of such information as is permitted to be omitted in accordance with paragraph (b)(1) of Rule 15c2-12. The City hereby covenants and agrees that, within seven business days from the date hereof, the City shall cause a final printed form of the Official Statement to be delivered to the Underwriter in sufficient quantity to comply with paragraph (b)(4) of Rule 15c2-12 and Rules of the Municipal Securities Rulemaking Board.

(ii) The City has not previously failed to comply with any continuing disclosure obligation undertaken pursuant to Rule 15c2-12.

7. Closing Conditions. The Underwriter has entered into this Purchase Contract in reliance upon the representations, warranties and covenants of the City herein and the performance by the City of its obligations hereunder, both as of the date hereof and as of the date of the Closing. The Underwriter's obligations under this Purchase Contract are and shall be subject to the following additional conditions:

(a) *Bring-Down Representation*. The representations, warranties and covenants of the City contained herein shall be true and correct at the date hereof and at the time of the Closing, as if made on the date of the Closing.

(b) *Executed Agreements and Performance Thereunder*. At the time of the Closing (i) the City Documents shall be in full force and effect, and may not have been amended, modified or supplemented except with the written consent of the Underwriter, (ii) there shall be in full force and effect such resolutions as, in the opinion of Special Counsel, shall be necessary in connection with the transactions contemplated by the Official Statement and the City Documents, including without limitation the City Resolution and the Corporation Resolution (defined below), (iii) the City shall perform or have performed its obligations required as specified in this Purchase Contract or the City Documents to be performed at or prior to Closing, (iv) the Corporation shall perform or have performed its obligations required as specified in the Trust Agreement or the Installment Sale Agreement (collectively, the "**Corporation Documents**") to be performed at or prior to Closing, and (v) the Official Statement may not have been supplemented or amended, except pursuant to Paragraph 6(e) or as otherwise may have been agreed to in writing by the Underwriter.

(c) *No Default*. At the time of the Closing, no default may occur and exist under the City Resolution, the Corporation Resolution, the Corporation Documents or the City Documents, and the City shall not be in default in the payment of any of its bonded indebtedness or any of its other obligations, which default would adversely impact the ability of the City to make Installment Payments.

(d) *Termination Events*. The Underwriter shall have the right to terminate this Purchase Contract, without liability therefor, by written notification to the Corporation and the City if at any time at or prior to the Closing, any of the following occurs:

(1) The occurrence of any event that causes any statement contained in the Official Statement to be materially misleading or results in a failure of the Official Statement to state a material fact necessary to make the statements in

the Official Statement, in the light of the circumstances under which they were made, not misleading.

(2) The marketability of the Certificates or the market price thereof, in the opinion of the Underwriter, is materially adversely affected by an amendment to the Constitution of the United States or by any legislation in or by the Congress of the United States or by the State, or the amendment of legislation pending as of the date of this Purchase Contract in the Congress of the United States, or the recommendation to Congress or endorsement for passage (by press release, other form of notice or otherwise) of legislation by the President of the United States, the Treasury Department of the United States, the Internal Revenue Service or the Chairman or ranking minority member of the Committee on Finance of the United States Senate or the Committee on Ways and Means of the United States House of Representatives, or the proposal for consideration of legislation by either such Committee or by any member thereof, or the presentment of legislation for consideration as an option by either such Committee, or by the staff of the Joint Committee on Taxation of the Congress of the United States, or the favorable reporting for passage of legislation to either House of the Congress of the United States by a Committee of such House to which such legislation has been referred for consideration, or any decision of any federal or State court or any ruling or regulation (final, temporary or proposed) or official statement on behalf of the United States Treasury Department, the Internal Revenue Service or other federal or State authority materially adversely affecting the federal or State tax status of the City or the Corporation, or the interest on bonds or notes or obligations of the general character of the Certificates.

(3) Any legislation, ordinance, rule or regulation is introduced in, or enacted by, any governmental body, department or agency of the State, or a decision by any court of competent jurisdiction within the State or any court of the United States is rendered, which, in the reasonable opinion of the Underwriter, materially adversely affects the market price of the Certificates.

(4) Legislation is enacted by the Congress of the United States, or a decision by a court of the United States is rendered, or a stop order, ruling, regulation or official statement by, or on behalf of, the Securities and Exchange Commission or any other governmental agency having jurisdiction of the subject matter is issued or made to the effect that the execution, delivery, offering or sale of securities of the general character of the Certificates, or the execution, delivery, offering or sale of the Certificates, including all underlying obligations, as contemplated hereby or by the Official Statement, is in violation or would be in violation of, or that securities of the general character of the Certificates, or the Certificates, are not exempt from registration under, any provision of the federal securities laws, including the Securities Act of 1933, as amended and as then in effect, or that the Trust Agreement needs to be qualified under the Trust Indenture Act of 1939, as amended and as then in effect.

(5) Additional material restrictions not in force as of the date hereof are imposed upon trading in securities generally by any governmental authority or by any national securities exchange which restrictions materially adversely affect the Underwriter's ability to trade the Certificates.

(6) A general banking moratorium is established by federal or State authorities.

(7) The United States becomes engaged in hostilities which have resulted in a declaration of war or a national emergency or there has occurred any other outbreak of hostilities or a national or international calamity or crisis, financial or otherwise, the effect of such outbreak, calamity or crisis on the financial markets of the United States, being such as, in the reasonable opinion of the Underwriter, would affect materially and adversely the ability of the Underwriter to market or deliver the Certificates.

(8) Any rating of the securities of the City is downgraded, suspended or withdrawn by a national rating service, which, in the Underwriter's reasonable opinion, materially adversely affects the marketability or market price of the Certificates.

(9) The commencement of any action, suit or proceeding described in paragraphs 6(h) hereof which, in the judgment of the Underwriter, materially adversely affects the market price of the Certificates.

(10) There is in force a general suspension of trading on the New York Stock Exchange.

(e) *Closing Documents*. At or prior to the Closing, the Underwriter shall receive (unless the context otherwise indicates) the following documents:

(1) *Final Opinion*. An approving opinion of Special Counsel dated the date of the Closing and substantially in the form included as Appendix D to the Official Statement, together with a letter from such counsel, dated the date of the Closing and addressed to the Underwriter, to the effect that the foregoing opinion addressed to the City may be relied upon by the Underwriter to the same extent as if such opinion were addressed to it.

(2) *Supplemental Opinion*. A supplemental opinion of Special Counsel addressed to the Underwriter, in form and substance acceptable to the Underwriter, and dated the date of the Closing substantially to the following effect:

(i) The statements contained in the Official Statement under the captions "THE CERTIFICATES," "SECURITY FOR THE CERTIFICATES," and "TAX MATTERS," and in Appendix A and Appendix D thereto, excluding any material that may be treated as included under such captions by cross-reference, insofar as such statements expressly summarize certain provisions of the Certificates, the Trust Agreement, the Installment Sale Agreement and the form and content of Special Counsel's opinion, are accurate in all material respects; and

(ii) The Certificates are not subject to the registration requirements of the Securities Act of 1933, as amended, and the Trust Agreement is

exempt from qualification pursuant to the Trust Indenture Act of 1939, as amended.

(3) *City Attorney Opinion*. An opinion of Walter & Pistole, Sonoma, California, as City Attorney, dated the date of the Closing and addressed to the Underwriter, in form and substance acceptable to the Underwriter substantially to the following effect:

(i) The City is a municipal corporation and general law city, duly organized and validly existing under the Constitution and the laws of the State of California.

(ii) The City has full legal power and lawful authority to enter into the City Documents.

(iii) The City Documents have been duly authorized, executed and delivered by the City and constitute the legal, valid and binding agreements of the City enforceable against the City in accordance with their respective terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization moratorium or similar laws or equitable principles relating to or limiting creditors' rights generally.

(iv) The resolutions ("**City Resolutions**") of the City approving and authorizing the execution and delivery of the City Documents, and approving the Official Statement, were duly adopted at one or more meetings of the City Council called and held pursuant to law and with all public notice required by law and at which a quorum was present and acting throughout and the City Resolutions are in full force and effect and have not been modified, amended or rescinded.

(v) The execution and delivery of the City Documents and compliance with the provisions thereof, under the circumstances contemplated thereby, do not and will not in any material respect conflict with, or constitute on the part of the City a breach of or default under, any agreement or other instrument to which the City is a party or by which it is bound or any existing law, regulation, court order or consent decree to which the City is subject.

(vi) No additional authorization, approval, consent, waiver or any other action by any person, board or body, public or private, not previously obtained is required as of the date of the Closing for the City to enter into the City Documents, or to perform its obligations thereunder.

(vii) Except as otherwise disclosed in the Official Statement, there is no litigation, proceeding, action, suit, or investigation at law or in equity before or by any court, governmental agency or body, pending or, to the best knowledge of such counsel after due investigation, threatened against the City, challenging the creation, organization or existence of the City, or the validity of the City Documents or seeking to restrain or enjoin the Installment Payments or in any way contesting or affecting the validity of the City Documents or any of the transactions referred to therein or

contemplated thereby or contesting the authority of the City to enter into or perform its obligations under any of the City Documents, or under which a determination adverse to the City would have a material adverse effect upon the financial condition or the revenues of the City, or which, in any manner, questions or affects the right or ability of the City to enter into the City Documents or affects in any manner the right or ability of the City to make Installment Payments.

(4) *Trustee Counsel Opinion*. The opinion of counsel to the Trustee, dated the date of the Closing, addressed to the Underwriter, to the following effect:

(i) The Trustee has all necessary power to enter into, accept and administer the trust created under the Trust Agreement.

(ii) The Trust Agreement has been duly authorized, executed and delivered by the Trustee and the Trust Agreement constitutes the legal, valid and binding obligation of the Trustee enforceable in accordance with its terms, except as enforcement thereof may be limited by bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally and by the application of equitable principles, if equitable remedies are sought.

(iii) The Certificates have been executed by a duly authorized officer of the Trustee.

(5) *Corporation Counsel Opinion*. An opinion of Walter & Pistole, Sonoma, California, as general counsel to the Corporation, dated the date of the Closing and addressed to the Underwriter, in form and substance acceptable to the Underwriter substantially to the following effect:

(i) The Corporation is a nonprofit corporation duly organized and validly existing under the laws of the State of California.

(ii) The Corporation has full legal power and lawful authority to enter into the Corporation Documents.

(iii) The Corporation Documents have been duly authorized, executed and delivered by the Corporation and constitute the legal, valid and binding agreements of the Corporation enforceable against the Corporation in accordance with their respective terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization moratorium or similar laws or equitable principles relating to or limiting creditors' rights generally.

(iv) The resolutions ("**Corporation Resolutions**") of the Corporation approving and authorizing the execution and delivery of the Corporation Documents, were duly adopted at meetings of the Board of Directors of the Corporation called and held pursuant to law and with all public notice required by law and at which a quorum was present and

acting throughout. The Corporation Resolutions are in full force and effect and have not been modified, amended or rescinded.

(v) The execution and delivery of the Corporation Documents and compliance with the provisions thereof, under the circumstances contemplated thereby, do not and will not in any material respect conflict with, or constitute on the part of the Corporation a breach of or default under, any agreement or other instrument to which the Corporation is a party or by which it is bound or any existing law, regulation, court order or consent decree to which the Corporation is subject.

(vi) No additional authorization, approval, consent, waiver or any other action by any person, board or body, public or private, not previously obtained is required as of the date of the Closing for the Corporation to enter into the Corporation Documents, or to perform its obligations thereunder.

(vii) Except as otherwise disclosed in the Official Statement, there is no litigation, proceeding, action, suit, or investigation at law or in equity before or by any court, governmental agency or body, pending or, to the best knowledge of such counsel after due investigation, threatened against the Corporation, challenging the creation, organization or existence of the Corporation, or the validity of the Corporation Documents or in any way contesting or affecting the validity of the Corporation Documents or any of the transactions referred to therein or contemplated thereby or contesting the authority of the Corporation to enter into or perform its obligations under any of the Corporation Documents.

(6) *City Closing Certificate*. A certificate of the City, dated the date of the Closing, signed on behalf of the City by a duly authorized officer of the City, to the following effect:

(i) The representations, warranties and covenants of the City contained herein are true and correct in all material respects on and as of the date of the Closing as if made on the date of the Closing and the City has complied with all of the terms and conditions of this Purchase Contract required to be complied with by the City at or prior to the date of the Closing.

(ii) No event affecting the City has occurred since the date of the Official Statement which has not been disclosed therein or in any supplement or amendment thereto which event should be disclosed in the Official Statement in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(7) *Corporation Closing Certificate*. A certificate of the Corporation, dated the date of the Closing, signed on behalf of the Corporation by a duly authorized officer of the Corporation, to the following effect:

(i) The Corporation is a nonprofit corporation duly created and lawfully existing under the laws of the State, with full right, power and

authority to execute, deliver and perform its obligations under the Corporation Documents and to carry out and consummate the transactions on its part contemplated by the Corporation Documents and the Official Statement.

(ii) By all necessary official action, the Corporation has duly authorized and approved the execution and delivery of, and the performance by the Corporation of the obligations on its part contained in the Corporation Documents and as of the Closing Date, such authorizations and approvals are in full force and effect and have not been amended, modified or rescinded. The Corporation is in compliance in all material respects with the terms of the Corporation Documents.

(iii) The Corporation is not, in any manner which would adversely affect the transactions contemplated by the Corporation Documents, in breach of or in default under any applicable constitutional provision, law or administrative rule or regulation of the State or the United States, or any applicable judgment or decree or any trust agreement, loan agreement, bond, note, resolution, ordinance, agreement or other instrument to which the Corporation is a party or is otherwise subject, and no event has occurred and is continuing which, with the passage of time or the giving of notice, or both, would constitute, in any manner which would adversely affect the transactions contemplated by the Corporation Documents, a default or event of default under any such instrument. The authorization, execution and delivery of the Corporation Documents and compliance with the provisions of each of such agreements or instruments do not and will not conflict with or constitute a breach of or default under any applicable constitutional provision, law or administrative rule or regulation of the State or the United States or any applicable judgment, decree, license, permit, trust agreement, loan agreement, bond, note, resolution, ordinance, agreement or other instrument to which the Corporation (or any of its officers in their respective capacities as such) is subject, or by which it or any of its properties is bound, nor will any such authorization, execution, delivery or compliance result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of its assets or properties or under the terms of any such law, regulation or instrument, except as may be provided by the Corporation Documents.

(iv) There is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, government agency, public board or body, pending with respect to which the Corporation has been served with process or, to the best knowledge of the Corporation after due investigation, threatened (a) in any way questioning the existence of the Corporation or the titles of the officers of the Corporation to their respective offices; (b) affecting, contesting or seeking to prohibit, restrain or enjoin the execution and delivery of the Certificates, or in any way contesting or affecting the validity of the Corporation Documents or the consummation of the transactions contemplated thereby, or contesting the powers of the Corporation to enter into the Corporation Documents; or (c) which may result in any material adverse impact on the financial

condition of the Corporation, and there is no basis for any action, suit, proceeding, inquiry or investigation of the nature described in clauses (a) through (c) of this sentence.

(v) The Corporation Documents are valid and binding obligations of the Corporation enforceable in accordance with their respective terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws or equitable principles relating to or limiting creditors' rights generally.

(vi) All authorizations, approvals, licenses, permits, consents and orders of or filings with any governmental authority, legislative body, board, agency or commission having jurisdiction in the matters which are required for the due authorization of, which would constitute a condition precedent to or the absence of which would adversely affect the due performance by the Corporation of its obligations in connection with, the Corporation Documents have been duly obtained or made, except as may be required under the Blue Sky or securities laws of any state in connection with the offering and sale of the Certificates.

(vii) No event affecting the Corporation has occurred since the date of the Official Statement which has not been disclosed therein or in any supplement or amendment thereto which event should be disclosed in the Official Statement in order to make the statements with respect to the Corporation therein, in the light of the circumstances under which they were made, not misleading.

(8) *Trustee's Certificate*. A certificate of the Trustee, dated the date of Closing, addressed to the City and the Underwriter, in form and substance acceptable to the Underwriter, to the following effect:

(i) The Trustee has all necessary power to enter into, accept and administer the trust created under the Trust Agreement.

(ii) The Trust Agreement has been duly authorized, executed and delivered by the Trustee and the Trust Agreement constitutes the legal, valid and binding obligation of the Trustee enforceable in accordance with its terms, except as enforcement thereof may be limited by bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally and by the application of equitable principles, if equitable remedies are sought.

(iii) No consent, approval, authorization or other action by any governmental or regulatory authority having jurisdiction over the Trustee that has not been obtained is or will be required for the execution and delivery of the Trust Agreement or the performance by the Trustee of its duties and obligations under the Trust Agreement.

(iv) The Certificates have been executed by a duly authorized officer of the Trustee.

(v) The execution and delivery by the Trustee of the Trust Agreement and compliance with the terms thereof will not conflict with, or result in a violation or breach of, or constitute a default under, any loan agreement, indenture, bond, note, resolution or any other agreement or instrument to which the Trustee is a party or by which it is bound, or any law or any rule, regulation, order or decree of any court or governmental agency or body having jurisdiction over the Trustee or any of its activities or properties (except that no representation, warranty or agreement need be made by such counsel with respect to any federal or State securities or blue sky laws or regulations).

(vi) There is no action, suit, proceeding or investigation, at law or in equity, before or by any court or governmental agency, public board or body pending, or to the best knowledge of the Trustee, threatened against the Trustee which in the reasonable judgment of the Trustee would affect the existence of the Trustee or in any way contesting or affecting the validity or enforceability of the Trust Agreement or contesting the powers of the Trustee or its authority to enter into and perform its obligation thereunder.

(9) *Disclosure Counsel Letter.* A letter of Jones Hall, A Professional Law Corporation, disclosure counsel, dated the Closing Date, addressed to the City and the Underwriter, to the effect that:

(i) during the course of serving as counsel in connection with the execution and delivery of the Certificates and without having undertaken to determine independently or assuming any responsibility for the accuracy, completeness or fairness of the statements contained in the Official Statement, no information came to the attention of the attorneys in such firm rendering legal services in connection with the issuance of the Certificates that would lead them to believe that the Official Statement (excluding therefrom the financial statements, any financial or statistical data, or forecasts, charts, numbers, estimates, projections, assumptions or expressions of opinion included in the Official Statement, information regarding DTC and its book-entry system, and the appendices to the Official Statement as to which no opinion need be expressed), as of the date thereof or the Closing Date, contains any untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(10) *Official Statement*. The Official Statement and each supplement or amendment, if any, thereto, executed on behalf of the City by a duly authorized officer of the City.

(11) *Documents*. An original executed copy of each of the Corporation Documents and each of the City Documents.

(12) *Resolutions*. Certified copies of the City Resolutions, certified by the City Clerk, and of the Corporation Resolutions, certified by the Secretary of the Corporation.

(13) *8038*. Evidence that the federal tax information form 8038-G has been prepared for filing.

(14) *Nonarbitrage Certificate*. A tax and nonarbitrage certificate in form satisfactory to Special Counsel, which shall be subject to receipt by Special Counsel of a certificate from the Underwriter in form and substance acceptable to Special Counsel.

(15) *CDIAC Statements*. A copy of the Notices of Sale required to be delivered to the California Debt Investment and Advisory Commission pursuant to Section 53583 of the California Government Code.

(16) *Ratings*. Evidence satisfactory to the Underwriter that the Certificates have been rated "_____" by Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("Standard & Poor's"), and evidence that none of these ratings has been revoked or downgraded.

(17) *Compliance with Outstanding Parity Debt Documents*. Evidence of compliance with the provisions of the Outstanding Parity Debt Documents with respect to issuance of obligations secured by Net Revenues on a parity with the Outstanding Parity Debt.

(18) *Additional Documents*. Such additional certificates, instruments and other documents as the Underwriter or its counsel may reasonably deem necessary.

If the City is unable to satisfy the conditions contained in this Section 7, or if the obligations of the Underwriter are terminated for any reason permitted by this Purchase Contract, this Purchase Contract shall terminate and neither the Underwriter nor the City shall be under further obligation hereunder, except as further set forth in Section 8 hereof.

8. Expenses. The Underwriter shall be under no obligation to pay, and the City shall pay or cause to be paid, the expenses incident to the performance of the obligations of the City hereunder including but not limited to

(a) the costs of the preparation and printing, or other reproduction (for distribution on or prior to the date hereof) of the Corporation Documents, the City Documents, and the cost of preparing, printing, executing and delivering the Certificates;

(b) the fees and disbursements of the Trustee, any accountants or other experts or consultants retained by the City;

(c) the fees and disbursements of Special Counsel and Disclosure Counsel;

(d) the cost of preparation and printing of the Preliminary Official Statement and any supplements and amendments thereto and the cost of preparation and printing of the Official Statement, including a reasonable number of copies thereof for distribution by the Underwriter; and

(e) the fees of any rating agencies.

The Underwriter shall pay, and the City shall be under no obligation to pay, all expenses incurred by it in connection with the public offering and distribution of the Certificates, including without limitation the fees and expenses of its counsel, applicable CDIAC fees, and any advertising expenses.

9. Notice. Any notice or other communication to be given to the City under this Purchase Contract may be given by delivering the same in writing to such entity at the address first written above.

Any notice or other communication to be given to the Underwriter under this Purchase Contract may be given by delivering the same in writing to:

Brandis Tallman LLC
22 Battery Street, Suite 500
San Francisco, CA 94111

10. Entire Agreement. This Purchase Contract, when accepted by the City, shall constitute the entire agreement between the City and the Underwriter and is made solely for the benefit of the City and the Underwriter (including the successors or assigns of any Underwriter). No other person shall acquire or have any right hereunder by virtue hereof, except as provided herein. All of the City's representations, warranties and agreements in this Purchase Contract shall remain operative and in full force and effect, regardless of any investigation made by or on behalf of the Underwriter, until the earlier of (a) delivery of and payment for the Certificates hereunder, and (b) any termination of this Purchase Contract.

11. Counterparts. This Purchase Contract may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute but one and the same instrument.

12. Severability. If any one or more of the provisions contained herein is for any reason held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision hereof.

13. State Law Governs. The validity, interpretation and performance of this Purchase Contract shall be governed by the laws of the State.

14. No Assignment. The rights and obligations created by this Purchase Contract shall not be subject to assignment by the Underwriter or the City without the prior written consent of the other party hereto.

BRANDIS TALLMAN LLC

By_____
Authorized Representative

Accepted as of the date first stated above:

CITY OF MARTINEZ

By: _____
City Manager

APPENDIX A

MATURITY SCHEDULE

$_____
CITY OF MARTINEZ
2012 Certificates of Participation
(City of Martinez Water Refunding and Improvement Project)

$_____ Serial Certificates

Maturity Date (Dec. 1)	Principal Amount	Interest Rate	Yield	Price

$_____ _____% Term Certificates due December 1, 20__; Yield: _____%; Price: _____%

_____
C = priced to first par call date of _____, 20__.

APPENDIX B

CITY OF MARTINEZ
2012 Certificates of Participation
(City of Martinez Water Refunding and Improvement Project)

CERTIFICATE REGARDING FINALITY OF PRELIMINARY OFFICIAL STATEMENT

The undersigned hereby certifies and represents that he is the duly appointed and acting City Manager of the City of Martinez (the "**City**"), and as such is duly authorized to execute and deliver this Certificate and further hereby certifies and reconfirms on behalf of the City as follows:

(1) This Certificate is delivered in connection with the offering and sale of the certificates of participation captioned above (the "**Certificates**") in order to enable the underwriter of the Certificates to comply with Securities and Exchange Commission Rule 15c2-12 under the Securities Exchange Act of 1934 (the "**Rule**").

(2) In connection with the offering and sale of the Certificates, there has been prepared a Preliminary Official Statement, setting forth information concerning the Certificates, the City and the City's water system (the "**Preliminary Official Statement**").

(3) As used herein, "**Permitted Omissions**" shall mean the offering price(s), interest rate(s), selling compensation, aggregate principal amount, principal amount per maturity, delivery dates, ratings and other terms of the Certificates depending on such matters, all with respect to the Certificates.

(4) The Preliminary Official Statement is, except for the Permitted Omissions, deemed final within the meaning of Rule 15c2-12, and the information therein is accurate and complete except for the Permitted Omissions.

IN WITNESS WHEREOF, I have hereunto set my hand as of _____, 2012.

CITY OF MARTINEZ

By: _____
City Manager

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances will this Preliminary Official Statement constitute an offer to sell or a solicitation of an offer to buy nor will there be any sale of these securities in any jurisdiction in which such offer solicitation or sale would be unlawful.

PRELIMINARY OFFICIAL STATEMENT DATED _____, 2012

NEW ISSUE - BOOK-ENTRY ONLY **RATINGS: ____: "__"**
See "RATINGS"

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

$_____*
CITY OF MARTINEZ
2012 Certificates of Participation
(City of Martinez Water Refunding and Improvement Project)

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

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

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

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

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

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

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

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

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

MATURITY SCHEDULE
See inside front cover

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

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

BRANDIS TALLMAN LLC

The date of this Official Statement is _____ __, 2012.

_____

* Preliminary; subject to change.

MATURITY SCHEDULE*

$_____ Serial Certificates
(Base CUSIP†: _____)

Maturity Date (December 1)	Principal Amount	Interest Rate	Yield	Price	CUSIP† (_____)

$_____ _____% Term Certificates due December 1, 20__; Yield: _____%; Price: ____%
CUSIP† _____

* Preliminary; subject to change.

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

CITY OF MARTINEZ, CALIFORNIA

City Council

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

Elected Officials

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

City Staff

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

City Attorney

Walter & Pistole
Sonoma, California

Special Counsel and Disclosure Counsel
Jones Hall, A Professional Law Corporation
San Francisco, California

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

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

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

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

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

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

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

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

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

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

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OFFICIAL STATEMENT

$_____*
CITY OF MARTINEZ
2012 Certificates of Participation
(City of Martinez Water Refunding and Improvement Project)

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

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

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

INTRODUCTION

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

Purposes. The Certificates are being executed and delivered to:

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

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

* Preliminary; subject to change.

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

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

See "FINANCING PLAN."

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

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

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

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

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

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

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

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

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

The City and the Corporation. The City is located northeast of San Francisco in Contra Costa County. For other selected information concerning the City, see "APPENDIX B - CITY OF MARTINEZ GENERAL DEMOGRAPHIC AND FINANCIAL INFORMATION".

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

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

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

FINANCING PLAN

The 2012 Project

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

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

See "THE WATER SYSTEM – Projected Maintenance and Capital Improvements."

Prepayment Plan

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

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

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

Estimated Sources and Uses of Funds

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

SOURCES:	
Principal Amount of Certificates	$
Net Premium	
TOTAL SOURCES	$
USES:	
Deposit into Project Fund	$
Deposit into Reserve Fund [1]	
Deposit into Escrow Fund [2]	
Costs of Issuance [3]	
Underwriter's Discount	
TOTAL USES	$

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

THE CERTIFICATES

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

Authority for Execution and Delivery

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

General Certificate Terms

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

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

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

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

Notwithstanding the foregoing, while the Bonds are held in the book-entry only system of DTC, all such payments of principal, premium (if any) of, and interest with respect to, the Certificates will be made to Cede & Co. as the registered owner of the Certificates, for

subsequent disbursement to Participant and beneficial owners. See "APPENDIX F - BOOK ENTRY PROVISIONS."

Prepayment of the Certificates

Optional Prepayment*. The Certificates maturing on or after December 1, 20__, are subject to optional prepayment in whole or in part on any date on or after December 1, 20__, from prepayments of the Installment Payments made at the option of the City under the Installment Sale Agreement. The Certificates are subject to optional prepayment at a prepayment price equal to the principal amount of Certificates or portions thereof to be prepaid, plus accrued interest represented thereby to the prepayment date, without premium.

***Mandatory Sinking Account Prepayment*.** The Certificates maturing on December 1, 20__, are subject to mandatory prepayment in part by lot on December 1 in each year on and after December 1, 20__, from the principal components of scheduled Installment Payments required to be paid by the City under the Installment Sale Agreement with respect to each such prepayment date, at a prepayment price equal to the principal amount thereof to be prepaid, together with accrued interest to the date fixed for prepayment, without premium, as follows:

Year (December 1)	Principal Amount of Certificates to be Prepaid
(maturity)	

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

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

However, while the Certificates are subject to DTC's book-entry system, the Trustee will be required to give notice of prepayment only to DTC as provided in the letter of representations

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* Preliminary; subject to change.

executed by the City and received and accepted by DTC. DTC and the Participants will have sole responsibility for providing any such prepayment notice to the beneficial owners of the Certificates to be prepaid. Any failure of DTC to notify any Participant, or any failure of Participants to notify the Beneficial Owner of any Certificates to be prepaid, of a notice of prepayment or its content or effect, will not affect the validity of the notice of prepayment, or alter the effect of prepayment set forth in the Trust Agreement.

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

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

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

Book-Entry System

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

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

SCHEDULE OF INSTALLMENT PAYMENTS

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

Bond Year Ending (Dec. 1)	2003 Certificates Debt Service	2012 Certificates Principal	2012 Certificates Interest	2012 Certificates Total Debt Service	Total Parity Debt Service

SECURITY FOR THE CERTIFICATES

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

General

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

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

Installment Payments

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

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

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

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

(a) all Charges received by the City for use of the Water System,

(b) all receipts derived from the investment of funds held by the City or the Trustee under the Trust Agreement,

(c) transfers from (but exclusive of any transfers to) any rate stabilization reserve accounts, and

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

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

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

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

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

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

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

Application of Revenues

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

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

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

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

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

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

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

Limited Obligations

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

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

Outstanding Parity Debt

The 2003 Certificates were executed and delivered in March 2003 in the original principal amount of $7,795,000. The 2003 Certificates are secured by and payable from a combination of the 2003 Installment Payments, which are secured by a pledge of Net Revenues on a parity with the pledge securing the Installment Payments, and lease payments made by the City under a lease agreement between the City and the Corporation.

The 2003 Certificates mature in 2018 and are currently outstanding in the principal amount of $_____.

Limitations on Parity Debt

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

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

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

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

(b) The Net Revenues, calculated on sound accounting principles, as shown by the books of the City for the latest Fiscal Year or any more recent 12-month period selected by the City ending not more than 60 days prior to the adoption of the Parity Debt Instrument pursuant to which such Parity Debt is issued, as shown by the books of the City, plus, at the option of the City, any or all of the items described in paragraphs (i) and (ii) below, must at least equal 125% of Maximum Annual Debt Service, with Maximum Annual Debt Service calculated on all Water Revenue Obligations to be Outstanding immediately subsequent to the issuance of such Parity Debt that have a lien on Net Revenues of the Water System.

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

(i) An allowance for Net Revenues from any additions to or improvements or extensions of the Water System to be made with the proceeds of such Parity Debt, and also for Net Revenues from any such additions,

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

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

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

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

Senior and Subordinate Obligations

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

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

Rate Covenants

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

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

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

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

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

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

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

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

Reserve Fund

Establishment and Reserve Amount. Under the Trust agreement, the Trustee will establish and maintain a special fund designated as the "**Reserve Fund**" to be held by the Trustee in trust. The Reserve Fund will be initially funded and maintained in an amount equal to $_____. See "FINANCING PLAN – Estimated Sources and Uses of Funds."

Thereafter, interest earnings will be reinvested in the Reserve Fund until it reaches the "**Maximum Reserve Amount**," which is defined in the Trust Agreement as the least of:

(i) Maximum Annual Debt Service under the Installment Sale Agreement;

(ii) 10% of the principal amount of the Certificates; or

(iii) 125% of Average Annual Debt Service under the Installment Sale Agreement.

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

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

Additional Covenants Regarding Water System

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

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

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

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

Any amounts received as awards as a result of the taking of all or any part of the Water System by the lawful exercise of eminent domain, if and to the extent that such right can be exercised against such property of the City, shall either (a) be used for the acquisition or construction of improvements and extension of the Water System, or (b) be applied on a pro rata basis to (i) prepay the Installment Payments on the next available prepayment date, and (ii) prepay any Parity Debt in accordance with the related Parity Debt Instrument.

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

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

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

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

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

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

THE WATER SYSTEM

History

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

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

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

Management

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

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

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

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

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

Service Area

The City is the primary provider of water service within the corporate limits of the City and small areas in unincorporated Contra Costa County and the City of Pleasant Hill. The Water System's service area encompasses approximately 6 square miles, serving a population of approximately 37,000.

Water Storage and Distribution System

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

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

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

Sources of Water Supply

Existing Sources. The City's current water supply comes from the Contra Costa Water District and is delivered through the Contra Costa Canal, with intakes to the canal from Rock Slough, Old River, Victoria Canal, Middle River, Mallard Slough, and stored water in Contra Loma Reservoir, and Los Vaqueros Reservoir.

Historical Water Deliveries

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

Table 1
WATER DELIVERIES
(in acre-feet[2])
Fiscal Years 2006-07 through 2010-11

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

Source: City of Martinez.

Water Demand and Demand Management

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

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

[1] Million gallons per day.

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

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

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

Environmental and Regulatory Issues Relating to the Water System

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

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

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

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

Projected Maintenance and Capital Improvements

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

The Water System Master Plan recommend conducting a separate Master Plan for the Water Treatment Plant, which is [in draft form is scheduled for adoption in December of 2011.] [TO BE UPDATED AFTER DECEMBER] The recommended improvements in the draft plan were utilized in developing the projected improvements listed in Table 2 below.

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

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

- water main replacement projects,

• water main extension projects (including Alhambra Hills Drive, Palm Avenue, Muir Road and Morello Avenue),

• water storage projects (including Hillside Reservoir access and Webster Drive Hydropneumatic System Replacement project),

• a system-wide water meter replacement project, and

• Water Treatment Plant improvements (including major electrical improvements throughout the plant, chemical storage improvements, instrumentation upgrades, ozone system upgrades and piping, and valve and pump replacement).

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

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

Table 2
Capital Improvement Program Summary
($000s)

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

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

Source: City of Martinez.

Customer Base

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

Table 3
Active Water Service Connections

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

Source: City of Martinez.

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

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

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

[1] Represents Fire Service, Public Agencies and City Domestic.
Source: City of Martinez.

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

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

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

Source: City of Martinez.

Water Rates and Charges

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

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

The table below shows a 3-year history of water service charges for the Water System, which reflect the annual inflationary adjustment for each water rate class that commenced January 1, 2010. See "–Historical and Projected Rate Increases" below.

Table 6
Water Rate Structure

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

[1] Monthly service charge.
[2] By hundred cubic feet. Represents the combined volume charge and pumping charge for each Zone.
[3] Not subject to volume and pumping charges because no water sales in this zone.
Source: City of Martinez.

Connection Fees

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

Table 7
Connection Fees
Single Family Residential (single unit)

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

Source: City of Martinez.

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

Historical and Projected Rate Increases

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

Table 8
Water Rate Changes
2007 through 2009

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

Source: City of Martinez.

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

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

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

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

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

Billing, Collection and Delinquencies

Billing and Collection Procedure.

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

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

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

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

Table 9
Historic Water Charge Delinquency Rates

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

Source: City of Martinez.

WATER SYSTEM FINANCIAL INFORMATION

Financial Statements

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

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

Historical Revenues and Expenses

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

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

	Audited 2007-08	Audited 2008-09	Audited 2009-10	Audited 2010-11
OPERATING REVENUES				
Water Sales	$9,253,618	$9,603,050	$9,484,712	$9,413,940
Rents and Leases	21,687	26,161	26,467	26,904
Other Fees	2,859	660	790	1,005
Charges for Services	296,209	396,312	298,565	232,981
Other Revenue	--	20,196	19,814	72,027
Total Operating Revenues	9,844,373	10,046,379	9,830,348	9,746,857
OPERATING EXPENSES				
Filtration Plant	1,725,310	1,999,796	1,982,923	1,852,767
Raw Water Costs	2,789,325	2,504,386	2,288,260	2,378,527
Maintenance, Repairs and Distribution	1,639,969	1,599,210	1,487,298	1,475,872
Administration	1,552,394	1,821,239	2,065,328	1,841,608
Depreciation and Amortization	1,980,578	1,956,723	1,961,199	1,974,438
Total Operating Expenses	9,687,576	9,881,354	9,785,008	9,523,212
Operating Income	156,797	165,025	45,340	223,645
NON-OPERATING REVENUE (EXPENSE)				
Interest Income	443,450	239,166	75,738	58,956
Less Interest Expense	(408,109)	(421,639	(382,095)	(369,121)
Total Nonoperating Revenues (Expenses)	35,341	(183,473)	(306,357)	(310,165)
Income (loss) Before Operating Transfers	192,138	(17,448)	(261,017)	(86,520)
TRANSFERS FROM (TO) THE CITY				
Transfers In	23,198	23,195	16,605	16,605
Transfers Out	(79,870)	(72,724)	0	0
Net Transfers	(56,675)	(49,529)	16,605	16,605
Change in Net Assets	135,463	(66,977)	(244,412)	(69,915)
Net Assets at Beginning of Year	40,400,666	40,536,129	40,467,152	40,224,740
Net Assets at End of Year	$40,536,129	$40,469,152	$40,224,740	$40,154,825

Source: City of Martinez.

Historical Revenues, Expenses and Debt Service Coverage

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

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

Fiscal Year	2006-07	2007-08	2008-09	2009-10	2010-11
Revenues					
Water Sales	$9,215,311	$9,523,618	$9,603,050	$9,484,712	$9,413,940
Other Revenues	973,091	764,205	682,495	421,374	391,873
Total Revenues	10,188,402	10,287,823	10,285,545	9,906,086	9,805,813
Operation and Maintenance Costs	7,760,258	7,706,998	7,924,631	7,823,809	7,548,774
Net Revenues	2,428,144	2,580,825	2,360,914	2,082,277	2,257,039
Debt Service [1]	893,808	891,326	889,642	891,092	890,698
Coverage Ratio	2.72 x	2.90 x	2.65 x	2.34 x	2.53 x

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

Source: City of Martinez.

Projected Revenues, Expenses and Debt Service Coverage

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

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

Fiscal Year	2011-12	2012-13	2013-14	2014-15	2015-16
Revenues					
Water Sales	$9,735,000	$9,856,300	$9,955,000	$10,054,000	$10,155,000
Other Revenues	380,400	380,400	380,400	380,400	380,400
Total Revenues	10,115,400	10,236,700	10,335,400	10,434,400	10,535,400
Operation and Maintenance Costs	8,300,000	8,457,000	8,626,000	8,796,000	8,967,000
Net Revenues	1,815,400	1,779,700	1,709,400	1,638,400	1,568,400
Debt Service [1] *	$865,834	$1,128,182	$1,131,918	$1,133,567	$1,132,872
Coverage Ratio *	2.10 x	1.58 x	1.51 x	1.45 x	1.38 x

* Preliminary; subject to change.
[1] Represents Debt Service on the Certificates and the 2003 Certificates. See "SECURITY FOR THE CERTIFICATES – Outstanding Parity Debt."
Source: City of Martinez.

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

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

THE CORPORATION

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

RISK FACTORS

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

Net Revenues; Rate Covenant

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

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

Operation and Maintenance Expenses

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

Limitations on Remedies Available to Bond Owners

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

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

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

Seismic Considerations

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

Loss of Tax-Exemption

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

Proposition 218

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Environmental Regulation

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

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

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

Secondary Market for Certificates

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

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

Future Parity Obligations

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

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

TAX MATTERS

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

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

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

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

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

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

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

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

CERTAIN LEGAL MATTERS

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

CONTINUING DISCLOSURE

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

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

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

UNDERWRITING

The Certificates are being purchased by Brandis Tallman LLC (the **"Underwriter"**). The Underwriter has agreed to purchase the Certificates at a purchase price of $_____ (which is equal to the principal amount of the Certificates ($_____), *plus* net original issue premium of $_____ and *less* an underwriter's discount of $_____).

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

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

ABSENCE OF MATERIAL LITIGATION

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

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

PROFESSIONAL FEES

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

RATINGS

_____ ("_____") has assigned its municipal bond rating of "___" to the Certificates.

These ratings reflect only the view of the rating agency, and any explanation of the significance of these ratings should be obtained from _____. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. The City has provided certain additional information and materials to the rating agency (some of which does not appear in this Official Statement.)

There is no assurance that these ratings will be retained for any given period of time or that they will not be revised downward or withdrawn entirely by such rating agency if, in the

judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of any ratings obtained with respect to the Certificates may have an adverse effect on the market price of the Certificates.

EXECUTION

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

CITY OF MARTINEZ

By: _____
City Manager

APPENDIX A

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

APPENDIX B

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

General Description

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

Population

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

CITY OF MARTINEZ
Population Estimates

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

Source: California Department of Finance for January 1.

Employment and Industry

The unemployment rate in the Oakland-Fremont-Hayward MD was 10.1% in September 2011, down from a revised 10.6% in August 2011, and below the year-ago estimate of 11.2%. This compares with an unadjusted unemployment rate of 11.4% for California and 8.8% for the nation during the same period. The unemployment rate was 10.2% in Alameda County, and 10.1% in Contra Costa County.

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

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

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

(1) Labor force data is by place of residence; includes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.
(2) Industry employment is by place of work; excludes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.
(3) Totals may not add due to rounding.
Source: Labor Division of the California State Employment Development Department.

Effective Buying Income

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

The following table summarizes the total effective buying income for the County, the State and the United States for the period 2006 through 2010.

Effective Buying Income
As of January 1, 2006 through 2010

Year	Area	Total Effective Buying Income (000's Omitted)	Median Household Effective Buying Income
2006	Contra Costa County	$28,611,520	$58,497
	California	764,120,963	46,275
	United States	6,107,092,244	41,255
2007	Contra Costa County	$30,138,295	$61,123
	California	814,894,438	48,203
	United States	6,300,794,040	41,792
2008	Contra Costa County	$30,737,690	$61,903
	California	832,531,445	48,952
	United States	6,443,994,426	42,303
2009	Contra Costa County	31,197,703	64,213
	California	844,823,319	49,736
	United States	6,571,536,768	43,252
2010	Contra Costa County	30,049,698	61,031
	California	801,393,028	47,177
	United States	6,365,020,076	41,368

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

Major Employers

The following table lists the major employers within the City:

CITY OF MARTINEZ
Major Employers
Fiscal Year 2007-08

Employers	Number of Employees	% of Total City Employment
Contra Costa County [1]	9,847	45.0%
Shell Oil Refinery	742	3.4
Kaiser Permanente	722	3.3
Veterans Administration Medical Center	650	3.0
Martinez Unified School District	380	1.7
Wal-Mart Store	234	1.1
Safeway Stores	174	0.8
Contra Costa Electric	150	0.7
City of Martinez	127	0.6
Home Depot	120	
Total	13,146	60.0%

(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, 2010.

The following table lists the major employers within the County:

COUNTY OF CONTRA COSTA
Major Employers
(As of November 2011)

Employer Name	Location	Industry
Bayer Health Care Phrmctcls	Richmond	Laboratories-Pharmaceutical (Mfrs)
Bio-Rad Laboratories Inc	Hercules	Laboratory Analytical Instruments (Mfrs)
Chevron Corp	San Ramon	Petroleum Products-Manufacturers
Chevron Global Downstream LLC	San Ramon	Petroleum Products (Whls)
Concord Naval Weapons Station	Concord	Federal Government-National Security
Contra-Costa Regional Med Ctr	Martinez	Hospitals
Department of Veterans Affairs	Martinez	Physicians & Surgeons
Doctor's Medical Ctr	San Pablo	Hospitals
John Muir Medical Ctr	Walnut Creek	Hospitals
John Muir Medical Ctr	Concord	Hospitals
John Muir Physical Rehab	Concord	Rehabilitation Services
Kaiser Permanente	Walnut Creek	Hospitals
Kaiser Permanente Medical Ctr	Martinez	Clinics
La Raza Market	Richmond	Grocers-Retail
Muirlab	Walnut Creek	Laboratories-Medical
PMI Group Inc	Walnut Creek	Insurance-Bonds
Richmond City Offices	Richmond	Government Offices-City, Village & Twp
San Ramon Regional Medical Ctr	San Ramon	Hospitals
Shell Oil Products Co	Martinez	Oil Refiners (Mfrs)
St Mary's	Moraga	Schools-Universities & Colleges Academic
St Mary's College of CA	Moraga	Schools-Universities & Colleges Academic
Sutter Delta Medical Ctr	Antioch	Hospitals
Tesoro Golden Eagle Refinery	Pacheco	Oil Refiners (Mfrs)
USS-Posco Industries	Pittsburg	Steel Mills (Mfrs)
VA Outpatient Clinic	Martinez	Physicians & Surgeons

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

Commercial Activity

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

Total taxable sales during the first two quarters of calendar year 2010 in the City were reported to be $200,819,000 a 34.3% increase over the total taxable sales of $149,533,000 reported during the first two quarters of calendar year 2009. The number of establishments selling merchandise subject to sales tax and the valuation of taxable transactions in the City is presented in the following table. Annual figures are not yet available for 2010.

CITY OF MARTINEZ
Taxable Transactions
(Dollars in Thousands)

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

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

Total taxable sales during the first two quarters of calendar year 2010 in the County were reported to be $5,676,643,000, a 0.27% decrease over the total taxable sales of $5,691,985,000 reported during the first two quarters of calendar year 2009. The number of establishments selling merchandise subject to sales tax and the valuation of taxable transactions in the County is presented in the following table. Annual figures are not yet available for 2010.

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

Year	Retail Permits on July 1	Retail Stores Taxable Transactions	Total Permits on July 1	Total Outlets Taxable Transactions
2005	11,776	10,072,084	23,692	13,480,075
2006	11,467	10,275,907	23,249	13,867,661
2007	11,131	10,109,704	23,181	14,086,295
2008	11,577	9,484,307	23,149	13,307,681
2009 (1)	14,045	8,473,578	21,395	11,883,049

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

Construction Activity

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

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

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

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

Source: Construction Industry Research Board, Building Permit Summary.

APPENDIX C

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

APPENDIX D

PROPOSED FORM OF FINAL OPINION

APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

$_____
CITY OF MARTINEZ
2012 Certificates of Participation
(City of Martinez Water Refunding and Improvement Project)

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

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

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

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

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

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

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

"*MSRB*" means the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information for purposes of the Rule, or any other repository of disclosure information that may be designated by the Securities and Exchange Commission as such for purposes of the Rule in the future.

"*Official Statement*" means the final official statement dated _____, 2012, executed by the City in connection with the issuance of the Bonds.

"*Participating Underwriter*" means Brandis Tallman, LLC, as the original underwriter 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, 2012, with the report for the 2010-11 fiscal year, provide to the MSRB, in an electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4 below; ***provided, however, that the first Annual Report due on March 31, 2012, shall consist solely of the City's audited financial statements for fiscal year 2010-11 and a copy of the Official Statement***. Not later than 15 Business Days prior to the Annual Report Date, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). If by 15 Business Days prior to the Annual Report Date the Dissemination Agent (if other than the City) has not received a copy of the Annual Report, the Dissemination Agent shall contact the City to determine if the City is in compliance with the previous sentence. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report, and later than the Annual Report Date, if not available by that date. If the City's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c). The City shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by the City hereunder.

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

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

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

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

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

(a) Audited Financial Statements of the Water System prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the City's audited financial statements for the Water System are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual

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

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

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

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

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

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

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

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

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

(d) Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which are available to the public on the MSRB's Internet web site or filed with the Securities and Exchange Commission. The City shall clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events.

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

(1) Principal and interest payment delinquencies.

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

(3) Unscheduled draws on debt service reserves reflecting financial difficulties.

(4) Unscheduled draws on credit enhancements reflecting financial difficulties.

(5) Substitution of credit or liquidity providers, or their failure to perform.

(6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security.

(7) Modifications to rights of security holders, if material.

(8) Bond calls, if material, and tender offers.

(9) Defeasances.

(10) Release, substitution, or sale of property securing repayment of the securities, if material.

(11) Rating changes.

(12) Bankruptcy, insolvency, receivership or similar event of the obligated person.

(13) The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.

(14) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) Whenever the City obtains knowledge of the occurrence of a Listed Event, and, if the Listed Event is described in subsections (a)(2), (a)(6), (a)(7), (a)(8) (if the event is a bond call), (a)(10), (a)(13) or (a)(14) above, the City determines that knowledge of the occurrence of that Listed Event would be material under applicable Federal securities law, the City shall, or shall cause the Dissemination Agent (if not the City) to, file a notice of such occurrence with the MSRB, in an electronic format as prescribed by the MSRB, and the Participating Underwriter in a timely manner not in excess of 10 business days after the occurrence of the Listed Event. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(8) and (9) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds under the Indenture.

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

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

Section 8. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any Dissemination Agent, with or without appointing a successor

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

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

(a) if the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the 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 Indenture for amendments to the Indenture with the consent of holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the 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 Report filed pursuant hereto containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

If an amendment is made to this Disclosure Certificate modifying the accounting principles to be followed in preparing financial statements, the Annual Report for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the City to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative.

A notice of any amendment made pursuant to this Section 9 shall be filed in the same manner as for a Listed Event under Section 5(c).

Section 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 11. Default. If the City fails to comply with any provision of this Disclosure Certificate, the Participating Underwriter or any holder or beneficial owner of the 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 Indenture, and the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance.

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

Section 13. Counterparts. This Disclosure Certificate may be executed in several counterparts, each of which shall be regarded as an original, and all of which shall constitute one and the same instrument.

Date: _____, 2012

CITY OF MARTINEZ

By_____
Authorized Representative

ACCEPTED AND AGREED:

Willdan Financial Services,
as Dissemination Agent

By _____
Authorized Representative

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: City of Martinez

Name of Issue: $_____ 2012 Certificates of Participation
(City of Martinez Water Refunding and Improvement Project)

Date of Issuance: _____, 2012

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

Dated:_____

CITY OF MARTINEZ

By_____
Name:
Title:

APPENDIX F

BOOK ENTRY PROVISIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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