CITY OF MARTINEZ **CITY COUNCIL AGENDA**
February 15, 2012

TO: City of Martinez City Council

FROM: Philip Vince, City Manager

PREPARED BY: Alan Shear, Assistant City Manager
Cathy Spinella, Finance Manager

SUBJECT: Authorizing the Issuance and Sale of General Obligation Bonds, Authorizing and Directing the Execution of a Paying Agent Agreement and certain other Related Documents, and Authorizing Related Actions

DATE: February 8, 2012

RECOMMENDATION:

Adopt resolution authorizing the City Council to approve the issuance and sale of General Obligation Bonds, authorizing and directing the execution of a Paying Agent Agreement and certain other documents, and authorizing related actions.

BACKGROUND:

The City received authorization from the voters of the City in November 2008 to issue $30 million in general obligation bonds (Measure H) to repair, renovate and make needed safety improvements to neighborhood parks, playgrounds, sporting fields, and the replacement of Rankin Pool; renovate and expand the Martinez Library with a designated children's area; provide youth recreational opportunities; and improve disabled access to parks and libraries. It was determined to issue the bonds in more than one series and on May 20, 2009 Series A amounting to $15,000,000 was issued. The City's construction cash flow shows a need for a second series of bonds to complete the projects that are scheduled over the next three years. This resolution will authorize the issuance of the second series of bonds, in the amount of $10,000,000.

As with the Series A Bond proceeds, Series B proceeds will be deposited into the Measure H Special Revenue Fund which is restricted for park improvements outlined in the bond documents. With this next set of funding we will be able to complete the approved first issuance, Phase II projects, currently under design. These include Hidden Valley Park, Cappy Ricks Park, Nancy Boyd Park, the Sports Court Rehabilitation, Hidden Lakes Park and the bocce court restrooms. Projects for the second bond issuance will include Waterfront Park and improvements at the remaining parks with staff recommendations to the PRMCC and the City Council on prioritizing the projects.

In order to proceed with the financing, it is necessary that the City Council approve the execution of certain legal documents, including the Paying Agent Agreement with US Bank and the Preliminary Official Statement which is in substantially final form. These documents are described in more detail below. Furthermore, it is needed for the Council to authorize the competitive sale of the Bonds and direct the Assistant City Manager to accept the lowest responsible bid; and authorize other related action in connection with the Bond issue.

Bond Documents

By resolution, the Council will approve the following documents that are on file with the City Clerk:

1. **Paying Agent Agreement.** The Paying Agent Agreement (the "Agreement") is between the City and U.S. Bank National Association (the "Paying Agent") and contains the terms and conditions regarding the Bonds. Pursuant to the Agreement, the Paying Agent 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 Bonds; and to apply and disburse debt service payments to Bond Owners.

2. **Notice of Intention; Official Notice of Sale.** These documents provide the necessary notice to the underwriting community regarding the sale of the Bonds and the manner in which the firms must submit their bid for the purchase of the Bonds on a competitive bid basis.

3. **Preliminary Official Statement.** This document is the public offering statement for the issuance of the Bonds. This document thoroughly describes the financing program, the public improvements to be financed, and the economic, financial and social characteristics of the City.

Financing Team Participants

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

Jones Hall, APLC	Bond and Disclosure Counsel
Public Financial Management	Financial Advisor
U.S. Bank National Association	Paying Agent

FISCAL IMPACT:

The $10 million of bond proceeds will be deposited to the Project Fund, to be held by the City in a separate bond account. Bonds will be repaid from an annual property tax levy.

ACTION:

Adopt resolution authorizing the issuance and sale of general obligation bonds in the amount of $10,000,000; authorizing and directing the execution of a Paying Agent Agreement and certain other related documents; and authorizing related actions.

Attachments:
Resolution
Paying Agent Agreement
Official Notice of Sale
Preliminary Official Statement

APPROVED BY: City Manager

RESOLUTION NO. -12

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF MARTINEZ AUTHORIZING THE ISSUANCE AND SALE OF ITS GENERAL OBLIGATION BONDS, AUTHORIZING AND DIRECTING THE EXECUTION OF A PAYING AGENT AGREEMENT AND CERTAIN OTHER RELATED DOCUMENTS, AND AUTHORIZING ACTIONS RELATED THERETO

WHEREAS, more than two-thirds of the qualified voters in the City of Martinez (the "City"), voting at a municipal election on November 4, 2008, approved the issuance of up to $30,000,000 of general obligation bonds to finance the costs of acquiring and constructing parks, library improvements, and pool safety improvements within the City; and

WHEREAS, pursuant to the authorization received at such election, and the authorization contained in Chapter 4 (commencing with section 43600) of Division 4 of Title 4 of the California Government Code (the "Act"), the City issued the first series of the bonds authorized as described above on May 20, 2009 in the principal amount of $15,000,000 (the "Series A Bonds"); and

WHEREAS, the City intends to issue the second series of the general obligation bonds authorized as described above pursuant to the Paying Agent Agreement (defined below) in a principal amount of not to exceed $10,000,000 (the "Series B Bonds"); and

WHEREAS, the City Council of the City has duly considered such transactions and desires at this time to approve said transactions and the documents related thereto;

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF MARTINEZ AS FOLLOWS:

Section 1. <u>Approval of Paying Agent Agreement</u>. The proposed form of paying agent agreement dated as of March 1, 2012, by and between the City and U.S. Bank National Association (the "Paying Agent"), which is on file with the City Clerk (the "Paying Agent Agreement") is hereby approved, and the Mayor is hereby authorized and directed, for and in the name and on behalf of the City, to execute and deliver the Paying Agent Agreement in substantially said form, with said additions thereto (including the insertion of the maturity dates, principal amounts and interest rates of the Series B Bonds) and changes therein as the Mayor may approve, such approval to be conclusively evidenced by the execution and delivery thereof. The Council hereby authorizes the performance by the City of its obligations under the Paying Agent Agreement. The selection of U.S. Bank National Association, as Paying Agent is hereby approved and ratified.

Section 2. <u>Approval of Form of Series B Bonds</u>. The form of Series B Bonds set forth in the form of Exhibit A to the Paying Agent Agreement is hereby approved, and the Mayor and the City Treasurer are hereby authorized and directed to execute the Series B Bonds, and the

City Clerk to countersign in the name and on behalf of the City and under its seal and to cause the delivery thereof as provided for below.

Section 3. Sale and Issuance of Series B Bonds. The Series B Bonds shall be sold by competitive sale, provided that (a) the true interest cost of the Series B Bonds shall not exceed 6% per annum, (b) the principal amount of the Series B Bonds shall not exceed $10,000,000, and (c) the final maturity date of the Series B Bonds shall not extend beyond August 1, 2042. The City Manager, Assistant City Manager and the City Treasurer (the "Authorized Officers") are hereby separately authorized and directed to evidence the City's acceptance of an offer to purchase the Series B Bonds following competitive bidding pursuant to the Official Notice of Sale relating to the Series B Bonds (the "Official Notice of Sale"). The City Council hereby approves the Official Notice of Sale in substantially the form on file with the City Clerk.

Jones Hall, A Professional Law Corporation, as bond counsel to the City, is hereby authorized and directed to cause a Notice of Intention to Sell Bonds, in form and substance acceptable to said firm, to be published once in *The Bond Buyer* in accordance with Section 53692 of the Government Code.

Section 4. Approval of Preliminary and Final Official Statement. The form of Preliminary Official Statement as presented to this meeting is hereby approved. The Authorized Officers are hereby authorized and directed, for and on behalf of the City, to execute all certificates necessary to deem final the Preliminary Official Statement as of its date, with the exception of certain final pricing and related information. The Authorized Officers are hereby authorized and directed, for and on behalf of the City, to execute and deliver the final Official Statement. The use and distribution of said Preliminary Official Statement and use and distribution of the final Official Statement in connection with the sale of the Series B Bonds is hereby ratified and approved.

Section 5. Delegation of Authority to Authorized Officers. The Authorized Officers are hereby authorized and directed to execute, sign and deliver any and all approvals, certificates, statements, requests, requisitions and orders of the City in connection with the sale and issuance of the Series B Bonds, the purchase of the Series B Bonds and the other transactions described herein. The Authorized Officers may authorize such other officers of the City as they deem appropriate to undertake any of the actions which he is authorized or directed to undertake pursuant hereto

Section 6. General Authority. The officers of the City are hereby authorized and directed, jointly and severally, to do any and all things and to execute and deliver any and all documents which they may deem necessary or advisable in order to consummate the transactions described herein or to otherwise effectuate the purposes of this resolution, including preparing, or causing to be prepared, and executing all appropriate disclosure documents relating to the

Series B Bonds and agreements necessary to comply with the disclosure requirements of Rule 15c2-12, as amended, of the Securities and Exchange Commission. Any such actions previously taken by such officers are hereby ratified and confirmed.

Section 7. Severability. If any section, paragraph or provision of this resolution shall be held to be invalid or unenforceable for any reason, such invalidity or unenforceability shall not affect any remaining provisions hereof.

Section 8. Effective Date. This resolution shall take effect from and after the date of its passage and adoption.

PASSED, APPROVED AND ADOPTED this 15th day of February, 2012, by the following roll call vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

CITY OF MARTINEZ

____
Mayor

ATTESTED:

____
Deputy City Clerk

I HEREBY CERTIFY that the foregoing resolution was duly and regularly passed and adopted by the City Council of the City of Martinez at a regular meeting thereof held on the 15th day of February, 2012, and that the foregoing is a full, true and correct copy of said Resolution.

____
Deputy City Clerk

PAYING AGENT AGREEMENT

By and Between

CITY OF MARTINEZ

and

U.S. BANK NATIONAL ASSOCIATION,
as Paying Agent

Dated as of March 1, 2012

Relating to

$10,000,000
City of Martinez
General Obligation Bonds
Election of 2008, Series B

TABLE OF CONTENTS

PAYING AGENT AGREEMENT

This Paying Agent Agreement (the "**Agreement**") is made and entered into as of March 1, 2012, by and between the City of Martinez, a general law city organized and existing under the laws of the State of California (the "**City**") and U.S. Bank National Association, a national banking association duly organized and existing under the laws of the United States, as Paying Agent (the "**Paying Agent**")

W I T N E S S ET H:

WHEREAS, an election was duly and regularly held in the City on November 4, 2008 for the purpose of submitting to the qualified electors of said City the question whether bonds should be issued in the principal amount of not to exceed $30,000,000 to finance the costs of acquiring and constructing parks, library improvements, and pool safety improvements within the City; and

WHEREAS, more than two-thirds of the votes cast at said election were in favor of the issuance of said bonds; and

WHEREAS, pursuant to the authorization received at such election, and the authorization contained in Chapter 4 (commencing with section 43600) of Division 4 of Title 4 of the California Government Code (the "Act"), the City issued the first series of the bonds authorized as described above on May 20, 2009 in the principal amount of $15,000,000 (the "Series A Bonds"); and

WHEREAS, the City intends to issue its second series of general obligation bonds (the "Series B Bonds") pursuant to a resolution adopted on February 15, 2012 (the "City Resolution") and this Agreement in a principal amount equal to $10,000,000;

NOW THEREFORE, the City and the Paying Agent agree as follows:

ARTICLE I
DEFINITIONS; AUTHORITY

Section 1.01. __Definitions__. The terms defined in this Section 1.01, as used and capitalized herein, shall, for all purposes of this Agreement, have the meanings ascribed to them below, unless the context clearly requires some other meaning.

"**Act**" means, collectively, Chapter 4 (commencing with section 43600) of Division 4 of Title 4 of the California Government Code, as in effect on the date of adoption hereof and as amended hereafter.

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

"**Beneficial Owner**" means any person who has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds, including persons holding Bonds through nominees or depositories including, but not limited to, through the Nominee.

"**Bond Counsel**" means any attorney or firm of attorneys nationally recognized for expertise in rendering opinions as to the legality and tax exempt status of securities issued by public entities.

"**Bond Service Fund**" means the Series B Bond Service Fund established pursuant to Section 4.04 hereof.

"**Bonds**" means the City of Martinez General Obligation Bonds, Election of 2008, Series B, Outstanding pursuant to this Agreement.

"**Business Day**" means a day which is not a Saturday or Sunday or a day on which banks in San Francisco and Los Angeles, California, and New York, New York, are not required or permitted to be closed.

"**City Representative**" means the City Manager and the Assistant City Manager, or any other person authorized by resolution of the City Council of the City to act on behalf of the City with respect to this Agreement.

"**City Resolution**" has the meaning given to said term in the recitals hereto.

"**City Treasurer**" means the City Treasurer or any other person authorized by resolution of the City Council to act on behalf of the City with respect to this Agreement.

"**Closing Date**" means the date upon which there is an exchange of Bonds for the proceeds representing the purchase price of the Bonds by the Purchaser.

"**Code**" means the Internal Revenue Code of 1986.

"**Continuing Disclosure Certificate**" means that certain Continuing Disclosure Certificate dated the Closing Date and executed by the City, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

"**Contractor**" means the contractor(s) or vendor(s) from whom the City has ordered or caused to be ordered or with whom the City has contracted or caused to be contracted with respect to the construction of the Project, or any portion of the Project.

"Costs of Issuance Account" means the account of that name established and held by the Paying Agent as provided in Section 4.05.

"**Debt Service**" means the scheduled amount of interest and principal, including principal paid pursuant to mandatory sinking fund redemption, payable on the Bonds during the period of computation, excluding amounts scheduled during such period which relate to principal which has been retired before the beginning of such period.

"**Debt Service Fund**" means the Series B Debt Service Fund established pursuant to Section 4.02 hereof.

"**Depository**" means any securities depository appointed to act as Depository under Section 2.13 hereof.

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

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

"**Fitch**" means Fitch Ratings, a corporation duly organized and existing under and by virtue of the laws of the State of Delaware, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term "Fitch" shall be deemed to refer to any other nationally recognized securities rating agency selected by the City.

"**Issuance Expenses**" means all items of expense directly or indirectly reimbursable to the City relating to the execution and delivery of the Bonds, including but not limited to, filing and recording costs, settlement costs, printing costs, reproduction and binding costs, legal fees and charges, bond insurance premiums, fees and expenses of the Paying Agent, financial and other professional consultant fees, and costs of obtaining credit ratings.

"**Moody's**" means Moody's Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency for any reason, the term "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency selected by the City.

"**Nominee**" means the nominee of the Depository as determined from time to time in accordance with Section 2.13.

"**Outstanding**," when used as of any particular time with reference to Bonds, means all Bonds except:

(a) Bonds theretofore canceled by the Paying Agent or surrendered to the Paying Agent for cancellation;

(b) Bonds paid or deemed to have been paid within the meaning of Section 9.03 hereof; and

(c) Bonds in lieu of or in substitution for which other Bonds shall have been authorized, executed, issued and delivered by the City pursuant to the Agreement.

"**Owner**" or "**Bondowner**" means any person who shall be the registered owner of any Outstanding Bond.

"**Participant**" means those broker-dealers, banks and other financial institutions from time to time for which the Depository holds Bonds as a securities depository.

"**Participating Underwriter**" has the meaning assigned to such term in the Continuing Disclosure Certificate.

"**Person**" means an individual, corporation, firm, association, partnership, trust or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

"**Principal Office**" means, with respect to the Trustee, the corporate trust office of the Paying Agent at One California Street, Suite 2100, San Francisco, California, Attention Corporate Trust Offices (except with respect to the payment of the principal or prepayment price of the Bonds, in which case Principal Office means Corporate Trust Offices of the Paying

Agent, 60 Livingston Avenue, St. Paul, Minnesota, or such other location as designated by the Paying Agent.

"**Project**" means the acquisition, construction and completion of certain public improvements, consisting of parks, library improvements and pool safety improvements, as provided in Ordinance No. 1348 C.S. of the City Council of the City.

"**Project Costs**" means:

(a) all costs of payment of, or reimbursement for, acquisition, construction, installation and equipping of the Project including, but not limited to, architect and engineering fees, Contractor payments, costs of feasibility and other reports, inspection costs, performance bond premiums, and permit fees, provided that any such costs are directly related to the acquisition or improvement of real property;

(b) Issuance Expenses not paid by the Original Purchaser from original issue premium on the Bonds; and

(c) costs directly related to the administration of the funds and accounts created under this Agreement.

"**Project Fund**" means the Series B Project Fund established pursuant to Section 4.01 hereof.

"**Purchaser**" means __________________.

"**Regulations**" means temporary and permanent regulations promulgated under the Code.

"**S&P**" means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., a corporation organized and existing under the laws of the State of New York, its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency for any reason, the term "S&P" shall be deemed to refer to any other nationally recognized securities rating agency selected by the City.

"**Securities Depositories**" means: The Depository Trust Company, 711 Stewart Avenue, Garden City, New York 11530, Fax (516) 277-4039 or 4190; or, in accordance with the then current guidelines promulgated by the Securities and Exchange Commission at such other addresses and/or to such other securities depositories as the City may designate in writing to the Paying Agent.

"**Supplemental Agreement**" means any agreement supplemental to or amendatory of this Agreement entered into in accordance with Article VIII hereof.

"**Written Request of the City**" means an instrument in writing signed by the City Representative.

Section 1.02. **<u>Authority for this Agreement</u>**. This Agreement is being entered into pursuant to the authority set forth in the Act and the City Resolution, constitutes a continuing agreement with the Owners of all of the Bonds issued or to be issued hereunder and then Outstanding, to secure the full and final payment of principal of and premiums, if any, and the interest on the Bonds, all pursuant to the provisions of the Act.

ARTICLE II
THE BONDS

Section 2.01. **Authorization**. Bonds in the aggregate principal amount of ten million dollars ($10,000,000) are hereby authorized to be issued by the City under and subject to the terms of the Act and which may from time to time be executed and delivered hereunder, subject to the covenants, agreements, provisions and conditions herein contained. The Bonds shall be designated the "City of Martinez General Obligation Bonds, Election of 2008, Series B".

Section 2.02. **Terms of Bonds**.

(a) Form; Numbering. The Bonds shall be issued as fully registered Bonds, without coupons, in the denomination of $5,000 each or any integral multiple of $5,000, but in an amount not to exceed the aggregate principal amount of Bonds maturing in the year of maturity of the Bond for which the denomination is specified. Bonds shall be lettered and numbered as the Paying Agent shall prescribe.

(b) Date of Bonds. The Bonds shall be dated the Closing Date.

(c) CUSIP Identification Numbers. "CUSIP" identification numbers shall be imprinted on the Bonds, but such numbers shall not constitute a part of the contract evidenced by the Bonds and any error or omission with respect thereto shall not constitute cause for refusal of the Purchaser to accept delivery of and pay for the Bonds. In addition, failure on the part of the City to use such CUSIP numbers in any notice to Owners of the Bonds shall not constitute an event of default or any violation of the City's contract with such Owners and shall not impair the effectiveness of any such notice.

(d) Maturities; Interest. The Bonds shall bear interest at the rate or rates set forth below, payable on August 1 and February 1 of each year, commencing August 1, 2012 (each an "**Interest Payment Date**"), and shall mature and become payable as to principal on August 1 of the years and in the amounts as set forth below:

Maturity Date (August 1)	Principal Amount	Interest Rate	Maturity Date (August 1)	Principal Amount	Interest Rate

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

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

(e) Payment. Interest on the Bonds (including the final interest payment upon maturity or earlier redemption) is payable by check mailed on the applicable Interest Payment Date to the Owner thereof at his or her address as it appears on the registration books maintained by the Paying Agent at the close of business on the fifteenth (15th) day of the month preceding the Interest Payment Date, or at such other address as the Owner may have filed with the Paying Agent for that purpose; provided that an Owner of $1,000,000 or more aggregate principal amount of Bonds, or the Owner of all of the Bonds at the time Outstanding, shall, at his or her option, receive payment of interest by wire transfer to an account in the United States of America designated by such Owner to the Paying Agent no later than the fifteenth (15) day of the month immediately preceding the applicable Interest Payment Date. Principal of the Bonds is payable in lawful money of the United States of America at the Principal Office of the Paying Agent.

Section 2.03. Redemption.

(a) Optional Redemption. Bonds maturing on or before August 1, 20__ are not subject to redemption prior to their respective maturity dates. Bonds maturing on or after August 1, 20__, shall be subject to redemption prior to their respective maturity dates, at the option of the City, on any date on and after August 1, 20__, at a redemption price equal to the principal amount of the Bonds to be redeemed, plus accrued interest to the date of redemption, without premium.

(b) Mandatory Sinking Fund Redemption. The Bonds maturing August 1, 20__ are subject to mandatory sinking fund redemption in part, by lot, prior to their stated maturity date, on each August 1 on and after August 1, 20__, at a redemption price equal to 100% of the principal amount thereof called for redemption, plus accrued interest to the redemption date, without premium, as follows:

Date (August 1)	Amount

The Bonds maturing August 1, 20__ are subject to mandatory sinking fund redemption in part, by lot, prior to their stated maturity date, on each August 1 on and after August 1, 20__, until their maturity on August 1, 20__, at a redemption price equal to 100% of the principal amount thereof called for redemption, plus accrued interest to the redemption date, without premium, as follows:

Date	Amount

(c) Redemption Procedure. The Paying Agent shall cause notice of any redemption to be mailed, first class mail, postage prepaid, at least thirty (30) days but not more than sixty (60) days prior to the date fixed for redemption, to the respective Owners of any Bonds designated for redemption, at their addresses appearing on the Bond registration books maintained by the Paying Agent and to the Securities Depositories; but such mailing shall not be a condition precedent to such redemption and failure to mail or to receive any such notice shall not affect the validity of the proceedings for the redemption of such Bonds. The Paying Agent shall not mail any notice of redemption until it has sufficient moneys on deposit to pay the redemption price of all Bonds to be redeemed; provided, however, that such restriction shall not apply when the Bonds are redeemed with the proceeds of another obligation of the City; and provided further that in the event the Bonds are being redeemed with such proceeds, the City shall have the right to cancel the notice of redemption by providing written notice of such cancellation to the Paying Agent at least seven (7) Business Days prior to the date set for redemption.

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

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

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

All Bonds redeemed pursuant to this Section 2.03 shall be canceled by the Paying Agent, and a certificate of cancellation shall be submitted by the Paying Agent to the City.

Section 2.04. Form of Bonds. The Bonds, the form of the Paying Agent's certificate of authentication and registration and the form of assignment to appear thereon shall be substantially in the forms, respectively, with necessary or appropriate variations, omissions and insertions, as permitted or required by this Agreement, as are set forth in Exhibit A attached hereto.

Section 2.05. Execution of Bonds. The Bonds shall be executed on behalf of the City by the manual or facsimile signatures of its Mayor and the City Treasurer, and attested by the manual or facsimile signature of its City Clerk, who are in office on the date of execution of this Agreement or at any time thereafter, and the seal of the City shall be impressed, imprinted or reproduced by facsimile thereon. If any officer whose signature appears on any Bond ceases to be such officer before delivery of the Bonds to the Purchaser, such signature shall nevertheless be as effective as if the officer had remained in office until the delivery of the Bonds to the Purchaser. Any Bond may be signed and attested on behalf of the City by such persons as at the actual date of the execution of such Bond shall be the proper officers of the City although at the nominal date of such Bond any such person shall not have been such officer of the City.

Only such Bonds as shall bear thereon a certificate of authentication and registration in the form set forth in Exhibit A attached hereto, executed and dated by the Paying Agent, shall be valid or obligatory for any purpose or entitled to the benefits of this Agreement, and such certificate of the Paying Agent shall be conclusive evidence that the Bonds so registered have been duly authenticated, registered and delivered hereunder and are entitled to the benefits of this Agreement.

Section 2.06. Transfer of Bonds. Any Bond may, in accordance with its terms, be transferred, upon the books required to be kept pursuant to the provisions of Section 2.08 hereof, by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond for cancellation at the Principal Office at the Paying Agent, accompanied by delivery of a written instrument of transfer in a form approved by the Paying Agent, duly executed. The Paying Agent shall require the payment by the Owner requesting such transfer of any tax or other governmental charge required to be paid with respect to such transfer.

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

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

Section 2.07. Exchange of Bonds. Bonds may be exchanged at the Principal Office of the Paying Agent for a like aggregate principal amount of Bonds of authorized denominations and of the same maturity. The Paying Agent shall require the payment by the Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange.

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

Section 2.08. Bond Register. The Paying Agent shall keep or cause to be kept sufficient books for the registration and transfer of the Bonds, which shall at all times be open to inspection by the City upon reasonable notice; and, upon presentation for such purpose, the Paying Agent shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on said books, Bonds as herein before provided.

Section 2.09. Temporary Bonds. The Bonds may be initially issued in temporary form exchangeable for definitive Bonds when ready for delivery. The temporary Bonds may be printed, lithographed or typewritten, shall be of such denominations as may be determined by the City, and may contain such reference to any of the provisions of this Agreement as may be appropriate. Every temporary Bond shall be executed by the City upon the same conditions and in substantially the same manner as the definitive Bonds. If the City issues temporary Bonds it will execute and furnish definitive Bonds without delay, and thereupon the temporary Bonds may be surrendered, for cancellation, in exchange therefor at the Principal Office of the Paying Agent and the Paying Agent shall deliver in exchange for such temporary Bonds an equal aggregate principal amount of definitive Bonds of authorized denominations. Until so exchanged, the temporary Bonds shall be entitled to the same benefits pursuant to this Agreement as definitive Bonds executed and delivered hereunder.

Section 2.10. Bonds Mutilated, Lost, Destroyed or Stolen. If any Bond shall become mutilated the City, at the expense of the Owner of said Bond, shall execute, and the Paying Agent shall thereupon authenticate and deliver, a new Bond of like maturity and principal amount in exchange and substitution for the Bond so mutilated, but only upon surrender to the Paying Agent of the Bond so mutilated. Every mutilated Bond so surrendered to the Paying Agent shall be canceled by it and delivered to, or upon the order of, the City. If any Bond shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the City and, if such evidence be satisfactory to the City and indemnity satisfactory to it shall be given, the City, at the expense of the Owner, shall execute, and the Paying Agent shall thereupon authenticate and deliver, a new Bond of like maturity and principal amount in lieu of and in substitution for the Bond so lost, destroyed or stolen. The City may require payment of a sum not exceeding the actual cost of preparing each new Bond issued under this Section and of the expenses which may be incurred by the City and the Paying Agent in the premises. Any Bond issued under the provisions of this Section 2.10 in lieu of any Bond alleged to be lost, destroyed or stolen shall constitute an original additional contractual obligation on the part of the City whether or not the Bond so alleged to be lost, destroyed or stolen be at any time enforceable by anyone, and shall be equally and proportionately entitled to the benefits of this Agreement with all other Bonds issued pursuant to this Agreement.

Section 2.11. Book-Entry; Limited Obligation of City. The Bonds may be issued in the form of a separate single fully registered Bond (which may be typewritten) for each maturity. The ownership of such Bond shall be registered in the registration books kept by the Paying Agent in the name of the Nominee as nominee of the Depository.

With respect to Bonds registered in the registration books kept by the Paying Agent in the name of the Nominee, the City and the Paying Agent shall have no responsibility or obligation to such Participant or to any Person on behalf of which such a Participant holds an interest in the Bonds. Without limiting the immediately preceding sentence, the City and the Paying Agent shall have no responsibility or obligation with respect to (i) the accuracy of the records of the Depository, the Nominee, or any Participant with respect to any ownership interest in the Bonds, (ii) the delivery to any Participant or any other Person, other than as shown in the registration books kept by the Paying Agent, of any notice with respect to the Bonds, including any notice of redemption, (iii) the selection by the Depository and its Participants of the beneficial interests in the Bonds to be redeemed in the event the Bonds are redeemed in part, or (iv) the payment to any Participant or any other Person, other than a Nominee as shown in the registration books kept by the Paying Agent, of any principal of, premium, if any, or interest on the Bonds. The City and the Paying Agent may treat and consider the Person in whose name each Bond is registered in the registration books kept by the Paying Agent as the owner and absolute Owner of such Bond for the purpose of payment of principal of, premium, if any, and interest on such Bond, for the purpose of giving notices of prepayment and other matters with respect to such Bond, for the purposes of registering transfers with respect to such Bond, and for all other purposes whatsoever.

The Paying Agent shall pay all principal, premium, if any, and interest with respect to the Bonds, only to or upon the order of the respective Owners, as shown in the registration books kept by the Paying Agent, or their respective attorneys duly authorized in writing, and all such payments shall be valid and effective to fully satisfy and discharge the City's obligations with respect to payment of principal, premium, if any, and interest on the Bonds to the extent of the sum or sums so paid. No person other than an Owner, as shown in the registration books kept by the Paying Agent, shall receive a Bond evidencing the obligation of the City to make payments of principal, premium, if any, and interest pursuant to this Paying Agent Agreement. Upon delivery by the Depository to the Nominee, the Paying Agent and the City of written notice to the effect that the Depository has determined to substitute a new nominee in place of the Nominee, and subject to the provisions regarding the payment of the principal of and interest on the Bonds set forth in Section 2.02(e), the word Nominee in this Agreement shall refer to such new nominee of the Depository.

Section 2.12. Representation Letter. In order to qualify the Bonds for the Depository's book-entry system, the City shall execute, seal, countersign and deliver to such Depository a letter from the City representing such matters as shall be necessary to so qualify the Bonds (the "**Representation Letter**"). The execution and delivery of the Representation Letter shall not in any way limit the provisions of Section 2.12 hereof or in any other way impose upon the City or the Paying Agent any obligation whatsoever with respect to Persons having interests in the Bonds other than the Owners, as shown on the registration books kept by the Paying Agent. In the written acceptance of the Paying Agent, such Paying Agent shall agree to take all actions necessary for all representations of the City in the Representation Letter with respect to the

Paying Agent to at all times be complied with. In addition to the execution and delivery of the Representation Letter, the City shall take any other actions, not inconsistent with this Agreement, to qualify the Bonds for the Depository's book-entry system.

Section 2.13. Transfers Outside Book-Entry System. The City may, by written request, at any time or for any reason, remove the Depository and appoint a successor or successors thereto. In the event (i) the Depository determines not to continue to act as securities depository for any series of Bonds, or (ii) the City determines that the Depository shall no longer so act, then the City will discontinue the book-entry system with the Depository. If the City fails to identify another qualified securities depository to replace the Depository then the Bonds shall no longer be restricted to being registered in the registration books kept by the Paying Agent in the name of the Nominee, but shall be registered in whatever name or names Owners of such Bonds transferring or exchanging such Bonds shall designate, in accordance with the provisions of Section 2.06.

Section 2.14. Payments and Notices to the Nominee. Notwithstanding any other provision of this Agreement to the contrary, so long as any Bond is registered in the name of the Nominee, all payments of principal of, premium, if any, and interest on such Bond and all notices with respect to such Bond shall be made and given, respectively, as provided in the Representation Letter or as otherwise instructed in writing by the Depository.

ARTICLE III
ISSUANCE OF BONDS; APPLICATION OF BOND PROCEEDS; SECURITY FOR THE BONDS

Section 3.01. Issuance and Delivery of Bonds. At any time after the execution of this Agreement the City may issue and deliver Bonds in the aggregate principal amount of ten million dollars ($10,000,000).

The Bonds, substantially in the form attached hereto as Exhibit A, shall be printed, signed and sealed, and delivered to the Purchaser through the Depository on receipt of the purchase price therefor and upon performance of the conditions contained in the Official Notice of Sale relating to the Bonds. The appropriate officials of the City are hereby authorized to take any and all action any of them deem reasonable in order to enable the City to execute and deliver the Bonds.

The Paying Agent is hereby authorized to deliver the Bonds to the Purchaser, upon receipt of a Written Request of the City.

Section 3.02. Application of Proceeds of Sale of Bonds. Upon the receipt of payment for the Bonds, being $__________ (which amount includes the good faith deposit of $________deposited by the Original Purchaser with the Paying Agent prior to the Closing Date), the proceeds thereof shall be paid to the Paying Agent, to be deposited as follows:

(a) The Paying Agent shall transfer to the City, for deposit in the Debt Service Fund, an amount representing a portion of the premium paid with respect to the Bonds, being $__________; and

(b) The Paying Agent shall deposit $__________ into the Costs of Issuance Account;

(c) The Paying Agent shall transfer to the City, for deposit in the Project Fund, the remainder of the proceeds of the Bonds, being $_____________.

Section 3.03. Validity of Bonds. The validity of the authorization and issuance of the Bonds shall not be dependent upon the completion of the Project or upon the performance by any person of his or her obligation with respect to such Project.

Section 3.04. Security for the Bonds. The Bonds are general obligations of the City and the City has the power, is obligated and hereby covenants to levy *ad valorem* taxes upon all property within the City subject to taxation by the City, without limitation of rate or amount (except with respect to certain personal property which is taxed at limited rates), for the payment of the Bonds and the interest thereon, in accordance with all relevant provisions of law. The City hereby covenants to direct the Board of Supervisors of Contra Costa County to levy and collect such *ad valorem* taxes in such amounts and at such times as is necessary to ensure the timely payment of Debt Service.

ARTICLE IV
FUNDS AND ACCOUNTS

Section 4.01. Project Fund.

(a) There is hereby established with the City as a separate fund, to be maintained distinct from all other funds of the City or the Paying Agent, the Series B Project Fund, to the credit of which a deposit shall be made as required by clause (b) of Section 3.02. Money in the Project Fund shall be held by the City and disbursed for the payment of Project Costs (or to reimburse the City for payment of Project Costs). The City shall maintain accurate records showing the timing, the amount and the payee relating to all disbursements from the Project Fund.

(b) If, upon completion of the Project, amounts remain in the Project Fund, the City shall, at its election, either: (i) transfer such amounts to the Debt Service Fund; or (ii) transfer such amounts to another project fund dedicated to the payment of Project Costs. At such time that no amounts remain on deposit in the Project Fund, the City shall close the Project Fund.

Section 4.02. Debt Service Fund. There is hereby established with the City as a separate fund, to be maintained distinct from all other funds of the City, the Series B Debt Service Fund. Upon the receipt thereof, the City shall deposit the proceeds of the *ad valorem* property taxes levied to pay Debt Service in the Debt Service Fund and, if any, other moneys lawfully available to pay debt service on the Bonds as provided in Section 3.04. The City shall also deposit in the Debt Service Fund the amount required by Section 3.02(a) and any other amounts required by Section 3.04 hereof.

The Debt Service Fund shall be administered and disbursements made in the manner and in the order set forth in Section 4.03 hereof.

Section 4.03. Administration and Disbursements From Debt Service Fund. All moneys in the Debt Service Fund shall be used and withdrawn by the City solely for the purpose of paying the principal of and interest on the Bonds as the same shall become due and payable. At least five (5) Business Days prior to each Interest Payment Date, commencing not later than July 25, 2012, the City shall transfer to the Paying Agent moneys on deposit in the Debt Service Fund for application by the Paying Agent on the next succeeding Interest Payment Date to the payment of principal of and interest on the Bonds.

Section 4.04. Bond Service Fund. There is hereby established as a separate fund the Bond Service Fund, to be held by the Paying Agent. All moneys received by the Paying Agent from the City pursuant to Section 4.03 shall be deposited into the Bond Service Fund. The moneys on deposit in the Bond Service Fund shall be used solely to pay principal and interest on the Bonds when due.

Section 4.05. Costs of Issuance Account. There is hereby established as a separate account the Costs of Issuance Account, to be held by the Paying Agent. There shall be deposited into the Costs of Issuance Account the amount specified in Section 3.02(b). The moneys in the Cost of Issuance Account shall be used solely for the purpose of the payment of

Issuance Expenses upon receipt by the Paying Agent of invoices approved by the City, on or after the Closing Date. Any funds remaining in the Cost of Issuance Account on ___________ 1, 2012, shall be transferred by the Paying Agent to the City, for deposit to the Debt Service Fund.

Section 4.06. Investment of Moneys.

(a) Subject to the provisions of Section 5.08 hereof, amounts on deposit in the Project Fund and the Debt Service Fund may be invested by the City in investments selected by the City, which are included as "Investment Instruments" in the City's approved Investment Policy in effect at the time such investment is made, and earnings on such investments shall remain in the respective fund therein. Such investments shall be purchased at their Fair Market Value.

(b) Subject to the provisions of Section 5.08 hereof, amounts on deposit in the Bond Service Fund and the Costs of Issuance Account may only be invested by the Paying Agent in a money market fund registered under the Federal Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933, comprised of investments described in Federal Securities or of repurchase agreements comprised of such investments, and having a rating of "AAAm-G" or "AAAm" by S&P or "AAA" by Moody's, which fund may include a fund for which the Paying Agent, its affiliates or subsidiaries provide investment, advisory or other services, and earnings on such investments shall remain in the Bond Service Fund.

(c) The City acknowledges that to the extent that regulations of the Comptroller of the Currency or other applicable regulatory agency grant the City the right to receive brokerage confirmations of security transactions, the City waives receipt of such confirmations. The Paying Agent shall furnish to the City periodic statements of account which shall include detail of all investment transactions made by the Paying Agent.

ARTICLE V
OTHER COVENANTS OF THE CITY

Section 5.01. Punctual Payment. The City will punctually pay, or cause to be paid, the principal of and interest on the Bonds, in strict conformity with the terms of the Bonds and of this Agreement, and it will faithfully observe and perform all of the conditions, covenants and requirements of this Agreement and of the Bonds. Nothing herein contained shall prevent the City from making advances of its own moneys, howsoever derived, to any of the uses or purposes permitted by law.

Section 5.02. Extension of Time for Payment. In order to prevent any accumulation of claims for interest after maturity, the City will not, directly or indirectly, extend or consent to the extension of the time for the payment of any claim for interest on any of the Bonds and will not, directly or indirectly, approve any such arrangement by purchasing or funding said claims for interest or in any other manner. In case any such claim for interest shall be extended or funded, whether or not with the consent of the City, such claim for interest so extended or funded shall not be entitled, in case of default hereunder, to the benefits of this Agreement, except subject to the prior payment in full of the principal of all of the Bonds then Outstanding and of all claims for interest which shall not have so extended or funded.

Section 5.03. Payment of Claims. The City will pay and discharge, or cause to be paid and discharged, any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien or charge upon the project financed with the proceeds of the Bonds which might impair the security of the Bonds. Nothing herein contained shall require the City to make any such payment so long as the City in good faith shall contest the validity of said claims.

Section 5.04. Books and Accounts. The City will keep, or cause to be kept, proper books of record and accounts, separate from all other records and accounts of the City in which complete and correct entries shall be made of all transactions relating to the project financed with proceeds of the Bonds. Such books of record and accounts shall at all times during business hours be subject to inspection by the Owners of not less than ten percent (10%) of the principal amount of the Bonds then Outstanding, or their representatives authorized in writing.

Section 5.05. Protection of Security and Rights of Bondowners. The City will preserve and protect the security of the Bonds and the rights of the Bondowners, and will warrant and defend their rights against all claims and demands of all persons. From and after the sale and delivery of any of the Bonds by the City, the Bonds shall be incontestable by the City.

Section 5.06. Continuing Disclosure. The City hereby covenants and agrees that it will comply with and carry out all of the terms of the Continuing Disclosure Certificate. Notwithstanding any other provision of this Agreement, failure of the City to comply with the Continuing Disclosure Agreement shall not be an Event of Default under Section 7.01 hereof; provided, however, any Participating Underwriter, any Owner or any Beneficial Owner 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 Section 5.06 and the Continuing Disclosure Certificate.

Section 5.07. Further Assurances. The City will adopt, 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 of this Agreement, and for the better assuring and confirming unto the Owners of the Bonds of the rights and benefits provided in this Agreement.

Section 5.08. No Arbitrage. The City shall not take, or permit or suffer to be taken by the Paying Agent or otherwise, any action with respect to the proceeds of the Bonds which, if such action had been reasonably expected to have been taken, or had been deliberately and intentionally taken, on the date of issuance of the Bonds would have caused the Bonds to be "arbitrage bonds" within the meaning of section 148 of the Code.

Section 5.09. 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 Bonds to be "federally guaranteed" within the meaning of section 149(b) of the Code.

Section 5.10. Private Activity Bond Limitation. The City shall assure that the proceeds of the Bonds are not so used as to cause the Bonds to satisfy the private business tests of section 141(b) of the Code or the private loan financing test of section 141(c) of the Code.

Section 5.11. Maintenance of Tax-Exemption. The City shall take all actions necessary to assure the exclusion of interest on the Bonds from the gross income of the Owners of the Bonds to the same extent as such interest is permitted to be excluded from gross income under the Code as in effect on the date of issuance of the Bonds.

Section 5.12. Rebate Requirement. The City shall take any and all actions necessary to assure compliance with section 148(f) of the Code, relating to the rebate of Excess Investment Earnings, if any, to the federal government, to the extent that such section is applicable to the Bonds.

Section 5.13. Information Report. The Finance Manager is hereby directed to assure the filing of an information report for the Bonds in compliance with Section 149(e) of the Code.

ARTICLE VI
THE PAYING AGENT

Section 6.01. Appointment of Paying Agent. U.S. Bank National Association, at its Principal Office in St. Paul, Minnesota, or in such other location as approved by the City, is hereby appointed Paying Agent for the Bonds. The Paying Agent undertakes to perform such duties, and only such duties, as are specifically set forth in this Agreement, and, even during the continuance of an Event of Default, no implied covenants or obligations shall be read into this Agreement against the Paying Agent. The Paying Agent shall signify its acceptance of the duties and obligations imposed upon it by this Agreement by executing and delivering to the City this Agreement.

The City may remove the Paying Agent initially appointed, and any successor thereto, and may appoint a successor or successors thereto, but any such successor shall be a bank or trust company doing business in the State of California, having (or, if such bank or trust company is a member of a bank holding company, its parent holding company has) a combined capital (exclusive of borrowed capital) and surplus of at least fifty million dollars ($50,000,000), and subject to supervision or examination by federal or state authority. If such bank or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purposes of this Section 6.01 the combined capital and surplus of such bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

The Paying Agent may at any time resign by giving written notice to the City and the Bondowners of such resignation. Upon receiving notice of such resignation, the City shall promptly appoint a successor Paying Agent by an instrument in writing. Any resignation or removal of the Paying Agent and appointment of a successor Paying Agent shall become effective upon acceptance of appointment by the successor Paying Agent.

Section 6.02. Paying Agent May Hold Bonds. The Paying Agent may become the owner of any of the Bonds in its own or any other capacity with the same rights it would have if it were not Paying Agent.

Section 6.03. Liability of Agents. The recitals of facts, covenants and agreements herein and in the Bonds contained shall be taken as statements, covenants and agreements of the City, and the Paying Agent assumes no responsibility for the correctness of the same, nor makes any representations as to the validity or sufficiency of this Agreement or of the Bonds, nor shall incur any responsibility in respect thereof, other than as set forth in this Agreement. The Paying Agent shall not be liable in connection with the performance of its duties hereunder, except for its own negligence or willful default.

In the absence of bad faith, the Paying Agent may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Paying Agent and conforming to the requirements of this Agreement; but in the case of any such certificates or opinions by which any provision hereof are specifically required to be furnished to the Paying Agent, the Paying Agent shall be under a duty to examine the same to determine whether or not they conform to the requirements of this Agreement.

The Paying Agent shall not be liable for any error of judgment made in good faith by a responsible officer unless it shall be proved that the Paying Agent was negligent in ascertaining the pertinent facts.

No provision of this Agreement shall require the Paying Agent 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 it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

The Paying Agent may execute any of the powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys and the Paying Agent shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed with due care by it hereunder.

Section 6.04. Notice to Agents. The Paying Agent may rely and shall be protected in acting or refraining from acting upon any notice, resolution, request, consent, order, certificate, report, warrant, bond or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or proper parties. The Paying Agent may consult with counsel, who may be of counsel to the City, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance therewith.

Whenever in the administration of its duties under this Agreement the Paying Agent shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may, in the absence of bad faith on the part of the Paying Agent, be deemed to be conclusively proved and established by a certificate of the City, and such certificate shall be full warrant to the Paying Agent for any action taken or suffered under the provisions of this Agreement upon the faith thereof, but in its discretion the Paying Agent may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may seem reasonable.

Section 6.05. Compensation, Indemnification. The City shall pay to the Paying Agent from time to time reasonable compensation for all services rendered under this Agreement, and also all reasonable expenses, charges, counsel fees and other disbursements, including those of their attorneys, agents and employees, incurred in and about the performance of their powers and duties under this Agreement. A City Representative is hereby authorized to execute an agreement or agreements with the Paying Agent in connection with such fees and expenses. The City further agrees to indemnify and save the Paying Agent harmless against any liabilities, costs, claims and expenses of any kind which it may incur in the exercise and performance of its powers and duties hereunder which are not due to its negligence or bad faith.

Section 6.06. Funds and Accounts. The Paying Agent may establish such funds and accounts as it reasonably deems necessary or appropriate to perform its obligations under this Agreement.

ARTICLE VII
EVENTS OF DEFAULT AND REMEDIES OF BONDOWNERS

Section 7.01. <u>**Events of Default**</u>. If one or more of the following events ("**Events of Default**") shall happen, that is to say:

(a) if default shall be made by the City in the due and punctual payment of the principal of or redemption premium, if any, on any Bond when and as the same shall become due and payable, whether at maturity as therein expressed or by declaration or otherwise;

(b) if default shall be made by the City in the due and punctual payment of any installment of interest on any Bond when and as such interest installment shall become due and payable;

(c) if default shall be made by the City in the observance of any of the covenants, agreements or conditions on its part in this Agreement or in the Bonds contained, and such default shall have continued for a period of thirty (30) days after written notice thereof to the City Representative; or

(d) if the City shall file a petition seeking reorganization or arrangement under the federal bankruptcy laws or any other applicable law of the United States of America, or if a court of competent jurisdiction shall approve a petition, seeking reorganization of the City under the federal bankruptcy laws or any other applicable law of the United States of America, or if, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of the City or of the whole or any substantial part of its property;

then, and in each and every event of default and upon written request of the Owners of not less than sixty percent (60%) in aggregate principal amount of the Bonds at the time Outstanding, the principal of all of the Bonds then Outstanding, and the interest accrued thereon, shall be declared to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in this Agreement or in the Bonds contained to the contrary notwithstanding.

Such declaration may be rescinded by the Owners of not less than sixty percent (60%) in aggregate principal amount of the Bonds at the time Outstanding provided the City cures such default or defaults, including the deposit with the Paying Agent of a sum sufficient to pay all principal on the respective Bonds matured prior to such declaration and all matured installments of interest (if any) on the Bonds, with interest at the rate of twelve percent (12%) per annum on such overdue installments of principal and, to the extent such payment of interest is lawful at that time, on such overdue installments of interest, so that the City is currently in compliance with all payment, deposit and transfer provisions of this Agreement, and a sum sufficient to pay any expenses incurred by the Paying Agent in connection with such default.

Section 7.02. **Application of Funds**. All of the sums in the funds and accounts provided for in Sections 4.02 and 4.03 hereof, upon the date of the Event of Default as provided in Section 7.01 hereof, and all sums thereafter received by the Paying Agent hereunder, shall be applied by the Paying Agent in the following order upon presentation of the Bonds, and the stamping thereon of the payment if only partially paid, or upon the surrender thereof if fully paid:

First, to the payment of the costs and expenses of the Paying Agent hereunder and of the costs and expenses of Bondowners in declaring such event of default, including reasonable compensation to her or their agents, attorneys and counsel;

Second, in case the principal of the Bonds shall not have become due and payable, to the payment of the interest in default in the order of the seniority of the installments of such interest, with interest on the overdue installments at the rate of twelve percent (12%) per annum (to the extent that such interest on overdue installments shall have been collected), such payments to be made ratably to the persons entitled thereto without discrimination or preference;

Third, in case the principal of the Bonds shall have become and shall be then due and payable, all such sums shall be applied to the payment of the whole amount then owing and unpaid upon the Bonds for principal and interest, with interest on the overdue principal and installments of interest at the rate of twelve percent (12%) per annum (to the extent that such interest on overdue installments of interest shall have been collected), and in case such moneys shall be insufficient to pay in full the whole amount so owing and unpaid upon the Bonds, then to the payment of such principal and interest without preference or priority of principal over interest, or interest over principal, or of any installment of interest over any other installment of interest, ratably to the aggregate of such principal and interest.

Section 7.03. **Other Remedies of Bondowners**. Any Bondowner shall have the right, for the equal benefit and protection of all Bondowners similarly situated:

(a) by mandamus, suit, action or proceeding, to compel the City and its members, officers, agents or employees to perform each and every term, provision and covenant contained in this Agreement and in the Bonds, and to require the carrying out of any or all such covenants and agreements of the City and the fulfillment of all duties imposed upon it;

(b) by suit, action or proceeding in equity, to enjoin any acts or things which are unlawful, or the violation of any of the Bondowners' rights; or

(c) upon the happening of any event of default (as defined in Section 7.01 hereon, by suit, action or proceeding in any court of competent jurisdiction, to require the City and its members and employees to account as if it and they were the Paying Agents of an express trust.

Section 7.04. **Non-Waiver**. Nothing in this Article VII or in any other provision of this Agreement, or in the Bonds, shall affect or impair the obligation of the City, which is absolute and unconditional, to pay the principal of and interest on the Bonds to the respective Owners of the Bonds at the respective dates of maturity, as herein provided, or affect or impair the right of action, which is also absolute and unconditional, of such Owners to institute suit to enforce such payment by virtue of the contract embodied in the Bonds.

A waiver of any default by any Bondowner shall not affect any subsequent default or impair any rights or remedies on the subsequent default. No delay or omission of any Owner of any of the Bonds to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein, and every power and remedy conferred upon the Bondowners by this Article VI may be enforced and exercised from time to time and as often as shall be deemed expedient by the Owners of the Bonds.

If a suit, action or proceeding to enforce any right or exercise any remedy be abandoned or determined adversely to the Bondowners, the City and the Bondowners shall be restored to their former positions, rights and remedies as if such suit, action or proceeding had not been brought or taken.

Section 7.05. Remedies Not Exclusive. No remedy herein conferred upon the Owners of Bonds shall be exclusive of any other remedy and that each and every remedy shall be cumulative and shall be in addition to every other remedy given hereunder or thereafter conferred on the Bondowners.

ARTICLE VIII
SUPPLEMENTAL AGREEMENTS

Section 8.01. Amendments Permitted. This Agreement and the rights and obligations of the City and of the Owners of the Bonds may be modified or amended at any time by a Supplemental Agreement pursuant to the affirmative vote at a meeting of Owners, or with the written consent without a meeting, of the Owners of at least sixty percent (60%) in aggregate principal amount of the Bonds then Outstanding, exclusive of Bonds disqualified as provided in Section 8.04. No such modification or amendment shall (i) extend the maturity of any Bond or reduce the interest rate thereon, or otherwise alter or impair the obligation of the City to pay the principal of, and the interest and any premium on, any Bond, without the express consent of the Owner of such Bond, or (ii) permit the creation by the City of any pledge or lien upon the *ad valorem* taxes of the taxes superior to or on a parity with the pledge and lien created for the benefit of the Bonds (except as otherwise permitted by the Act, the laws of the State of California or this Agreement), or reduce the percentage of Bonds required for the amendment hereof. Any such amendment may not modify any of the rights or obligations of the Paying Agent without its written consent.

This Agreement and the rights and obligations of the City and of the Owners may also be modified or amended at any time by a Supplemental Agreement, without the consent of any Owners, only to the extent permitted by law and only for any one or more of the following purposes:

(a) to add to the covenants and agreements of the City in this Agreement contained, other covenants and agreements thereafter to be observed, or to limit or surrender any right or power herein reserved to or conferred upon the City;

(b) to make modifications not adversely affecting any outstanding series of Bonds of the City in any material respect;

(c) to make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provision contained in this Agreement, or in regard to questions arising under this Agreement, as the City and the Paying Agent may deem necessary or desirable and not inconsistent with this Agreement, and which shall not adversely affect the rights of the Owners of the Bonds; and

(d) to make such additions, deletions or modifications as may be necessary or desirable to assure compliance with Section 148 of the Code relating to required rebate of Excess Investment Earnings to the United States or otherwise as may be necessary to assure exclusion from gross income for federal income tax purposes of interest on the Bonds or to conform with the Regulations.

Section 8.02. Owners' Meetings. The City may at any time call a meeting of the Owners. In such event the City is authorized to fix the time and place of said meeting and to provide for the giving of notice thereof, and to fix and adopt rules and regulations for the conduct of said meeting.

Section 8.03. Procedure for Amendment with Written Consent of Owners. The City and the Paying Agent may at any time adopt a Supplemental Agreement amending the provisions of the Bonds or of this Agreement or any Supplemental Agreement, to the extent that such amendment is permitted by Section 8.01, to take effect when and as provided in this Section. A copy of such Supplemental Agreement, together with a request to Owners for their consent thereto, shall be mailed by first class mail, by the Paying Agent to each Owner of Bonds Outstanding, but failure to mail copies of such Supplemental Agreement and request shall not affect the validity of the Supplemental Agreement when assented to as in this Section provided.

Such Supplemental Agreement shall not become effective unless there shall be filed with the Paying Agent the written consents of the Owners of at least sixty percent (60%) in aggregate principal amount of the Bonds then Outstanding (exclusive of Bonds disqualified as provided in Section 8.04) and a notice shall have been mailed as hereinafter in this Section provided. Each such consent shall be effective only if accompanied by proof of ownership of the Bonds for which such consent is given, which proof shall be such as is permitted by Section 9.04. Any such consent shall be binding upon the Owner of the Bonds giving such consent and on any 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 Paying Agent prior to the date when the notice hereinafter in this Section provided for has been mailed.

After the Owners of the required percentage of Bonds shall have filed their consents to the Supplemental Agreement, the City shall mail a notice to the Owners in the manner hereinbefore provided in this Section for the mailing of the Supplemental Agreement, stating in substance that the Supplemental Agreement has been consented to by the Owners of the required percentage of Bonds and will be effective as provided in this Section (but failure to mail copies of said notice shall not affect the validity of the Supplemental Agreement or consents thereto). Proof of the mailing of such notice shall be filed with the Paying Agent. A record, consisting of the papers required by this Section 8.03 to be filed with the Paying Agent, shall be proof of the matters therein stated until the contrary is proved. The Supplemental Agreement shall become effective upon the filing with the Paying Agent of the proof of mailing of such notice, and the Supplemental Agreement shall be deemed conclusively binding (except as otherwise hereinabove specifically provided in this Article) upon the City and the Owners of all Bonds at the expiration of sixty (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 sixty-day period.

Section 8.04. Disqualified Bonds. Bonds owned or held for the account of the City, excepting any pension or retirement fund, shall not be deemed Outstanding for the purpose of any vote, consent or other action or any calculation of Outstanding Bonds provided for in this Article VIII, and shall not be entitled to vote upon, consent to, or take any other action provided for in this Article VIII.

Section 8.05. Effect of Supplemental Agreement. From and after the time any Supplemental Agreement becomes effective pursuant to this Article VIII, this Agreement shall be deemed to be modified and amended in accordance therewith, the respective rights, duties and obligations under this Agreement of the City and all owners of Bonds Outstanding shall thereafter be determined, exercised and enforced hereunder subject in all respects to such modifications and amendments, and all the terms and conditions of any such Supplemental Agreement shall be deemed to be part of the terms and conditions of this Agreement for any and all purposes.

Section 8.06. **Endorsement or Replacement of Bonds Issued After Amendments**. The City may determine that Bonds issued and delivered after the effective date of any action taken as provided in this Article VIII shall bear a notation, by endorsement or otherwise, in form approved by the City, as to such action. In that case, upon demand of the Owner of any Bond Outstanding at such effective date and presentation of his Bond for that purpose at the Principal Office of the Paying Agent or at such other office as the City may select and designate for that purpose, a suitable notation shall be made on such Bond. The City may determine that new Bonds, so modified as in the opinion of the City is necessary to conform to such Owners' action, shall be prepared, executed and delivered. In that case, upon demand of the Owner of any Bonds then Outstanding, such new Bonds shall be exchanged at the Principal Office of the Paying Agent without cost to any Owner, for Bonds then Outstanding, upon surrender of such Bonds.

Section 8.07. **Amendatory Endorsement of Bonds**. The provisions of this Article VIII shall not prevent any Owner from accepting any amendment as to the particular Bonds held by him, provided that due notation thereof is made on such Bonds.

ARTICLE IX
MISCELLANEOUS

Section 9.01. <u>Benefits of Agreement Limited to Parties</u>. Nothing in this Agreement, expressed or implied, is intended to give to any person other than the City, the Paying Agent and the Owners, any right, remedy, claim under or by reason of this Agreement. Any covenants, stipulations, promises or agreements in this Agreement contained by and on behalf of the City shall be for the sole and exclusive benefit of the Owners and the Paying Agent.

Section 9.02. <u>Successor is Deemed Included in All References to Predecessor</u>. Whenever in this Agreement or any Supplemental Agreement either the City or the Paying Agent is named or referred to, such reference shall be deemed to include the successors or assigns thereof, and all the covenants and agreements in this Agreement contained by or on behalf of the City or the Paying Agent shall bind and inure to the benefit of the respective successors and assigns thereof whether so expressed or not.

Section 9.03. <u>Discharge of Agreement</u>. The City shall have the option to pay and discharge the entire indebtedness on all or any portion of the Bonds Outstanding in any one or more of the following ways:

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

(b) by depositing with the Paying Agent, in trust, at or before maturity, money which, together with, in the event of a discharge of all of the Bonds, the amounts then on deposit in the funds and accounts provided for in Sections 4.02 and 4.03 is fully sufficient to pay such Bonds Outstanding, including all principal, interest and redemption premiums; or

(c) by irrevocably depositing with the Paying Agent, in trust, cash and Federal Securities in such amount as the City shall determine as confirmed by an independent certified public accountant will, together with the interest to accrue thereon and, in the event of a discharge of all of the Bonds, moneys then on deposit in the fund and accounts provided for in Sections 4.02 and 4.03, be fully sufficient to pay and discharge the indebtedness on such Bonds (including all principal, interest and redemption premiums) at or before their respective maturity dates.

If the City shall have taken any of the actions specified in (a), (b) or (c) above, and if such Bonds are to be redeemed prior to the maturity thereof notice of such redemption shall have been given as in this Agreement provided or provision satisfactory to the Paying Agent shall have been made for the giving of such notice, then, at the election of the City, and notwithstanding that any Bonds shall not have been surrendered for payment, the pledge of the funds and moneys provided for in this Agreement and all other obligations of the City under this Agreement with respect to such Bonds Outstanding shall cease and terminate. Notice of such election shall be filed with the Paying Agent. Notwithstanding the foregoing, the obligation of the City to pay or cause to be paid to the Owners of the Bonds not so surrendered and paid all sums due thereon and all amounts owing to the Paying Agent pursuant to Section 7.05 shall continue in any event.

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

Section 9.04. **Execution of Documents and Proof of Ownership by Owners**. Any request, declaration or other instrument which this Agreement may require or permit to be executed by Owners may be in one or more instruments of similar tenor, and shall be executed by Owners in person or by their attorneys appointed in writing.

Except as otherwise herein expressly provided, the fact and date of the execution by any Owner or his attorney of such request, declaration or other instrument, or of such writing appointing such attorney, may be proved by the certificate of any notary public or other officer authorized to take acknowledgments of deeds to be recorded in the state in which he purports to act, that the person signing such request, declaration or other instrument or writing acknowledged to him the execution thereof, or by an affidavit of a witness of such execution, duly sworn to before such notary public or other officer.

Except as otherwise herein expressly provided, the ownership of registered Bonds and the amount, maturity, number and date of holding the same shall be proved by the registry books.

Any request, declaration or other instrument or writing of the Owner of any Bond shall bind all future Owners of such Bond in respect of anything done or suffered to be done by the City or the Paying Agent in good faith and in accordance therewith.

Section 9.05. **Waiver of Personal Liability**. No member, officer, agent or employee of the City shall be individually or personally liable for the payment of the principal of, or interest or any premium on, the Bonds; but nothing herein contained shall relieve any such member, officer, agent or employee from the performance of any official duty provided by law.

Section 9.06. **Notices to and Demands on City and Paying Agent**. Any notice or demand which by any provision of this Agreement is required or permitted to be given or served by the Paying Agent to or on the City may be given or served by being deposited postage prepaid in a post office letter box addressed (until another address is filed by the City with the Paying Agent) to:

The City of Martinez
525 Henrietta Street
Martinez, California 94553
Attn: Finance Manager

Any notice or demand which by any provision of this Agreement is required or permitted to be given or served by the City to or on the Paying Agent may be given or served by being deposited postage prepaid in a post office letter box addressed (until another address is filed by the Paying Agent with the City) to:

U.S. Bank National Association
One California Street, Suite 2100
San Francisco, CA 94111
Attn: Corporate Trust Services

Section 9.07. **Partial Invalidity**. If any Section, paragraph, sentence, clause or phrase of this Agreement shall for any reason be held illegal or unenforceable, such holding shall not affect the validity of the remaining portions of this Agreement. The City hereby declares that it would have adopted this Agreement and each and every other Section, paragraph, sentence, clause or phrase hereof and authorized the issue of the Bonds pursuant thereto 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 9.08. **Unclaimed Moneys**. Anything contained herein to the contrary notwithstanding, any moneys held by the Paying Agent in trust for the payment and discharge of the principal of, and the interest and any premium on, the Bonds which remains unclaimed for two (2) years after the date when the payments of such principal, interest and premium have become payable, if such moneys was held by the Paying Agent at such date, shall be repaid by the Paying Agent to the City as its absolute property free from any trust, and the Paying Agent shall thereupon be released and discharged with respect thereto and the Bond Owners shall look only to the City for the payment of the principal of, and interest and any premium on, such Bonds.

Section 9.09. **Applicable Law**. This Agreement shall be governed by and enforced in accordance with the laws of the State of California applicable to contracts made and performed in the State of California.

Section 9.10. **Conflict with Act**. In the event of a conflict between any provision of this Agreement with any provision of the Act as in effect on the Closing Date, the provision of the Act shall prevail over the conflicting provision of this Agreement.

Section 9.11. **Conclusive Evidence of Regularity**. Bonds issued pursuant to this Agreement shall constitute conclusive evidence of the regularity of all proceedings under the Act relative to their issuance and the levy of the *ad valorem* taxes securing the payment of the Bonds.

Section 9.12. **Payment on Business Day**. In any case where the date of the maturity of interest or of principal (and premium, if any) of the Bonds or the date fixed for redemption of any Bonds or the date any action is to be taken pursuant to this Agreement is other than a Business Day, the payment of interest or principal (and premium, if any) or the action need not be made on such date but may be made on the next succeeding day which is a Business Day with the same force and effect as if made on the date required and no interest shall accrue for the period from and after such date.

Section 9.13. Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original.

IN WITNESS WHEREOF, the City has caused this Agreement to be executed in its name and the Paying Agent has caused this Agreement to be executed in its name, all as of the date first written above.

CITY OF MARTINEZ

By:____________________________________
Rob Schroder, Mayor

U.S. BANK NATIONAL ASSOCIATION,
as Paying Agent

By:____________________________________
Authorized Officer

No.______________ $_____________________

EXHIBIT A

FORM OF BOND

UNITED STATES OF AMERICA
STATE OF CALIFORNIA
COUNTY OF CONTRA COSTA

CITY OF MARTINEZ
GENERAL OBLIGATION BOND
ELECTION OF 2008, SERIES B

Interest Rate	Maturity Date	Issue Date	CUSIP
	1, _____	April __, 2012	

REGISTERED OWNER: Cede & Co.

PRINCIPAL SUM:___________ DOLLARS

The CITY OF MARTINEZ, a general law city duly organized and existing under and by virtue of the Constitution and laws of the State of California (the "City"), for value received hereby promises to pay to the Registered Owner stated above, or registered assigns (the "Owner"), on the Maturity Date stated above (subject to any right of prior redemption hereinafter provided for), the Principal Sum stated above, in lawful money of the United States of America, and to pay interest thereon in like lawful money from the interest payment date next preceding the date of authentication of this Bond (unless (i) this Bond is authenticated on an interest payment date, in which event it shall bear interest from such date of authentication, or (ii) this Bond is authenticated prior to an interest payment date and after the close of business on the fifteenth day of the month preceding such interest payment date, in which event it shall bear interest from such interest payment date, or (iii) this Bond is authenticated on or prior to July 15, 2012, in which event it shall bear interest from the Issue Date stated above; provided however, that if at the time of authentication of this Bond, interest is in default on this Bond, this Bond shall bear interest from the interest payment date to which interest has previously been paid or made available for payment on this Bond) until payment of such Principal Sum in full, at the rate per annum stated above, payable on February 1 and August 1 in each year, commencing August 1, 2012, calculated on the basis of 360-day year composed of twelve 30-day months. Principal hereof and premium, if any, upon early redemption hereof are payable at the corporate trust office of U.S. Bank National Association (the "Paying Agent"), in St. Paul, Minnesota, or in such other location as approved by the City. Interest hereon (including the final interest payment upon maturity or earlier redemption) is payable by check mailed on the applicable Interest Payment Date to the Owner at his or her address as it appears on the registration books maintained by the Paying Agent as of the close of business on the fifteenth day of the month next preceding such interest payment date, or at such other address as the Owner may have filed with the Paying Agent for that purpose.

This Bond is one of a duly authorized issue of bonds of the City designated as "City of Martinez General Obligation Bonds, Series B" (the "Bonds"), in an aggregate principal amount of ten million dollars ($10,000,000), all of like tenor and date (except for such variation, if any, as may be required to designate varying numbers, maturities, interest rates or redemption and other provisions) and all issued pursuant to the provisions of Chapter 4 of Division 4 of Title 4 of the California Government Code (the "Act"), pursuant to a resolution of the City adopted February 15, 2012 (the "Resolution"), authorizing the issuance of the Bonds and a Paying Agent Agreement dated as of March 1, 2012 (the "Agreement") between the City and the Paying Agent. Reference is hereby made to the Resolution and the Agreement (copies of which are on file at the office of the Paying Agent) and the Act for a description of the terms on which the Bonds are issued and the rights thereunder of the owners of the Bonds and the rights, duties and immunities of the Paying Agent and the rights and obligations of the City thereunder, to all of the provisions of which Resolution and Agreement the Owner of this Bond, by acceptance hereof, assents and agrees.

The Bonds have been issued to finance the costs of acquiring and constructing parks, library improvements, and pool safety improvements within the City.

This Bond and the interest hereon and on all other Bonds and the interest thereon (to the extent set forth in the Agreement) are general obligations of the City and the City has the power, is obligated and has covenanted to levy *ad valorem* taxes for the payment of the Bonds and the interest thereon, in accordance with all relevant provisions of law. The City has covenanted in the Agreement to direct Contra Costa County to levy and collect such *ad valorem* taxes in such amounts and at such times is necessary to ensure the timely payment of debt service on the Bonds.

Bonds maturing on or before August 1, 20__ are not subject to redemption prior to their respective maturity dates. Bonds maturing on or after August 1, 20__ shall be subject to redemption prior to their respective maturity dates on any date, as designated by the City and, absent any such designation, in pro rata among maturities and by lot within a maturity, from moneys provided at the option of the City, in each case on and after August 1, 20__, at a redemption price equal to the principal amount of the Bonds to be redeemed, plus accrued interest to the date of redemption, without premium.

The Bonds maturing August 1, 20__ are subject to mandatory sinking fund redemption in part, by lot, prior to their stated maturity date, on each August 1 on and after August 1, 20__, at a redemption price equal to 100% of the principal amount thereof called for redemption, plus accrued interest to the redemption date, without premium, as follows:

Date (August 1)	Amount

The Bonds maturing August 1, 20__ are subject to mandatory sinking fund redemption in part, by lot, prior to their stated maturity date, on each August 1 on and after August 1, 20__, until their maturity on August 1, 20__, at a redemption price equal to 100% of the principal amount thereof called for redemption, plus accrued interest to the redemption date, without premium, as follows:

Date	Amount

As provided in the Agreement, notice of redemption shall be given by mail no less than thirty (30) nor more than sixty (60) days prior to the redemption date to the respective registered owners of any Bonds designated for redemption at their addresses appearing on the Bond registration books maintained by the Paying Agent, but neither failure to receive such notice nor any defect in the notice so mailed shall affect the sufficiency of the proceedings for redemption.

If this Bond is called for redemption and payment is duly provided therefor as specified in the Agreement, interest shall cease to accrue hereon from and after the date fixed for redemption.

If an Event of Default, as defined in the Agreement, shall occur, the principal of all Bonds may be declared due and payable upon the conditions, in the manner and with the effect provided in the Agreement, but such declaration and its consequences may be rescinded and annulled as further provided in the Agreement.

The Bonds are issuable as fully registered Bonds, without coupons, in denominations of $5,000 and any integral multiple thereof. Subject to the limitations and conditions and upon payment of the charges, if any, as provided in the Agreement, Bonds may be exchanged for a like aggregate principal amount of Bonds of other authorized denominations and of the same maturity.

This Bond is transferable by the Owner hereof, in person or by his attorney duly authorized in writing, at said office of the Paying Agent in St. Paul, Minnesota, but only in the manner and subject to the limitations provided in the Agreement, and upon surrender and cancellation of this Bond. Upon registration of such transfer a new Bond or Bonds, of authorized denomination or denominations, for the same aggregate principal amount and of the same maturity will be issued to the transferee in exchange herefor.

The City and the Paying Agent may treat the Owner hereof as the absolute owner hereof for all purposes, and the City and the Paying Agent shall not be affected by any notice to the contrary.

The Agreement may be amended without the consent of the Owners of the Bonds to the extent set forth in the Agreement.

Unless this Bond is presented by an authorized representative of The Depository Trust Company, a New York corporation ("DTC"), to the Paying Agent for registration of transfer, exchange, or payment, and any Bond issued is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest herein.

It is hereby certified that all of the things, conditions and acts required to exist, to have happened or to have been performed precedent to and in the issuance of this Bond do exist, have happened or have been performed in due and regular time and manner as required by the laws of the State of California, and that the amount of this Bond, together with all other indebtedness of the City, does not exceed any limit prescribed by any laws of the State of California, and is not in excess of the amount of Bonds permitted to be issued under the Agreement.

This Bond shall not be entitled to any benefit under the Agreement or become valid or obligatory for any purpose until the Certificate of Authentication hereon shall have been signed by the Paying Agent.

IN WITNESS WHEREOF, the City of Martinez has caused this Bond to be executed in its name and on its behalf with the facsimile signatures of its Mayor, its Treasurer and its City Clerk and its seal to be reproduced hereon, all as of the Issue Date stated above.

CITY OF MARTINEZ

By:____________________________________
Mayor

By:____________________________________
Treasurer

(S E A L)

ATTEST:

____
City Clerk

[FORM OF PAYING AGENT'S CERTIFICATE OF AUTHENTICATION]

CERTIFICATE OF AUTHENTICATION

This is one of the Bonds described in the within-mentioned Agreement.

Date of Authentication: __________

U.S. Bank National Association,
as Paying Agent

____
Authorized Signatory

ABBREVIATIONS

The following abbreviations, when used in the inscription on the face of this Bond, shall be construed as though they were written out in full according to applicable laws or Tax Regulations:

TEN COMM--as tenants in common

TEN ENT--as tenants by the entireties

JT TEN--as joint tenants with right of survivorship and not as tenants in common

COMM PROP--as community property

UNIF TRANS MIN ACT ________________ Custodian ________________
(Cust.) (Minor)
under Uniform Transfers to Minors Act ___________________
(State)

ADDITIONAL ABBREVIATIONS MAY ALSO BE USED THROUGH NOT IN THE LIST ABOVE

ASSIGNMENT

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

____

____

____

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

the within Bond and do(es) hereby irrevocably constitute and appoint ______________________, attorney, to transfer the same on the registration books of the Paying Agent, with full power of substitution in the premises.

Dated:_______________________

____

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

Signature Guaranteed:

____

Notice: Signature(s) must be guaranteed by a qualified guarantor institution

OFFICIAL NOTICE OF SALE

$10,000,000
CITY OF MARTINEZ
GENERAL OBLIGATION BONDS,
ELECTION OF 2008, SERIES B

NOTICE IS HEREBY GIVEN by the City of Martinez (the "City") that electronic bids will be received by the City for the purchase of $10,000,000 City of Martinez General Obligation Bonds, Election of 2008, Series B (the "Bonds"). Only electronic bids will be accepted, via PARITY®. No hand delivered or facsimile bids will be accepted. The bids will be received in the manner and up to the time and date specified below:

DATE AND TIME:	9:30 A.M. California Time on Wednesday, March 21, 2012, (subject to postponement or cancellation in accordance with this Official Notice of Sale).
ELECTRONIC BIDS:	Bid proposals may only be submitted electronically, via PARITY®, as provided below.

See "TERMS OF SALE - Warnings Regarding Electronic Bids" herein.

The City reserves the right to postpone or cancel the sale or change the terms thereof prior to the time on March 21, 2012 when bids are to be received. Notice of such postponement, cancellation or revision shall be communicated through PARITY®, as soon as practicable following such postponement, cancellation or revision. See "TERMS OF SALE - Right to Postponement or Cancellation." If the sale is postponed, bids will be received at the place set forth above on any weekday at such time as the City shall determine. Notice of the new date or a new date and time for the receipt of bids, if any, will be given through PARITY®as provided in this Notice of Sale.

The City further reserves the right to modify or amend this Official Notice of Sale in any respect, including, without limitation, the principal amount of the Bonds being offered, upon notice given as described above. As an accommodation to bidders, telephonic, electronic or faxed notice of any postponement of the sale date and of the new sale date and time or any amendment or modification of this Official Notice of Sale will be given to any bidder requesting such notice from the City's Financial Advisor: PUBLIC FINANCIAL MANAGEMENT, INC., 50 California Street, 23rd Floor, San Francisco, California 94111, Attention: Sarah Hollenbeck, email: hollenbecks@pfm.com, telephone: (415) 982-5544, fax: (415) 982-4513. Failure of any bidder to receive such supplemental notice shall not affect the sufficiency of any required notice or the legality of the sale.

Notice of any change to the principal payment schedule for the Bonds to be utilized for the bidding process will be given via PARITY® not later than 1:00 p.m. (California time) on the day prior to the date prescribed for the receipt of bids. Potential bidders must obtain any such revised principal payment schedule before bidding on the Bonds. See "TERMS RELATING TO THE BONDS - Principal Payments" and "- Adjustment of Principal Payments" below.

DESCRIPTION OF THE BONDS

DATE; FORM; DENOMINATION: The Bonds will be dated as of the date of their delivery, and will be executed and delivered in non-negotiable, fully registered form, without coupons, in denomination of $5,000 each or any integral multiple of $5,000. The Bonds will be delivered in a book-entry only system with no physical distribution of the Bonds to the public. The Depository Trust Company, New York, New York ("DTC") will act as depository for the Bonds. The Bonds will be registered in the name of Cede & Co., as nominee for DTC, on behalf of the participants in the DTC system and the subsequent beneficial owners of the Bonds. The Bonds are being executed and delivered pursuant to a Paying Agent Agreement, dated as of March 1, 2012 (the "Paying Agent Agreement"), by and between the City and U.S. Bank National Association, as Paying Agent (the "Paying Agent"). Reference is made to the Paying Agent Agreement for further details regarding the terms and provisions of the Bonds.

MATURITIES: The Bonds will mature, or be subject to mandatory sinking fund redemption, on the maturity dates and in the amounts set forth in the following table. Each bidder is required to specify in its bid whether, for any particular year, the Bonds will mature or, alternatively, be subject to sinking fund redemption in such year. No serial Bonds may mature following the commencement of the first mandatory sinking fund payment. For any term Bonds specified, the principal amount for a given year may be allocated only to a single term bond and must be part of an uninterrupted annual sequence from the first mandatory sinking fund payment to the term bond maturity.

Maturity Date (August 1)	Principal Amount*	Maturity Date (August 1)	Principal Amount*

INTEREST: Interest on the Bonds will be payable from their date of delivery at such rate or rates to be fixed upon the sale thereof, payable semiannually on each August 1 and February 1 (each, an "Interest Payment Date"), commencing August 1, 2012.

PAYMENT: The Bonds and interest thereon are payable in lawful money of the United States of America, interest being payable by check mailed on each Interest Payment Date to the registered owners thereof at the address shown on the Bond registration books maintained by the Paying Agent on the 15th day of the month preceding an interest payment date. Principal will be payable upon surrender at the principal corporate trust office of the Paying Agent in St. Paul, Minnesota.

* Preliminary, subject to change

OPTIONAL REDEMPTION: The Bonds are subject to optional redemption prior to maturity, as follows:

Bonds maturing on or before August 1, 2022 are not subject to optional redemption prior to maturity. Bonds maturing on or after August 1, 2023, shall be subject to redemption prior to their respective maturity dates, as designated by the City and, absent any such designation, pro rata among maturities and by lot within a maturity, from moneys provided at the option of the City, in each case, on any date occurring on or after August 1, 2022, at a redemption price equal to the principal amount of the Bonds to be redeemed, plus accrued interest to the date of redemption, without premium.

MANDATORY REDEMPTION. Term Bonds, if any, are subject to redemption prior to their respective stated maturity dates, in part, by lot, from mandatory sinking fund payments, on each August 1 on or after August 1, 2022, designated by the successful bidder as a date upon which a mandatory sinking fund payment is to be made, at a redemption price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption, without premium. No Term Bonds may be redeemed from mandatory sinking fund payments until all Term Bonds maturing on preceding term maturity dates, if any, have been retired.

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

SECURITY: The Bonds are general obligations of the City payable from *ad valorem* taxes levied by the City and collected by Contra Costa County (the "County"). The City has the power and is obligated to cause the Board of Supervisors of the County to levy *ad valorem* taxes for the payment of the Bonds and the interest thereon upon all property within the City subject to taxation by the City, without limitation of rate or amount (except with respect to certain personal property which is taxed at limited rates) for the payment of the Bonds and the interest thereon, in accordance with all relevant provisions of law. The City has covenanted in the Paying Agent Agreement to direct the Board of Supervisors of the County to collect such *ad valorem* taxes in such amounts and at such times as is necessary to ensure the timely payment of debt service on the Bonds.

TAX-EXEMPT STATUS: In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to certain qualifications, under existing law, interest on the Bonds is excluded from gross income for federal income tax purposes, 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, and such interest is taken into account in determining certain income and earnings. In the further opinion of Bond Counsel, such interest is exempt from California personal income taxes.

In the event that, prior to the delivery of the Bonds (a) the interest on other obligations of the same type and character shall be declared to be subject to taxation (either at the time of such declaration or at any future date) under any federal income tax laws, either by the terms of such laws or by ruling of a federal income tax authority or official which is followed by the Internal Revenue Service, or by decision of any federal court, or (b) any federal income tax law is enacted which will have a substantial adverse effect upon the owners of the Bonds as such, the successful bidder may, at its option, prior to the tender of the Bonds, be relieved of its obligation to purchase the Bonds, and in such case the deposit accompanying its bid will be returned.

LEGAL OPINION: The legal opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, approving the validity of the Paying Agent Agreement and the Bonds will be furnished to the successful bidder without cost. A copy of the legal opinion, certified by the official in whose office the original is filed, will be printed on each Bond without charge to the successful bidder.

FURTHER INFORMATION*:* A copy of the preliminary Official Statement describing the Bonds, and any other information concerning the proposed financing, will be furnished upon request to the City's Financial Advisor, Public Financial Management, Inc., 50 California Street, Suite 2300, San Francisco, California 94111.

TERMS OF SALE

FORM OF BID: All bids must be for not less than all of the Bonds hereby offered for sale, and for not less than the aggregate par value thereof.

Bidders may submit only one bid, electronically through PARITY®. All bids must comply with the requirement for a good faith deposit. See "GOOD FAITH DEPOSIT" herein.

ELECTRONIC BIDS. Electronic bids must conform with the procedures established by PARITY®. Electronic bids will be received exclusively through PARITY® in accordance with this Official Notice of Sale until 9:30 a.m. California time on the sale date, but no bid will be received after the time specified for receiving bids. To the extent any instructions or directions set forth in PARITY® conflict with this Official Notice of Sale, the terms of this Official Notice of Sale shall control. For further information about PARITY®, including any fees charged by PARITY®, potential bidders may contact PARITY®, 40 W. 23rd Street, 5th Floor, New York, NY 10010 (Eric Washington), telephone (212) 812-0971.

THE CITY RETAINS ABSOLUTE DISCRETION TO DETERMINE WHETHER ANY BID IS TIMELY, LEGIBLE AND COMPLETE. THE CITY TAKES NO RESPONSIBILITY FOR INFORMING ANY BIDDER PRIOR TO THE TIME FOR RECEIVING BIDS THAT ITS BID IS INCOMPLETE, ILLEGIBLE OR NOT RECEIVED.

WARNING REGARDING ELECTRONIC BIDS**:** THE CITY WILL ACCEPT BIDS IN ELECTRONIC FORM SOLELY THROUGH PARITY®. EACH BIDDER SUBMITTING AN ELECTRONIC BID UNDERSTANDS AND AGREES BY DOING SO THAT IT IS SOLELY RESPONSIBLE FOR ALL ARRANGEMENTS WITH PARITY®, AND THAT PARITY® IS NOT ACTING AS AN AGENT OF THE CITY. INSTRUCTIONS FOR SUBMITTING ELECTRONIC BIDS MUST BE OBTAINED FROM PARITY®, AND THE CITY ASSUMES NO RESPONSIBILITY FOR ENSURING OR VERIFYING BIDDER COMPLIANCE WITH THE PROCEDURES OF PARITY®. THE CITY SHALL ASSUME THAT ANY BID RECEIVED THROUGH PARITY® HAS BEEN MADE BY A DULY AUTHORIZED AGENT OF THE BIDDER.

THE CITY, THE FINANCIAL ADVISOR AND BOND COUNSEL ASSUME NO RESPONSIBILITY FOR ANY ERROR CONTAINED IN ANY BID SUBMITTED

ELECTRONICALLY, OR FOR FAILURE OF ANY BID TO BE TRANSMITTED, RECEIVED OR OPENED AT THE OFFICIAL TIME FOR RECEIPT OF BIDS. THE OFFICIAL TIME FOR RECEIPT OF BIDS WILL BE DETERMINED BY THE CITY AT THE PLACE OF BID OPENING, AND THE CITY SHALL NOT BE REQUIRED TO ACCEPT THE TIME KEPT BY PARITY® AS THE OFFICIAL TIME.

INTEREST RATE: Bidders must specify the rate or rates of interest which shall be payable on the Bonds. The maximum rate bid on any individual maturity of the Bonds may not exceed seven percent (7%) per annum. Interest on the Bonds is payable semiannually on each Interest Payment Date. Bidders will be permitted to bid different rates of interest but (a) each interest rate specified in any bid must be in a multiple of one-twentieth (1/20) or one-eighth (1/8) of one percent; (b) interest on each Bond shall be computed from the closing date (expected to be April 4, 2012), to its stated maturity date, at the interest rate specified in the bid, payable semiannually as set forth above; (c) interest on all Bonds maturing at any one time shall be payable at the same rate of interest; and no bid will be accepted which contemplates the waiver of any interest or other concession by the bidder as a substitute for payment in full of the purchase price.

BEST BID: The Bonds will be awarded to the best responsible bidder therefor, considering the interest rate or rates specified and the premium offered, if any, or discount taken, if any, and the best bid will be determined on the basis of the lowest true interest cost. The true interest cost will be that nominal annual discount rate which, when discounted semiannually and when used to discount all payments of principal and interest on the Bonds at the rate or rates specified in the bid to the date of the Bonds results in the amount equal to the purchase price, which is the principal amount of the Bonds plus the amount of any premium, less the amount of any discount. In the event two or more bids setting forth identical interest rates are received, the City reserves the right to allow its authorized representative to exercise his or her own discretion and judgment in making the award and may award the Bonds on a pro rata basis in such denominations as he or she shall determine.

ADJUSTMENT OF PRINCIPAL AMOUNTS: Following the receipt of bids, the City reserves the right to increase or to decrease the principal amount of any maturity of the Bonds as the City deems advisable, based on the actual rates of interest to be borne by the Bonds. Any such increase or decrease shall be allocated among the various maturities of the Bonds on such basis as the City deems advisable, and shall result in a proportionate increase or decrease (as the case may be) in the amount of any premium or discount bid. Notice of such increase or decrease shall be given to the successful bidder as soon as practicable following the notification of award, as described below. No such adjustment will have the effect of altering the basis upon which the best bid is determined.

RIGHT TO MODIFY OR AMEND: The City reserves the right, in *its sole discretion,* to modify or amend this Official Notice of Sale including, but not limited to, the right to adjust and change the principal amount and principal amortization schedule of the Bonds being offered, however, such modifications or amendments shall be made not later than 1:00 P.M., California time, on the business day prior to the bid opening and communicated through PARITY®.

RIGHT TO POSTPONEMENT OR CANCELLATION: The City may postpone or cancel the sale prior to the time bids are to be received as provided on page one hereof, provided that notice is communicated to prospective bidders through PARITY® prior to the time then scheduled for the receipt of such bids. Notice of a new time, or of a new date and time, if any, will be given through PARITY®, telephone or facsimile as soon as practicable following a postponement. In the event of a postponement of the sale only, any subsequent bid submitted by the bidder will supersede any prior bid made. Failure of any bidder to receive notice of any postponement or cancellation shall not invalidate the sufficiency of any such notice.

RIGHT OF REJECTION: The City reserves the right, in its sole discretion, to reject any and all bids and to waive any irregularity or informality in any bid except that no bids will be accepted later than 10:00 A.M. on the date set for receipt of bids.

PROMPT AWARD: An authorized representative of the City will take action awarding the sale of the Bonds or reject all bids not later than twenty-six (26) hours after the expiration of time herein prescribed for the receipt of bids and until such expiration of time all bids received shall be irrevocable. Unless such time of award is waived by the successful bidder, the award may be made after the expiration of the specified time if the bidder shall not have given to the City notice in writing of the withdrawal of such proposal. Notice of the award will be given promptly to the successful bidder.

DELIVERY AND PAYMENT: Delivery of the Bonds will be made to the successful bidder in New York, New York, as soon as the Bonds can be prepared, which is estimated to be April 4, 2012 (the "Closing Date"). The Bonds will be delivered in full book-entry form through the facilities of DTC. Payment for the Bonds must be made in immediately available funds to the Paying Agent. Any expense in providing immediately available funds shall be borne by the purchaser.

RIGHT OF CANCELLATION: The successful bidder shall have the right, at its option, to cancel its purchase of the Bonds if the City shall fail to cause the execution and delivery of the Bonds and tender the same for delivery within 30 days from the date of sale thereof and in such event the successful bidder shall be entitled to the return of the deposit accompanying its bid.

GOOD FAITH DEPOSIT. A financial surety bond or cashier's check drawn on a bank or trust company transacting business in the State of California and payable to the order of the City of Martinez, in the amount equal to $__________ (the "Good Faith Deposit"), must be submitted with each bid to protect the City against any loss resulting from the failure of the bidder to comply with the terms of its bid.

If the apparent winning bidder on the Bonds is determined to be a bidder who has not submitted a Good Faith Deposit in the form of a cashier's check or financial surety bond, as provided above, the Financial Advisor will request the apparent winning bidder to immediately wire the Good Faith Deposit and provide the Federal wire reference number of such Good Faith Deposit to the Financial Advisor within 90 minutes of such request by the Financial Advisor. The Bonds will not be officially awarded to a bidder who has not submitted a Good Faith Deposit in the form of a cashier's check or a financial surety bond, as provided above, until such time as such bidder has provided a Federal wire reference number for the Good Faith Deposit to the Financial Advisor.

No interest will be paid upon the Good Faith Deposit made by any bidder. Checks of the unsuccessful bidders will be returned by the City promptly after the award of the Bonds or the rejection of all bids. The Good Faith Deposit of the winning bidder will, immediately upon acceptance of its bid, become the property of the City, and if in the form of a check, will be cashed. The Good Faith Deposit will be held and invested for the exclusive benefit of the City.

The Good Faith Deposit, without interest thereon, will be credited against the purchase price of the Bonds purchased by the winning bidder at the time of delivery thereof.

If the purchase price is not paid in full upon tender of the Bonds, the City shall retain the Good Faith Deposit and the winning bidder will have no right in or to the Bonds or to the recovery of its Good Faith Deposit, or to any allowance or credit by reason of such deposit, unless it shall appear that the Bonds would not be validly delivered if delivered to the winning bidder in the form and manner proposed, except pursuant to a right of cancellation. In the event of nonpayment for the Bonds by the winning bidder, the City reserves any and all rights granted by law to recover the full purchase price of the Bonds and, in addition, any damages suffered by the City.

ESTIMATE OF TRUE INTEREST COST: Each bidder is requested, but not required, to state in its bid the true interest cost, as described under the caption "BEST BID" herein, which shall be considered as informative only and not binding on either the bidder or the City.

CERTIFICATION OF REOFFERING PRICE. The successful bidder will, as of the date the Bonds are sold pursuant to this Notice of Sale, certify to the City the prices at which it reasonably expects to initially offer each maturity of the Bonds to the general public (the "Initial Offering Prices"). For this purpose, the general public does not include bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers.

The successful bidder agrees that, on or prior to the Closing Date, it will actually offer 100% of each maturity of the Bonds to the general public in a bona fide public offering for prices equal to or less than the Initial Offering Prices.

The successful bidder agrees that, prior to the Closing Date, it will deliver a certificate dated as of the Closing Date in form and substance attached as Exhibit A and satisfactory to Bond Counsel.

CALIFORNIA DEBT AND INVESTMENT ADVISORY COMMISSION: The City has duly notified the California Debt and Investment Advisory Commission of the proposed sale of the Bonds. Payment of all fees, to the California Debt and Investment Advisory Commission in connection with the execution, sale and delivery of the Bonds shall be the responsibility of the successful bidder, and not of the City.

NO LITIGATION: There is no litigation pending concerning the validity of the Bonds, the existence of the City or the entitlement of the officers thereof to their respective offices, and the successful bidder will be furnished a no-litigation certificate certifying to the foregoing as of and at the time of delivery of the Bonds.

CUSIP NUMBERS: It is anticipated that CUSIP numbers will be printed on the Bonds, but neither the failure to print such numbers on any Bonds nor any error with respect thereto shall constitute cause for a failure or refusal by the purchaser thereof to accept delivery of and pay for the Bonds in accordance with the terms hereof. All expenses in relation to the printing of CUSIP numbers on the Bonds shall be paid for by the City; provided, however, that the CUSIP Service Bureau charge for the assignment of said numbers shall be the responsibility of and shall be paid for by the purchaser.

***OFFICIAL STATEMENT**:* The City will approve an Official Statement relating to the Bonds. Copies of a preliminary Official Statement will be distributed prior to the sale in a form "deemed final" by the City for purposes of Rule 15c2-12 under the Securities Exchange Act of 1934 (the "Rule") and approved for distribution by resolution of the City. Within seven business days from the sale date, the City will deliver to the purchaser up to 100 copies of the final Official Statement, executed by an authorized representative of the City and dated the date of delivery thereof to the purchaser, to allow the purchaser to comply with paragraph (b)(4) of the Rule and to satisfy the Municipal Securities Rulemaking Board (the "MSRB") Rule G-32 or any other rules adopted by the MSRB, which shall include information permitted to be omitted by paragraph (b)(1) of the Rule and such other amendments or supplements as shall have been approved by the City (the "Final Official Statement"). The successful bidder agrees to supply the City all pricing information necessary to complete the Final Official Statement within 24 hours after the award of the Bonds. The purchaser agrees that it will not confirm the sale of any Bonds unless the confirmation of sale is accompanied or preceded by the delivery of a copy of the Final Official Statement.

CONTINUING DISCLOSURE: In order to assist bidders in complying with the Rule, the City has committed to undertake, pursuant to the Paying Agent Agreement and a Continuing Disclosure Certificate, to provide certain annual financial information and notices of the occurrence of certain events, if material. A description of this undertaking is set forth in the preliminary Official Statement and will also be set forth in the final Official Statement. Such Continuing Disclosure Certificate will be a document required to be delivered at closing by the City, and the failure by the City to deliver such document in form and substance acceptable to Bond Counsel and the successful bidder will relieve the successful bidder of its obligation to purchase the Bonds.

Dated: As of March 12, 2012

CITY OF MARTINEZ

By: *_/s/ Philip Vince_*
City Manager

EXHIBIT A
Reoffering Price Certificate

$10,000,000
CITY OF MARTINEZ
GENERAL OBLIGATION BONDS, ELECTION OF 2008, SERIES B

CERTIFICATE OF PURCHASER

The undersigned, on behalf of ________________, as underwriter (the "Underwriter") of the above-captioned bonds (the "Bonds"), hereby certifies and represents the following, based upon the information available to it:

1.1 As of the date the City of Martinez sold the Bonds o the Underwriter (the "Sale Date"), we reasonably expected to sell a substantial amount of each maturity (i.e., at least 10%) of the Bonds to the general public (excluding bond houses, brokers, or similar persons acting in the capacity of underwriter or wholesalers) in a bona fide public offering at the prices listed on Schedule A.

1.2 In our opinion, and based upon our estimate as of the Sale Date, the initial offering prices of the Bonds set forth in Schedule A are within a reasonable range of, and should reflect, the fair market prices for such Bonds.

1.3 As of the closing date of the Bonds, all of the Bonds have actually been offered to the general public at the prices listed in Schedule A.

1.4 As of the Sale Date at least 10% of each maturity of the Bonds (except for the ________________________ maturity (the "Unsold Maturity") were sold or were reasonably expected to be sold at the prices referred to in Schedule A. For the Unsold Maturity, on the Sale Date we reasonably expected that a substantial portion (at least 10%) of that Unsold Maturity would be sold at the initial offering price or yield in respect of that maturity.

Capitalized terms used herein and not otherwise defined shall have the meanings ascribed thereto in that certain Paying Agent Agreement, dated as of March 1, 2012, by and between the Issuer and U.S. Bank National Association, as paying agent, authorizing the issuance of the Bonds.

Dated: ___________________, 2012

____

as Underwriter

By_____________________________________

Name,
Title

Schedule A

Maturity (August 1)	Principal Amount	Interest Rate	Price*

PRELIMINARY OFFICIAL STATEMENT DATED _______________, 2012

NEW ISSUE - FULL BOOK-ENTRY

RATINGS:
Standard & Poor's: "___"

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

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

Dated: Date of Delivery **Due August 1 in the years shown on inside front cover**

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

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

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

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

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

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

Maturity Schedule
(See inside cover)

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

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

The date of this Official Statement is _______________________, 2012.

* Preliminary, subject to change.

MATURITY SCHEDULE*
(Base CUSIP:† ______)

$___________ Serial Bonds

Maturity (August 1)	Principal Amount	Interest Rate	Price	Yield	CUSIP†

* Preliminary; subject to change.

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

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

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

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

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

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

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

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

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

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

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

CITY OF MARTINEZ

CITY COUNCIL

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

OTHER ELECTED OFFICIALS

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

CITY STAFF

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

CITY ATTORNEY

Walter & Pistole
Sonoma, California

PROFESSIONAL SERVICES

BOND AND DISCLOSURE COUNSEL

Jones Hall, A Professional Law Corporation
San Francisco, California

FINANCIAL ADVISOR

Public Financial Management, Inc.
San Francisco, California

BOND REGISTRAR, TRANSFER AGENT, AND PAYING AGENT

U.S. Bank National Association
San Francisco, California

TABLE OF CONTENTS

OFFICIAL STATEMENT

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

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

INTRODUCTION

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

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

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

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

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

* Preliminary, subject to change.

The Bonds are the second series of bonds to be sold and issued under this authorization; the City issued its first series of bonds under the authorization (the "**Series A Bonds**") on May 20, 2009, in the principal amount of $15,000,000. See "THE BONDS - Authority for Issuance."

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

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

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

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

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

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

PLAN OF FINANCE

Purpose of Issue

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

Sources and Uses of Funds

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

Sources of Funds

Principal Amount of Bonds	$
Plus/Less Net Original Issue Discount/Premium	
Total Sources	

Uses of Funds

~~Deposit to Debt Service Fund~~	~~$~~
Deposit to Project Fund	$
Costs of Issuance [1]	
Total Uses	

[1] Includes legal fees, financial advisor fees, rating agency fees, Underwriter's discount, Paying Agent fees, printing expenses and other costs of issuance with respect to the Bonds.

THE BONDS

Authority for Issuance

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

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

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

Description of the Bonds

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

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

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

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

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

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

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

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

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

Payment

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

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

Redemption

Optional Redemption.* The Bonds maturing on or before August 1, 20__ are not subject to redemption prior to their fixed maturity dates.

The Bonds maturing on or after August 1, 20__ are subject to redemption prior to their respective maturity dates, as designated by the City and, absent any such designation, in inverse order of maturities and by lot within a maturity from money provided at the option of the City, in each case on any date occurring on and after August 1, 20__, at a redemption price of par plus accrued but unpaid interest to the date of redemption, without premium.

---

* Preliminary; subject to change.

Mandatory Sinking Fund Redemption. The Term Bonds maturing on August 1, 20__, and August 1, 20__ are subject to redemption prior to their stated maturity date, without a redemption premium, in part by lot, from mandatory sinking fund payments on each August 1, on and after August 1, 20__, and August 1, 20__, respectively in the principal amounts as set forth in the following tables:

Term Bond Due August 1, 20__

Payment Date (August 1)	Payment Amount
(maturity)	

Term Bond Due August 1, 20__

Payment Date (August 1)	Payment Amount
(maturity)	

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

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

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

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

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

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

Registration, Transfer and Exchange of Bonds

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

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

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

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

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

Exchange. Bonds may be exchanged at the principal office of the Paying Agent for a like aggregate principal amount of Bonds of authorized denominations and of the same maturity.

The Paying Agent will require the payment by the owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange.

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

Defeasance

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

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

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

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

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

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

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

DEBT SERVICE SCHEDULE

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

Year Ending August 1	Series B Bonds Principal Payment	Series B Bonds Interest Payment	Total Series B Bonds Debt Service	Series A Bonds Debt Service	Total
2012				$908,143.76	
2013				745,543.76	
2014				785,343.76	
2015				803,543.76	
2016				820,943.76	
2017				842,543.76	
2018				863,143.76	
2019				887,743.76	
2020				911,143.76	
2021				933,343.76	
2022				954,343.76	
2023				978,506.26	
2024				1,005,818.76	
2025				1,030,968.76	
2026				1,058,856.26	
2027				1,089,143.76	
2028				1,117,056.26	
2029				1,151,306.26	
2030				1,182,556.26	
2031				1,215,806.26	
2032				1,245,806.26	
2033				1,282,556.26	
2034				1,320,556.26	
2035				1,359,556.26	
2036				1,390,512.50	
2037				1,421,181.26	
2038				1,456,268.76	
2039				1,492,593.75	
2040				--	
2041				--	
2042				--	
Total				$30,254,831.51	

SECURITY FOR THE BONDS

Ad Valorem Taxes

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

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

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

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

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

Debt Service Fund

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

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

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

Bond Service Fund

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

Limited Obligation

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

PROPERTY TAXATION

Property Tax Collection Procedures

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

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

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

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

Taxation of State-Assessed Utility Property

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

Alternative Method of Tax Apportionment - Teeter Plan

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

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

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

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

Assessed Valuation

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

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

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

Source: California Municipal Statistics, Inc.

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

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

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

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

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

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

	No. of Parcels	2011-12 Assessed Valuation	Average Assessed Valuation	Median Assessed Valuation
Single Family Residential	9,723	$2,682,985,731	$275,942	$266,951

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

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

Tax Rates

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

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

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

Source: California Municipal Statistics, Inc.

~~Ad Valorem Tax~~	~~2007-08~~	~~2008-09~~	~~2009-10~~	~~2010-11~~	~~2011-12~~
~~General Tax Rate~~	~~1.0000~~	~~1.0000~~			
~~Bay Area Rapid Transit District~~	~~0.0076~~	~~0.0090~~			
~~Contra Costa Community College District~~	~~0.0108~~	~~0.0066~~			
~~East Bay Regional Park District~~	~~0.0080~~	~~0.0100~~			
~~Martinez Unified School District~~	~~0.0557~~	~~0.0597~~			
~~**Total All Property Tax Rate**~~	~~1.0860~~	~~1.0853~~			
~~**Total Land Only Tax Rate**~~	~~0.0039~~	~~0.0041~~			

~~*Source: California Municipal Statistics, Inc.*~~

Tax Levies and Delinquencies

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

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

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

	Secured Tax Charge (1)	Amt. Del. June 30	% Del. June 30
2006-07	$5,949,335.46	$202,193.81	3.40%
2007-08	6,412,809.76	307,314.75	4.79
2008-09	6,482,659.05	258,981.75	3.99
2009-10	6,199,671.72	165,944.12	2.68
2010-11	6,120,405.86	105,109.09	1.72

	Secured Tax Charge (2)	Amt. Del. June 30	% Del. June 30
2009-10	$ 749,005.73	$18,153.05	2.42%
2010-11	1,416,567.57	22,594.81	1.60

(1) 1% General Fund apportionment.
(2) City's general obligation bond debt service levy
Source: California Municipal Statistics, Inc.

Major Taxpayers

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

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

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

(1) ~~2010-11~~2011-12 Local Secured Assessed Valuation: $4,082,313,954.
Source: California Municipal Statistics, Inc.

Direct and Overlapping Debt

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

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

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

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

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

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

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

Ratios to 2011-12 Assessed Valuation:
Direct Debt ($14,300,000).. 0.34%
Combined Direct Debt ($14,800,000) 0.35%
Total Direct and Overlapping Tax and Assessment Debt 1.77%
Gross Combined Total Debt... 2.56%
Net Combined Total Debt... 2.46%

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

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

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING CITY REVENUES AND APPROPRIATIONS

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

Article XIIIA of the State Constitution

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

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

Legislation Implementing Article XIIIA

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

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

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

Article XIIIB of the State Constitution

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

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

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

The City has never exceeded its appropriations limit.

Articles XIIIC and XIIID of the State Constitution

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

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

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

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

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

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

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

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

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

Proposition 1A; Proposition 22

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

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

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

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

Possible Future Initiatives

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

TAX MATTERS

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

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

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

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

Under the Tax Code, original issue premium is amortized on an annual basis over the term of the Bond (said term being the shorter of the Bond's maturity date or its call date). The amount of original issue premium amortized each year reduces the adjusted basis of the owner of the Bond for purposes of determining taxable gain or loss upon disposition. The amount of original issue premium on a Bond is amortized each year over the term to maturity of the Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). Amortized Bond premium is not deductible for federal income tax purposes. Owners of premium Bonds, including purchasers who do not purchase in the original offering, should consult their own tax advisors with respect to State of California personal income tax and federal income tax consequences of owning such Bonds.

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

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

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

CONTINUING DISCLOSURE

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

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

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

ABSENCE OF MATERIAL LITIGATION

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

RATINGS

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

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

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

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

FINANCIAL ADVISOR

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

UNDERWRITING

Under the terms of a competitive bid held on _____, 2012, ___________________ (the "**Underwriter**") has agreed to purchase the Bonds at a price of $_____________ (which is equal to the aggregate principal amount of the Bonds, plus/less a net original issue premium/discount of $__________, less an Underwriter's discount of $__________ and less $________ to be retained by the Underwriter and used to pay the costs of issuing the Bonds). The Underwriter will purchase all of the Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the "Official Notice of Sale," including the approval of certain legal matters by counsel and certain other conditions.

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

EXECUTION

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

CITY OF MARTINEZ

By: ____
City Manager

APPENDIX A

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

General Description

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

Population

The State Department of Finance estimates the 2011 population of the City to be 35,958. The following table summarizes the City's population in 1990 and from ~~2008~~ 2007 through 2011.

CITY OF MARTINEZ
Population Estimates

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

Source: California Department of Finance for January 1.

Employment and Industry

The unemployment rate in the Oakland-Fremont-Hayward MD was 9.3% in December 2011, down from a revised 9.5% in November 2011, and below the year-ago estimate of 10.8%. This compares with an unadjusted unemployment rate of 10.9% for California and 8.3% for the nation during the same period. The unemployment rate was 9.3% in Alameda County, and 9.3% in Contra Costa County.~~The unemployment rate in the Oakland-Fremont-Hayward MD was 9.5% in November 2011, down from a revised 10.0% in October 2011, and below the year-ago estimate of 11.2%. This compares with an unadjusted unemployment rate of 10.9% for California and 8.2% for the nation during the same period. The unemployment rate was 9.6% in Alameda County, and 9.5% in Contra Costa County.~~

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

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

	2006	**2007**	**2008**	**2009**	**2010**
Civilian Labor Force [1]	1,247,300	1,262,000	1,281,300	1,285,800	1,277,900
Employment	1,192,800	1,202,900	1,202,600	1,152,300	1,133,700
Unemployment	54,500	59,000	78,700	133,500	144,200
Unemployment Rate	4.4%	4.7%	6.1%	10.4%	11.3%
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 2010-11

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

(1) Contra Costa County employee count represents the entire County.
Source: City of Martinez, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2011.

The following table lists the major employers within the County:

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

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

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

Construction Activity

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

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

	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 B

CITY FINANCIAL INFORMATION

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

Accounting Practices

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

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

Financial Statements

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

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

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

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

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

Budget Process ~~**[PLEASE CONFIRM -- ANY UPDATES NEEDED?]**~~

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

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

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

The two-year budget is prepared by fund, function, and department. The City's department heads may make transfers of appropriations within their respective departments. The City Manager is authorized to revise the budget so long as the total revisions in any single budget year do not exceed 1% ~~5%~~ of the budget, and provided that sufficient revenues are available to offset such revisions. City Council approval is required for additional appropriation from fund balances or new revenue sources. The legal level of budgetary control is at the department level.

General Fund Budget

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

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

	Final Budget, 2010-11	Audited Actual, 2010-11	Variance with Final 2010-11 Budget	Amended Budget 2011-12
REVENUES				
Taxes	$15,809,261	$15,809,271	$ 10	$ 16,207,348
Licenses, permits, and fees	446,655	497,920	51,265	473,765
Intergovernmental	674,235	663,488	(10,747)	379,252
Charges for services	499,406	470,550	(28,856)	590,036
Fines and forfeits	351,158	404,547	53,389	552,881
Use of money and property	121,496	87,647	(33,849)	124,736
Miscellaneous	681,511	704,851	23,340	234,311
Total Revenues	18,583,722	18,638,274	54,552	18,562,329
EXPENDITURES				
Current:				
General government	1,346,025	1,312,555	33,470	1,172,706
Nondepartmental services	1,736,947	1,712,090	24,857	1,175,722
Administrative services	794,907	775,525	19,382	748,806
Public works	3,826,293	3,627,781	198,512	3,507,893
Community & economic development	2,209,915	2,186,809	23,106	1,964,655
Police	9,936,618	9,886,525	50,093	9,990,263
Capital outlay	37,536	37,536	--	--
Total Expenditures	19,888,241	19,538,821	349,420	18,560,044
Excess of Revenues Over Expenditures	(1,304,519)	(900,547)	403,972	2,285
Other Financing Sources (Uses)				
Transfers in	--	--		262,988
Transfers (out)	(667,096)	(667,096)		--
Total other financing sources (uses)	(667,096)	(667,096)		262,988
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	($1,971,615)	(1,567,643)	$403,972	$265,273
Beginning Fund Balances	8,501,524 ~~9,827,346~~			
Ending Fund Balances		$6,933,881		

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

Impact of State Budget on City Revenues

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

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

Information on Current State Economic Difficulties and Budget.

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

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

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

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

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

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

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

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

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

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

Under the State Constitution, money may be drawn from the Treasury only through an appropriation made by law. The primary source of the annual expenditure authorizations is the Budget Act as approved by the Legislature and signed by the Governor. Under an initiative constitutional amendment approved by the State's voters on November 2, 2010 as "Proposition 25", a final budget must be adopted by a majority vote of each house of the Legislature no later than June 15, although this deadline has been routinely breached in the past. Any tax increase provision of such final budget shall continue to require approval by a two-thirds majority vote of each house of the State Legislature. The budget becomes law upon the signature of the Governor, who may reduce or eliminate specific line items in the Budget Act or any other appropriations bill without vetoing the entire bill. Such individual line item vetoes are subject to override by a two-thirds majority vote of each House of the Legislature.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Governor proposed that the remaining savings from revenue increases and future revenue growth above current program funding be dedicated to paying off the State's $35 billion in debt. Under the Governor's proposal, at least $29 billion in deferrals and debt would be paid off by Fiscal Year 2014-15. The Governor's May Revision removed the proposed income tax extension and his proposal to eliminate the enterprise tax credit. The Governor continued to push for the elimination of redevelopment agencies.

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

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

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

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

Changes in 2011-12 State Budget; Trigger Cuts; Redevelopment. As noted above, on May 16, 2011, at the time the Governor issued the May revision of his proposed 2011-12 budget, the Governor asked the State Legislature to act by the end of June 2011 and the voters to ratify in November 2011 the extension of then-current sales tax and vehicle license fee rates and the dependent credit tax exemption level for the following five years. These tax extensions were neither submitted to the voters nor approved. On December 13, 2011, Governor Brown announced that the State will cut nearly $1 billion from the 2011-12 Budget, as triggered by a $2.2 billion shortfall in projected revenue. The mid-year cuts are to be made in education, school busing, child care, health programs, public safety and library programs. The California State University and University of California systems, In-Home Supportive Services and the Department of Developmental Services each will see their budgets slashed by $100 million.

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

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

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

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

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

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

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

January 11, 2012 LAO Report. An LAO report dated January 11, 2011 stated that the 2012-13 Proposed Budget were reasonable, and either of (i) the proposed multiyear tax increases and significant reductions in social services and subsidized child care programs or (ii) larger cuts, aimed largely at schools, move the State budget much closer to balance over the next several years. However, the LAO noted that its revenue estimates—including estimates of state revenue gains from the Governor’s proposed tax raising initiatives—are lower than the Governor's and that if LAO estimates are correct, the Legislature will have to pursue billions of dollars more in budget-balancing solutions. The LAO was supportive of major restructuring of the school finance system, community college categorical funding, and education mandates, but suggested that alternatives to reforms in the CalWORKs program should be considered. The LAO further encouraged caution in setting the size of the trigger cuts; determining the specific education reductions to impose; and designing tools to help schools, community colleges, and universities respond to the trigger cuts.

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

Vehicle License Fees

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

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

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

As part of the 2004 Budget Act negotiations, an agreement was made between the State and local government officials (the "**State-local agreement**") under which the VLF rate was permanently reduced from two percent to 0.65 percent. In order to protect local governments, the reduction in VLF revenue to cities and counties from this rate change was replaced by an increase in the amount of property tax they receive. Under the State-local agreement, for Fiscal Years 2004-05 and 2005-06 only, the replacement property taxes that cities and counties receive were reduced by $700 million. Commencing in Fiscal Year 2004-05, local governments began to receive their full share of replacement property taxes, and those replacement property taxes now enjoy constitutional protection against certain transfers by the State due to the approval of Proposition 1A at the November 2004 election.

Insurance and Self-Insurance Programs ~~- [PLEASE CONFIRM AND UPDATE AS NEEDED]~~

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

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

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

Labor Relations ~~- [PLEASE CONFIRM AND UPDATE AS NEEDED]~~

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

• The Martinez Police Officers' Association represents sworn police officers. Its contract with the City will expire~~s~~ on June 30, 2015. ~~______[, and is in effect until a new contract agreement is reached.]~~

• The Martinez Police Non-Sworn Employee's Association represents other police staff of the City. Its contract with the City will expire on June 30, 2015. ~~expired on June 30, 2011[, and is in effect until a new contract agreement is reached.]~~

• The Laborers' 324 represents various miscellaneous classifications of City staff. Its contract with the City will expire~~s~~ on June 30, 2015. ~~______[, and is in effect until a new contract agreement is reached.]~~

The City's management and confidential employees are unrepresented and covered under the Management Compensation Plan, which will expire~~s~~ on June 30, 2015. ~~______[, and is in effect until a new compensation plan agreement is reached.]~~

Retirement System

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

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

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

CALPERS uses the market related value method of valuing the Plan's assets. An investment rate of return of 7.75% is assumed, including inflation at 3.25%. ~~3.00%.~~ Annual salary increases are assumed to vary by duration of service. Changes in liability due to plan amendments, changes in actuarial assumptions, or changes in actuarial methods are amortized as a level percentage of payroll on a closed basis over twenty years. Investment gains and losses are accumulated as they are realized and amortized over a rolling thirty year period.

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

- In March 2007, the City paid off the unfunded liability of the Miscellaneous Plan.

- In April 2011 the City satisfied its Miscellaneous Joint Facilities Agency Plan's unfunded Side Fund liability by making a lump sum contribution of $631,914.

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

~~***Proposed Pension Obligation Bond Issue.***~~ ~~[DISCUSSION TO COME REGARDING PENSION OBLIGATION BOND ISSUE]~~

Other Post-Employment Benefits

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

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

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

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

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

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

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

During the fiscal year ended June 30, 2011, the City contributed the ARC amounting to $934,000 to CERBT which represented 9.0% of the $10,416,000 of covered payroll. The City also contributed additional funds to CERBT representing funds accumulated in prior years in the City's General Fund.

Outstanding and Proposed Debt

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

As of January 1, 2012, the outstanding principal portion of the COPs that is payable from the City's General Fund (the refunded portion of the 1992 City Hall Refurbishment Certificates of Participation) was $500,000. The final maturity of the COPs is December 1, 2018.

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

~~**[Proposed Pension Obligation Bonds to come]**~~

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

Sales Tax

~~**[PLEASE CONFIRM THIS SECTION AND UPDATE AS NEEDED]**~~

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

A sales tax is imposed on retail sales or consumption of personal property. The tax rate is established by the State Legislature. As of the date hereof, the aggregate tax rate in the State is 6.25%. Additionally, the State has many special taxing jurisdictions (districts), which are funded by a sales and use tax rate that in addition to the standard statewide rate. The

County has [two such districts which each add an additional 0.50% on taxable transactions within the City.] The State collects and administers the tax, and makes distributions on taxes collected within the City as follows:

CITY OF MARTINEZ
Sales Tax Rates

State (General Fund)	5.00%
State (Local Revenue Fund)	0.50
State (Local Public Safety Fund)	0.50
State (Fiscal Recovery Fund)	0.25
City and County Operations	0.75
County Transportation Funds	0.25
[Contra Costa Transportation Authority	0.50
Bay Area Rapid Transit District	0.50]
Total	8.25%

Source: California State Board of Equalization.

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

Commercial Activity

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

Total taxable sales during the first three quarters of calendar year 2010 in the City were reported to be $304,942,000 a 26.53% increase over the total taxable sales of $240,998,000 reported during the first three quarters of calendar year 2009. The number of establishments selling merchandise subject to sales tax and the valuation of taxable transactions in the City is presented in the following table. Annual figures are not yet available for 2010.

CITY OF MARTINEZ
Taxable Transactions
(Dollars in Thousands)

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

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

Total taxable sales during the first three quarters of calendar year 2010 in the County were reported to be $8,686,271,000, a 0.09% decrease over the total taxable sales of $8,694,382,000 reported during the first three quarters of calendar year 2009. The number of establishments selling merchandise subject to sales tax and the valuation of taxable transactions in the County is presented in the following table. Annual figures are not yet available for 2010.

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

Year	Retail Permits on July 1	Retail Stores Taxable Transactions	Total Permits on July 1	Total Outlets Taxable Transactions
2005	11,776	10,072,084	23,692	13,480,075
2006	11,467	10,275,907	23,249	13,867,661
2007	11,131	10,109,704	23,181	14,086,295
2008	11,577	9,484,307	23,149	13,307,681
2009 (1)	14,045	8,473,578	21,395	11,883,049

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

APPENDIX C

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

APPENDIX D
PROPOSED FORM OF OPINION OF BOND COUNSEL

APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

$______________
CITY OF MARTINEZ
General Obligation Bonds
Election of 2008, Series B

This Continuing Disclosure Certificate (this "**Disclosure Certificate**") is executed and delivered by the City of Martinez (the "**City**") in connection with the execution and delivery of the bonds captioned above (the "**Bonds**"). The Bonds are being executed and delivered pursuant to a Paying Agent Agreement dated as of March 1, 2012 (the "Agreement") by and between the City and U.S. Bank National Association, as paying agent (the "**Paying Agent**").

The City hereby covenants and agrees as follows:

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

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

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

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

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

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

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

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

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

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

Section 3. <u>Provision of Annual Reports</u>.

(a) The City shall, or shall cause the Dissemination Agent to, not later than the Annual Report Date, commencing March 31, 2013 with the report for the 2011-12 fiscal year, provide to the MSRB in an electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. Not later than 15 Business Days prior to the Annual Report Date, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). If by 15 Business Days prior to the Annual Report Date the Dissemination Agent (if other than the City) has not received a copy of the Annual Report, the Dissemination Agent shall contact the City to determine if the City is in compliance with the previous sentence. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report, and later than the Annual Report Date, if not available by that date. If the City's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(b). The City shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by the City hereunder.

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

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

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

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

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

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

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

(i) Assessed value of taxable property within the jurisdiction of the City substantially the form of Table 1 in the Official Statement.

(ii) Summary of property tax rates for all taxing entities within the City expressed as a percentage of assessed valuation substantially the form of Table 4 in the Official Statement.

(iii) Top ten property tax assessees for current fiscal year, taxable value and percentage of total assessed value in substantially the form of Table 6 in the Official Statement.

(iv) Property tax collection delinquencies for the City if the City is no longer a participant in Contra Costa County's Teeter Plan in substantially the form of Table 5 in the Official Statement.

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

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

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

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

(d) Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which are available to the public on the MSRB's internet web site or filed with the Securities and Exchange Commission. The City shall clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events.

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

(i) Principal and interest payment delinquencies.

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

(iii) Unscheduled draws on debt service reserves reflecting financial difficulties.

(iv) Unscheduled draws on credit enhancements reflecting financial difficulties.

(v) Substitution of credit or liquidity providers, or their failure to perform.

(vi) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security.

(vii) Modifications to rights of security holders, if material.

(viii) Bond calls, if material, and tender offers.

(ix) Defeasances.

(x) Release, substitution, or sale of property securing repayment of the securities, if material.

(xi) Rating changes.

(xii) Bankruptcy, insolvency, receivership or similar event of the Authority or other obligated person.

(xiii) The consummation of a merger, consolidation, or acquisition involving the City or an obligated person, or the sale of all or substantially all of the assets of the City or an obligated person (other than in the ordinary course of business), the entry into a definitive agreement to undertake such an action, or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.

(xiv) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) Whenever the City obtains knowledge of the occurrence of a Listed Event, the City shall, or shall cause the Dissemination Agent (if not the City) to, file a notice of such occurrence with the MSRB and the Participating Underwriter, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of 10 business days after the occurrence of the Listed Event. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(viii) and (ix) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds under the Paying Agent Agreement.

(c) The City acknowledges that the events described in subparagraphs (a)(ii), (a)(vii), (a)(viii) (if the event is a bond call), (a)(x), (a)(xiii), and (a)(xiv) of this Section 5 contain the qualifier "if material." The City shall cause a notice to be filed as set forth in paragraph (b) above with respect to any such event only to the extent that the City determines the event's occurrence is material for purposes of U.S. federal securities law.

(d) For purposes of this Disclosure Certificate, any event described in paragraph (a)(xii) above is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the City in a proceeding under the United States

Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City.

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

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

Section 8. **Dissemination Agent**. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be U.S. Bank National Association. Any Dissemination Agent may resign by providing 30 days' written notice to the City and the Paying Agent.

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

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

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

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

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

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

Section 10. **Additional Information**. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 11. **Default**. If the City fails to comply with any provision of this Disclosure Certificate, the Participating Underwriter or any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Agreement, and the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance.

Section 12. **Duties, Immunities and Liabilities of Dissemination Agent**.

(a) The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall have no duty or obligation to review any information provided to it by the City hereunder, and shall not be deemed to be acting in any fiduciary capacity for the City, the Bond holders or any other party. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

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

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

To the Issuer:
City of Martinez
525 Henrietta Street
Martinez, California 94553

To the Dissemination Agent:
U.S. Bank National Association
One California Street, Suite 2100
San Francisco, California 94111
Fax No.: (415) 273-4591

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

Section 14. **Beneficiaries**. This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, the Participating Underwriter and holders and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

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

Date: ________________, 2012

CITY OF MARTINEZ

By: ______________________________

Name: ____________________________

Title: _____________________________

AGREED AND ACCEPTED:

U.S. Bank National Association,
as Dissemination Agent

By: ______________________________

Name: ____________________________

Title: _____________________________

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: City of Martinez (the "**City**")

Name of Bond Issue: $_________________ City of Martinez General Obligation Bonds, Election of 2008, Series B

Date of Issuance: __________________, 2012

NOTICE IS HEREBY GIVEN that the City has not provided an Annual Report with respect to the above-named Bonds as required by the Paying Agent Agreement, dated as of March 1, 2012, by and between the City and U.S. Bank National Association, as paying agent. The City anticipates that the Annual Report will be filed by ________________.

Dated: ____________

DISSEMINATION AGENT:

By: ___________________________
Its: ____________________________

APPENDIX F

DTC AND THE BOOK-ENTRY ONLY SYSTEM

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

*Neither the City, as issuer of the Bonds (the **"Issuer**"), nor the Paying Agent (the **"Agent**") takes any responsibility for the information contained in this Appendix.*

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

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

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

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

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

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

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

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

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

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

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

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

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