



The City of San Diego

Staff Report

DATE ISSUED: July 1, 2024

TO: Public Facilities Financing Authority

FROM: Office of the City Attorney, as General Counsel to the Public Facilities Financing Authority of the City of San Diego

SUBJECT: Authorization of the Public Facilities Financing Authority of the City of San Diego Sewer Revenue Bonds, Series 2024A ("2024 Sewer Revenue Bonds") Preliminary Official Statement ("POS")

Primary Contact: David Powell Phone: (619) 235-5894

Council District(s): Citywide

OVERVIEW:

This resolution will authorize the form and distribution of the POS, and the execution, delivery, and distribution of the Official Statement ("OS") for the 2024 Sewer Revenue Bonds.

PROPOSED ACTIONS:

A resolution of the Authority approving the form and authorizing the distribution of the POS for the 2024 Sewer Revenue Bonds, and the execution, delivery, and distribution of the OS.

DISCUSSION OF ITEM:

Please see attached Staff Report to City Council dated July 1, 2024.

Environmental Impact:

This activity is not a project as defined by the California Environmental Quality Act (CEQA) Section 21065 and State CEQA Guidelines Sections 15378(b)(4), where a project does not include government fiscal activities which do not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment, and 15378(b)(5), where a project does not include organizational or administrative activities of government that will not result in direct or indirect physical changes in the environment. Thus, it is not subject to CEQA pursuant to CEQA Guidelines Section 15060(c)(3).

Previous San Diego City Council and/or Committee Actions:

Please see attached Staff Report to City Council dated July 1, 2024.

David Powell
Deputy General Counsel



The City of San Diego

Staff Report

DATE ISSUED: July 1, 2024

TO: City Council

FROM: Department of Finance

SUBJECT: Authorization for the Public Facilities Financing Authority of the City of San Diego Sewer Revenue Bonds, Series 2024A ("2024 Sewer Revenue Bonds") Preliminary Official Statement ("POS")

Primary Contact: Jyothi Pantulu Phone: (619) 236-6917

Secondary Contact: Kevin Werner Phone: (619) 533-6121

Council District(s): Citywide

OVERVIEW:

This action will authorize the form and distribution of the POS, and the execution, delivery, and distribution of the Official Statement ("OS") for the 2024 Sewer Revenue Bonds. The POS is a document that provides information about the City's Wastewater System and the Public Facilities Financing Authority of the City of San Diego ("PFFA") Sewer Revenue Bonds that potential investors would require for the bond sale.

PROPOSED ACTION:

1. Approve the form and authorize the distribution of the POS for the 2024 Sewer Revenue Bonds, and the execution, delivery, and distribution of the OS.
2. Declare the City's intent to use proceeds of indebtedness to reimburse itself for eligible expenditures advanced by the City.

DISCUSSION OF ITEM:

Staff recommends approving the requested actions.

Item Background

City Council adopted Ordinance (O-21804) on April 29, 2024, authorizing the issuance of Sewer Revenue Bonds in one or more series, either concurrently or separately in an aggregate principal amount not-to-exceed \$300 million to finance capital improvements to the Wastewater System. The ordinance approved the financing documents related to the Sewer Revenue Bonds, including the form of the Supplemental Bond Indenture, the form of the Supplement to the Master Installment Purchase Agreement, the form of the Bond Purchase Agreement, and the Continuing Disclosure

Certificate. See Attachment 1: Staff Report dated March 25, 2024, for more information. On April 22, 2024, the PFFA also authorized the issuance of Sewer Revenue Bonds via Resolution (FA-2024-2). The resolution approved financing documents related to the Sewer Revenue Bonds, including the form of the Supplemental Bond Indenture, the form of the Supplement to the Master Installment Purchase Agreement, and the Bond Purchase Agreement.

The issuance under this authorization, the proposed 2024 Sewer Revenue Bonds, is expected to fund approximately \$300 million in Wastewater capital improvement projects. The proposed 2024 Sewer Revenue Bonds are expected to reimburse approximately \$120 - \$150 million in CIP expenditures, that have occurred between July 2023 and July 2024, and provide an additional \$150 - \$180 million for CIP expenses through approximately the end of Fiscal Year 2025. Project categories that are being reimbursed and financed include Sewer Pipelines, Pump Stations, Trunk Sewers, Treatment Plants, and miscellaneous projects (roof and solar projects, lab remodels, etc.). Attachment 2 provides a preliminary list of projects expected to be funded with the proceeds of the 2024 Sewer Revenue Bonds. Under the Ordinance, the 2024 Sewer Revenue Bonds will be issued by the PFFA as a public offering on a negotiated sale basis, with ratings from Fitch and S&P Ratings. For more information regarding the 2024 Sewer Revenue Bonds financing structure, Ordinance, and bond document approvals, see Attachment 1: Staff Report dated March 25, 2024.

Preliminary Official Statement (POS) for the 2024 Sewer Revenue Bonds

Staff is presenting the POS for the 2024 Sewer Revenue Bonds for City Council consideration. The POS for the 2024 Sewer Revenue Bonds provides information that investors for this offering would require to make an informed investment decision. It describes the bond offering to the marketplace and includes information about the structure, sources and uses of funds, security and sources of payment of the bonds, risk factors, and a description of pertinent financial, regulatory, and operational information regarding the City's Wastewater System.

The POS reflects the Wastewater System's financial information including information concerning the Fiscal Year (FY) 2023 financial results, FY 2024 year-end projections, FY 2025 budget, and certain future multi-year projections. The POS also includes the current information on the Wastewater System organization and management, service area and facilities, CIP, litigation, and tax matters. Appendices include: Summary of Principal Legal Documents (Appendix A), Form of Bond Counsel Opinion (Appendix B), Form of Continuing Disclosure Certificate (Appendix C), and Information Regarding the Book-Entry Only System (Appendix D).

In accordance with the Disclosure Practices Working Group ("DPWG") Controls and Procedures, a Financing Group was convened to assist in the preparation of the POS and identify material to be solicited from various City departments, including Public Utilities Department ("PUD"), Department of Finance, and the Office of the City Attorney. PUD provided pertinent information for inclusion in the POS, including data and projections concerning the Wastewater System operations, capital improvement program, regulatory requirements, and finances. Additionally, various other City departments have also provided pertinent information for inclusion in the POS.

After a comprehensive review, DPWG approved the POS on June 28, 2024. Consistent with the DPWG Controls and Procedures, necessary certifications from various City management staff involved in the preparation or review of the disclosures will be received by DPWG. The certifications of the Mayor, City Attorney, Chief Financial Officer, and DPWG will be provided to the City Council prior to the City Council hearing. The POS contains various placeholders that will be filled in by Disclosure Counsel at the time of POS posting or upon the sale of the 2024 Sewer Revenue Bonds. The POS and

OS will be updated to reflect the most recent information prior to respective posting of each. All material updates will be electronically distributed to the City Council.

Parallel with this POS Authorization, the PFFA will convene to approve the form and distribution of the POS, and the execution, delivery, and distribution of the OS. PFFA actions with respect to the POS will occur in conjunction with this item.

Additional Members of Financing Team

Subsequent to the April 2024 City Council meeting where the Ordinance for the Sewer Revenue bonds and the Financing Team was introduced, additional members of the Underwriting Syndicate were selected to bring the 2024 Sewer Revenue Bonds to market. These additional Underwriters were selected based on a competitive procurement process to serve as co-managers and include: Cabrera Capital Markets, LLC, Mischler Financial Group, Inc., and Wells Fargo Bank N.A. As discussed in the Staff Report dated March 25, 2024, Siebert Williams Shank & Co., LLC and Bank of America were selected to serve as the Senior and Co-Senior Manager, respectively.

Reimbursement Resolution

PUD anticipates continuing to use debt financing to fund a portion of its capital expenditures for the Wastewater System. Approximately \$470 million in capital expenditures are anticipated to be financed via a combination of loans and bond proceeds through Fiscal Year 2029. The timing of the receipt of financing proceeds are subject to approvals from State and Federal agencies and execution of bond financing plans are subject to market conditions. As a result, certain capital expenditures related may be incurred prior to the issuance of debt.

In order to reimburse capital expenditures with proceeds from future debt issuances, the City must adopt a reimbursement resolution in accordance with section 1.150-2 of Treasury Regulations. Adoption of reimbursement resolution will not obligate the City to expend any funds or issue debt. The adoption of the resolution provides flexibility to be reimbursed from future bond proceeds for qualified capital expenditures. Staff will seek separate City Council approval for any new debt issuance or loan approvals with associated financing documents.

City Strategic Plan Goal(s)/Objective(s):

This item will help achieve the City's Strategic Plan Priority Area: Championing Sustainability by providing funding to Sewer Utility projects to support a secure, innovative, and resilient system of wastewater management.

Fiscal Considerations:

Under market conditions as of May 30, 2024, the estimated True Interest Cost ("TIC") for the 2024 Sewer Revenue Bonds is approximately 4.25% and the projected annual debt service is approximately \$14.6 million in Fiscal Year 2025 and \$17.9 million annually from Fiscal Year 2026 to Fiscal Year 2054. The actual cost of borrowing will depend on market conditions at the time the 2024 Sewer Revenue Bonds are sold. The current financing timeline expects Pricing for the 2024 Sewer Revenue bonds in late July and closing of the bonds in mid-August.

ESTIMATED SOURCES AND USES OF FUNDS

Estimated Sources:

Bond Proceeds ¹	
Par Amount	\$275,685,000
Original Issue Premium	\$ 25,487,101
Total Sources of Funds	\$301,172,101

Estimated Uses:

Project Fund	\$300,000,000
Costs of Issuance ²	\$ 1,172,101
Total Uses of Funds	\$301,172,101

¹Preliminary; subject to change. Original Issue Premium (or Discount) will be determined subject to market conditions at pricing.

²Includes fees for bond and disclosure counsel, underwriter's takedown, municipal advisor fees, credit rating fees, trustee fees, and disclosure document printing fees. The costs will be paid for from the bond proceeds, which is permitted under the bond offering guidelines.

Charter Section 225 Disclosure of Business Interests:

- N/A; Cabrera Capital Markets, LLC, Underwriter, is a Limited Liability Company.
- Mischler Financial Group, Inc., Underwriter: Dean Chamberlain and Doyle Holmes own 10% or more of the company.
- N/A; Wells Fargo Bank N.A., Underwriter. Wells Fargo Bank N.A.'s parent company, Wells Fargo & Co, is a publicly traded company.

Environmental Impact:

This activity is not a project as defined by the California Environmental Quality Act (CEQA) Section 21065 and State CEQA Guidelines Sections 15378(b)(4), where a project does not include government fiscal activities which do not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment, and 15378(b)(5), where a project does not include organizational or administrative activities of government that will not result in direct or indirect physical changes in the environment. Thus, it is not subject to CEQA pursuant to CEQA Guidelines Section 15060(c)(3).

Climate Action Plan Implementation:

Proposed uses for the proceeds of the 2024 Sewer Revenue Bonds include pipelines, pump stations, trunk sewers, and treatment plants. These wastewater CIP projects support implementation of the Climate Action Plan by becoming more energy efficient, reducing system-wide water losses, promoting water reuse, and replacing deteriorated assets, which increases the longevity and resiliency of our water system.

Equal Opportunity Contracting Information (if applicable):

This agreement is subject to the City's Equal Employment Opportunity Outreach Program (San Diego Ordinance No. 18173, Municipal Code Sections 22.2701 through 22.2708) and Non-Discrimination in Contracting Ordinance (San Diego Municipal Code Sections 22.3501 through 22.3517).

Previous Council and/or Committee Actions:

On May 16, 2018, City Council approved the Resolution No. R-311747 thereby authorizing the Reimbursement Resolution for the Utility's CIP.

On March 14, 2024, the issuance of Sewer Revenue Bonds was presented to the Budget & Government Efficiency Committee. The Committee voted to forward the item to City Council.

On April 9, 2024, City Council approved the first reading of Ordinance (No. O-21804), and on April 29, 2024, City Council adopted the Ordinance, thereby authorizing the issuance of the 2024 Sewer Revenue Bonds and certain other related actions. On April 22, 2024, the PFFA also authorized the issuance of the 2024 Sewer Revenue Bonds via Resolution (FA-2024-2).

Key Stakeholders and Community Outreach Efforts:

N/A

Public Notice – Senate Bill No. 450

The following information is made available in accordance with California legislation (Senate Bill No. 450) to provide certain public disclosures related to the proposed financing. The bonds are anticipated to be sold in August 2024. *All figures are estimates as of May 30, 2024, and are subject to bond sale and market conditions:*

- A.) True Interest Cost of the 2024 Sewer Revenue Bonds:
 - Series 2024: 4.25%
- B.) Finance Charge of the 2024 Sewer Revenue Bonds calculated as the sum of all fees and charges paid to third parties:
 - a. Costs of Issuance: \$689,653
 - b. Underwriting Takedown: \$482,448
- C.) Net Proceeds of the Bonds: \$301,172,101
- D.) Total Payment Amount for the 2024 Sewer Revenue Bonds (estimated total of all payments to pay debt service through the expected final maturity of each series):
 - Series 2024: \$534,642,766

Department Director

Chief Financial Officer

Attachment 1: Staff Report dated March 25, 2024.

Attachment 2: Projected Use of the 2024 Sewer Revenue Bond Proceeds- Project List

PRELIMINARY OFFICIAL STATEMENT DATED [_____] , 2024**NEW ISSUE—BOOK-ENTRY ONLY****RATINGS:**

Fitch: “[_____]” ([_____])
 S&P: “[_____]” ([_____])
 (See “RATINGS” herein.)

In the opinion of Nixon Peabody LLP, Bond Counsel, under existing law and assuming compliance with the tax covenants described herein, and the accuracy of certain representations and certifications made by the Authority and the City described herein, interest on the Series 2024A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”). Bond Counsel is also of the opinion that interest on the Series 2024A Bonds is not treated as a preference item in calculating the alternative minimum tax imposed under the Code. Bond Counsel is further of the opinion that interest on the Series 2024A Bonds is exempt from personal income taxes of the State of California (the “State”) under present State law. For a more complete description, see “TAX MATTERS” herein.

\$[_____]*
PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO
SUBORDINATED SEWER REVENUE BONDS, SERIES 2024A
(Payable Solely From Subordinated Installment Payments
Secured by Wastewater System Net Revenues)

Dated: Date of Delivery**Due: May 15, as shown on the inside cover page**

The \$[_____] Public Facilities Financing Authority of the City of San Diego Subordinated Sewer Revenue Bonds, Series 2024A (Payable Solely From Subordinated Installment Payments Secured by Wastewater System Net Revenues) (the “Series 2024A Bonds”), are being issued by the Public Facilities Financing Authority of the City of San Diego (the “Authority”) pursuant to the provisions of the Joint Exercise of Powers Act (commencing with Section 6500) of the Government Code of the State of California (the “State”) and an Indenture, dated as of May 1, 2009 (the “Original Indenture”), as amended and supplemented by a First Supplemental Indenture, dated as of June 1, 2009, a Second Supplemental Indenture, dated as of April 1, 2010, a Third Supplemental Indenture, dated as of September 1, 2015, a Fourth Supplemental Indenture, dated as of March 1, 2016, a Fifth Supplemental Indenture, dated as of May 1, 2022, and a Sixth Supplemental Indenture, to be dated as of [_____] 1, 2024 (the Original Indenture, as so amended and supplemented, is referred to herein as the “Indenture”), each by and between the Authority and U.S. Bank Trust Company, National Association, as successor trustee (the “Trustee”).

The Series 2024A Bonds are being issued to: (i) finance the costs of the design, acquisition, construction and installation of improvements to the City of San Diego’s (the “City”) wastewater system (the “Wastewater System”) and (ii) pay costs of issuance with respect to the Series 2024A Bonds.

THE SERIES 2024A BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY AND ARE PAYABLE SOLELY FROM THE SUBORDINATED REVENUES OF THE AUTHORITY PLEDGED FOR SUCH PURPOSE, AND AMOUNTS ON DEPOSIT IN CERTAIN FUNDS AND ACCOUNTS ESTABLISHED, UNDER THE INDENTURE. EXCEPT AS AFORESAID, THE SERIES 2024A BONDS DO NOT CONSTITUTE A DEBT OR LIABILITY OF THE AUTHORITY, THE CITY OR THE STATE, AND NEITHER THE FAITH NOR CREDIT OF THE AUTHORITY, THE CITY OR THE STATE ARE PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE SERIES 2024A BONDS. THE AUTHORITY HAS NO TAXING POWER.

The Series 2024A Bonds are limited obligations of the Authority primarily secured by Subordinated Revenues of the Authority, which consist primarily of Subordinated Installment Payments, including the 2024-1 Installment Payments, to be made by the City to the Authority, pursuant to the Master Installment Purchase Agreement, dated as of September 1, 1993, as amended and supplemented (the “Master Installment Purchase Agreement”), including as supplemented by the 2024-1 Supplement to the Master Installment Purchase Agreement, dated as of [_____] 1, 2024 (the “2024-1 Supplement”) and, together with the Master Installment Purchase Agreement, the “Installment Purchase Agreement”), each by and between the City and the Authority, and amounts on deposit in certain funds and accounts established under the Indenture (other than amounts on deposit in the Rebate Fund). The City has pledged Net System Revenues of the Wastewater System pursuant to the Installment Purchase Agreement to the payment of the Subordinated Installment Payments, including the 2024-1 Installment Payments. The City’s pledge and assignment of and lien on the Net System Revenues securing the Subordinated Installment Payments, including the 2024-1 Installment Payments, will be subordinate to the payment by the City of its Senior Obligations and on parity with the City’s pledge and assignment of and lien on the Net System Revenues securing the other Subordinated Obligations.

The principal of and interest on the Series 2024A Bonds are not a debt of the City nor a legal or equitable pledge, charge, lien or encumbrance upon any of its property or upon any of its income, receipts or revenues but are secured by and payable solely from the Subordinated Revenues of the Authority and amounts on deposit in certain funds and accounts established under the Indenture (other than amounts on deposit in the Rebate Fund).

Pursuant to the Installment Purchase Agreement, the City may incur additional Obligations, payments with respect to which will be senior to the City’s Subordinated Obligations, and additionally, the City may incur additional Obligations on parity with the Subordinated Obligations, in each such case, subject to satisfaction of the conditions specified in the Installment Purchase Agreement.

The Series 2024A Bonds will not be secured by any debt service reserve fund.

The Series 2024A Bonds will accrue interest from their date of delivery, and interest thereon will be payable on May 15 and November 15 of each year, commencing on November 15, 2024. The Series 2024A Bonds will bear interest at the respective rates per annum set forth on the inside cover page hereof. See “DESCRIPTION OF THE SERIES 2024A BONDS—General” herein and “APPENDIX A—SUMMARY OF PRINCIPAL LEGAL DOCUMENTS” attached hereto.

The Series 2024A Bonds will be issued only in fully-registered form in denominations of \$5,000 and any integral multiple thereof, and when issued, will be registered in the name of Cede & Co., as the nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository for the Series 2024A Bonds. Ownership interests in the Series 2024A Bonds may be purchased in book-entry form only. So long as DTC or its nominee is the Owner of the Series 2024A Bonds, principal of and interest on the Series 2024A Bonds will be made as described in “APPENDIX D—INFORMATION REGARDING THE BOOK-ENTRY ONLY SYSTEM” attached hereto.

The Series 2024A Bonds are subject to optional and mandatory sinking fund redemption prior to maturity as described herein.* See “DESCRIPTION OF THE SERIES 2024A BONDS—Redemption” herein.

* Preliminary, subject to change.
 4894-9745-1420.16

This cover page contains information for general reference only. Potential purchasers are advised to read the entire Official Statement to obtain information essential to making an informed investment decision. Capitalized terms used on this cover page and not otherwise defined have the meanings set forth herein.

The Series 2024A Bonds are offered when, as and if issued, subject to the legal opinion of Nixon Peabody LLP, Bond Counsel. Certain legal matters will be passed upon for the Authority by Nixon Peabody LLP, acting as Disclosure Counsel to the Authority for the Series 2024A Bonds, for the City by Mara W. Elliott, City Attorney, and for the Underwriters by their counsel, Norton Rose Fulbright US, LLP. It is anticipated that the Series 2024A Bonds will be available for delivery through the facilities of DTC in New York, New York, on or about [____], 2024.

Date of Official Statement: _____, 2024

Siebert Williams Shank & Co., LLC

Mischler Financial Group, Inc.

Cabrera Capital Markets, LLC

BofA Securities

Wells Fargo Securities

\$[_____]*

PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO
SUBORDINATED SEWER REVENUE BONDS, SERIES 2024A
(Payable Solely From Subordinated Installment Payments
Secured by Wastewater System Net Revenues)

MATURITY SCHEDULE*
Base CUSIP†:

[add principal amount and maturity date]

Maturity Date (May 15)*	Principal Amount*	Interest Rate	Yield	Price	CUSIP†
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\$ _____ % 2024A Term Bonds due May 15, 20__ - Yield: ____ CUSIP† No. _____

\$ _____ % 2024A Term Bonds due May 15, 20__ - Yield: ____ CUSIP† No. _____

* Preliminary, subject to change.

† CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services (CGS), which is managed on behalf of The American Bankers Association by FactSet Research Systems Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CGS database. CUSIP numbers have been assigned by an independent company not affiliated with the Authority or the City and are included solely for the convenience of the registered owners of the applicable Series 2024A Bonds. Neither the Authority, the City nor the Underwriters are responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the applicable Series 2024A Bonds or as included herein. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Series 2024A Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Series 2024A Bonds.

CITY OF SAN DIEGO

Mayor

Todd Gloria

City Council

(Also serve as the Board of Commissioners of the
Public Facilities Financing Authority of the City of San Diego)

Joe LaCava (*District 1*)

City Council President Pro Tem

Jennifer Campbell, (*District 2*)

Stephen Whitburn, (*District 3*)

Henry Foster III (*District 4*)

Marni Von Wilpert (*District 5*)

Kent Lee (*District 6*)

Raul Campillo (*District 7*)

Vivian Moreno (*District 8*)

Sean Elo-Rivera (*District 9*)

City Council President

City Attorney

Mara W. Elliott

City Officials

Eric K. Dargan, *Chief Operating Officer*

Matthew Vespi, *Chief Financial Officer*

Rolando Charvel, *Department of Finance Director and City Comptroller*

Elizabeth Correia, *City Treasurer*

Juan Guerreiro, *Director of Public Utilities*

Charles Modica, *Independent Budget Analyst, Office of the Independent Budget Analyst*

Andy Hanau, *City Auditor*

Diana J.S. Fuentes, *City Clerk*

SPECIAL SERVICES

Bond Counsel and Disclosure Counsel

Nixon Peabody LLP

Municipal Advisor

PFM Financial Advisors LLC

Trustee

U.S. Bank Trust Company, National Association

No dealer, broker, salesperson or other person has been authorized by the Authority or the City to give any information or to make any representations other than those contained herein, and if given or made, such other information or representation must not be relied upon as having been authorized by the Authority or the City. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Series 2024A Bonds by a person in any jurisdiction in which it is unlawful for such person to make an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the Series 2024A Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as a representation of facts.

References to website addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such websites and the information or links contained therein are not incorporated into, and are not part of, this Official Statement.

The information in APPENDIX D—"INFORMATION REGARDING THE BOOK-ENTRY ONLY SYSTEM" attached hereto has been furnished by The Depository Trust Company, and no representation has been made by the Authority, the City or the Underwriters as to the accuracy or completeness of such information.

The information set forth herein other than that provided by the City or the Authority, although obtained from sources which are believed by the City to be reliable, is not guaranteed by the City or the Authority as to accuracy or completeness. The information and expressions of opinions herein are subject to change without notice, and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date thereof. This Official Statement is submitted with respect to the sale of the Series 2024A Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose, unless authorized in writing by the City. All summaries of documents and laws are made subject to the provisions thereof and do not purport to be complete statements of any or all such documents and laws.

A wide variety of other information including financial information concerning the City, is available from publications and websites of the City and others. Any such information that is inconsistent with the information set forth in this Official Statement should be disregarded. No such information is a part of or incorporated into this Official Statement, except as expressly noted.

THE SERIES 2024A BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXCEPTION FROM THE REGISTRATION REQUIREMENTS CONTAINED IN SECTION 3(A)(2) OF SUCH ACT. THE BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE. THE INDENTURE HAS NOT BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

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OFFICIAL STATEMENT

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PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO SUBORDINATED SEWER REVENUE BONDS, SERIES 2024A

**(Payable Solely From Subordinated Installment Payments
Secured by Wastewater System Net Revenues)**

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, including the cover page, inside cover page and appendices hereto, and the documents described herein. All statements contained in this introduction are qualified in their entirety by reference to the entire Official Statement. References to and summaries of the laws of the State of California and any documents referred to herein do not purport to be complete, and such references are qualified in their entirety by reference to the complete provisions of such laws and documents. All capitalized terms used in this Official Statement and not otherwise defined herein have the meanings given to such terms in the Indenture and the Installment Purchase Agreement. See “APPENDIX A—SUMMARY OF PRINCIPAL LEGAL DOCUMENTS.”

General

The \$[] Public Facilities Financing Authority of the City of San Diego Subordinated Sewer Revenue Bonds, Series 2024A (Payable Solely From Subordinated Installment Payments Secured by Wastewater System Net Revenues) (the “Series 2024A Bonds”), are being issued by the Public Facilities Financing Authority of the City of San Diego (the “Authority”) pursuant to the provisions of the Joint Exercise of Powers Act (commencing with Section 6500) of the Government Code of the State of California (the “State”) and an Indenture, dated as of May 1, 2009 (the “Original Indenture”), as amended and supplemented by a First Supplemental Indenture, dated as of June 1, 2009 (the “First Supplemental Indenture”), a Second Supplemental Indenture, dated as of April 1, 2010 (the “Second Supplemental Indenture”), a Third Supplemental Indenture, dated as of September 1, 2015 (the “Third Supplemental Indenture”), a Fourth Supplemental Indenture, dated as of March 1, 2016 (the “Fourth Supplemental Indenture”), a Fifth Supplemental Indenture, dated as of May 1, 2022 (the “Fifth Supplemental Indenture”), and a Sixth Supplemental Indenture, to be dated as of [] 1, 2024 (the “Sixth Supplemental Indenture”) each by and between the Authority and U.S. Bank Trust Company, National Association, as successor trustee thereunder (the “Trustee”). The Original Indenture, as so amended and supplemented, is referred to herein as the “Indenture.”

The proceeds of the Series 2024A Bonds will be used to: (i) finance the costs of the design, acquisition, construction and installation of improvements to the City of San Diego’s (the “City”) wastewater system (the “Wastewater System”) and (ii) pay costs of issuance with respect to the Series 2024A Bonds. See “PLAN OF FINANCE.”

The Series 2024A Bonds

The Series 2024A Bonds will accrue interest from their date of delivery, and interest thereon will be payable on May 15 and November 15 of each year, commencing on November 15, 2024 (each, an

* Preliminary, subject to change.

“Interest Payment Date”). The Series 2024A Bonds will bear interest at the respective rates per annum set forth on the inside cover page hereof. See “DESCRIPTION OF THE SERIES 2024A BONDS—General.”

The Series 2024A Bonds will be issued only in fully-registered form in denominations of \$5,000 and any integral multiple thereof, and when issued, will be registered in the name of Cede & Co., as the nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository for the Series 2024A Bonds. Ownership interests in the Series 2024A Bonds may be purchased in book-entry form only. So long as DTC or its nominee is the Owner of the Series 2024A Bonds, the principal of and interest on the Series 2024A Bonds will be made as described in “APPENDIX D—INFORMATION REGARDING THE BOOK-ENTRY ONLY SYSTEM.”

Security and Sources of Payment for the Series 2024A Bonds

The City owns the Wastewater System and operates the Wastewater System through its Public Utilities Department (the “Department”). The City has expanded the Wastewater System from time to time to satisfy its mission statement, which is to provide wastewater collection, treatment, discharge and disposal. See “THE WASTEWATER SYSTEM.”

The Series 2024A Bonds are limited obligations of the Authority primarily secured by Subordinated Revenues (defined herein) of the Authority, which consist primarily of Subordinated Installment Payments, including the 2024-1 Installment Payments (defined herein), to be made by the City to the Authority, pursuant to the Master Installment Purchase Agreement, dated as of September 1, 1993, as amended and supplemented (the “Master Installment Purchase Agreement”), including as supplemented by the 2024-1 Supplement to the Master Installment Purchase Agreement, dated as of [_____] 1, 2024 (the “2024-1 Supplement” and, together with the Master Installment Purchase Agreement, the “Installment Purchase Agreement”), each by and between the City and the Authority, and amounts on deposit in certain funds and accounts established under the Indenture (other than amounts on deposit in the Rebate Fund). The City has pledged Net System Revenues of the Wastewater System pursuant to the Installment Purchase Agreement to the payment of the Subordinated Installment Payments, including the 2024-1 Installment Payments. The City’s pledge and assignment of and lien on the Net System Revenues securing the Subordinated Installment Payments, including the 2024-1 Installment Payments, will be subordinate to the payment of Senior Obligations* by the City and on parity with the City’s pledge and assignment of and lien on the Net System Revenues securing the other Subordinated Obligations. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2024A BONDS.”

THE SERIES 2024A BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY AND ARE PAYABLE SOLELY FROM THE SUBORDINATED REVENUES OF THE AUTHORITY PLEDGED FOR SUCH PURPOSE, AND AMOUNTS ON DEPOSIT IN CERTAIN FUNDS AND ACCOUNTS ESTABLISHED, UNDER THE INDENTURE. EXCEPT AS AFORESAID, THE SERIES 2024A BONDS DO NOT CONSTITUTE A DEBT OR LIABILITY OF THE AUTHORITY, THE CITY OR THE STATE, AND NEITHER THE FAITH NOR CREDIT OF THE AUTHORITY, THE CITY OR THE STATE ARE PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE SERIES 2024A BONDS. THE AUTHORITY HAS NO TAXING POWER.

* The Installment Purchase Agreement uses the term “Parity” in connection with certain senior obligations. For purposes of the forepart of this Official Statement, the term “Senior” will be used in place of “Parity” to clarify that the related obligations have a senior priority lien on Net System Revenues to the Subordinated Obligations, including the 2024-1 Installment Payments.

Redemption of the Series 2024A Bonds

The Series 2024A Bonds are subject to optional and mandatory sinking fund redemption prior to maturity as described herein.* See “DESCRIPTION OF THE SERIES 2024A BONDS—Redemption.”

Rate Covenant

The City has covenanted in the Installment Purchase Agreement to fix, prescribe and collect rates and charges for the Wastewater Service (defined in Appendix A under the caption “INSTALLMENT PURCHASE AGREEMENT—Selected Definitions”) which will be at least sufficient to yield the greater of (a) Net System Revenues sufficient to pay during each Fiscal Year all Obligations payable in such Fiscal Year or (b) Net System Revenues during each Fiscal Year equal to 120% of the Senior Obligations payable for such Fiscal Year.

The Wastewater Service rendered by the City includes services relating to the Metropolitan Sub-System (herein defined), of which the Participating Agencies (herein defined) are a part. See “THE WASTEWATER SYSTEM—Participating Agencies” for a description of the rates and charges paid and to be paid by the Participating Agencies.

In addition, pursuant to the agreements executed by the City in connection with certain of the SRF Loans (as defined herein), the City has covenanted to ensure that net revenues are equal to at least 1.1 times maximum annual debt service on all Obligations in each Fiscal Year. The covenants in the agreements for the SRF Loans are not made for the benefit of the Owners of the Series 2024A Bonds, and Owners of Series 2024A Bonds do not have a right to enforce such covenants. See also “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2024A BONDS—Rate Covenant,” “WASTEWATER SYSTEM FINANCIAL OPERATIONS—Sewer Revenue Fund Reserves,” “RISK FACTORS—Rate-Setting Process Under Proposition 218” and “CONSTITUTIONAL LIMITATIONS ON TAXES AND WASTEWATER RATES AND CHARGES—Articles XIIC and XIID.”

Outstanding Senior Obligations and Subordinated Obligations

The 2024-1 Installment Payments securing payment of the Series 2024A Bonds are payable from Net System Revenues on a basis that is subordinate to the right of payment by the City of Senior Obligations incurred and to be incurred under the Installment Purchase Agreement.

As of July 1, 2024, \$638,117,265 aggregate principal amount of Senior Obligations are outstanding, consisting of obligations related to the Authority’s Senior Sewer Revenue Refunding Bonds, Series 2015 (the “Series 2015 Bonds”), the Authority’s Senior Sewer Revenue Refunding Bonds, Series 2016A (the “Series 2016 Bonds”) and the Existing Senior SRF Loans (herein defined) (collectively, the “Outstanding Senior Obligations”).

As of July 1, 2024, not including the 2024-1 Installment Payments, \$164,354,323 aggregate principal amount of Subordinated Obligations are outstanding, consisting of obligations related to the Authority’s Subordinated Sewer Revenue Bonds, Series 2022A (Payable Solely From Subordinated Installment Payments Secured by Wastewater System Net Revenues) (the “Series 2022 Bonds”) and the Existing Subordinated SRF Loans (herein defined) (collectively, the “Outstanding Subordinated Obligations”). See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2024A BONDS—Outstanding Senior Obligations and Subordinated Obligations.”

* Preliminary, subject to change.

Pursuant to a Revolving Credit Agreement, dated as of December 1, 2022 (the “Revolving Credit Agreement”), by and among the City, the Authority and Wells Fargo Bank, N.A. (the “Revolving Credit Bank”), the City may borrow up to \$150,000,000 in aggregate principal amount of loans (the “2022 Subordinated Revolving Loans”) maturing on December 11, 2025. The Revolving Credit Agreement and the 2022 Subordinated Revolving Loans outstanding thereunder are Subordinated Obligations under the Master Installment Purchase Agreement. On December 23, 2022, the City posted a Material Event Notice – Incurrence of Financial Obligation on the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access System (the “EMMA System”) that sets forth the terms and conditions under which the 2022 Subordinated Revolving Loans may be incurred and the terms thereof. As of July 1, 2024, the City had \$33,400,000 in aggregate principal amount of 2022 Subordinated Revolving Loans outstanding. The City expects to borrow additional amounts under the Revolving Credit Agreement in the future. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2024A BONDS—Outstanding Senior Obligations and Subordinate Obligations.”

Incurrence of Additional Obligations

Pursuant to the Installment Purchase Agreement, the City may incur additional Obligations, the payments with respect to which may be senior to the City’s Subordinated Obligations, including the 2024-1 Installment Payments, and additionally, the City may incur additional Obligations, payments with respect to which may be on parity with the Subordinated Obligations, including the 2024-1 Installment Payments, in each such case, subject to satisfaction of the conditions specified in the Installment Purchase Agreement.

The City anticipates issuing additional Obligations in Fiscal Years 2025 through 2029 to finance the costs of certain projects in the Wastewater System Capital Improvement Program (“Wastewater System CIP”) in the approximate amount of \$1.275 billion through a combination of SRF Loans of approximately \$470 million and revenue bonds of approximately \$720 million and, as economic conditions allow, to refund outstanding Obligations. The lien status of all of the anticipated Obligations is yet to be determined. See “WASTEWATER SYSTEM CAPITAL IMPROVEMENT PROGRAM – Capital Improvement Financing Plan.”

No Debt Service Reserve Fund for Series 2024A Bonds

The Series 2024A Bonds will not be secured by any debt service reserve fund.

Continuing Disclosure

The City has agreed to provide, or cause to be provided, in accordance with Rule 15c2-12(b)(5), promulgated by the U.S. Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended (the “Rule”), certain annual financial information and operating data and notice of certain enumerated events. These covenants have been made in order to assist the Underwriters in complying with the Rule. See “CONTINUING DISCLOSURE.”

The City of San Diego

The City, with a total population of approximately 1,385,379 as of January 2024 and a land area of approximately 325 square miles (and an additional 47 square miles of water area for an aggregate total of 372 square miles), is the eighth largest city in the nation and the second largest city in California. The City is the county seat for the County of San Diego (the “County”). The City offers a wide range of cultural and recreational services to both residents and visitors. Major components of the City’s diversified economy include defense, tourism, biotechnology/biosciences, financial and business services, software and telecommunications. The City’s economic base is also anchored by higher education and major scientific

research institutions, including the University of California, San Diego, San Diego State University, Scripps Research Institute, and the Salk Institute for Biological Studies.

The City was incorporated in 1850. The City operates under and is governed by the laws of the State and the City Charter, as periodically amended since its adoption by the electorate in 1931. The City has been operating under a “Strong Mayor” form of government since January 1, 2006. Under the Strong Mayor form of government, the Mayor is the Chief Executive Officer of the City and has direct oversight over all City functions and services except for the City Council, Personnel, City Clerk, Independent Budget Analyst, Ethics Commission, City Attorney and City Auditor’s departments.

The Wastewater System

The City owns the Wastewater System and operates the Wastewater System through the Department. The Department is comprised of several branches that are funded by both the Sewer Revenue Fund and the Water Utility Fund, depending upon which system benefits from the tasks completed. The Department ultimately reports to the Mayor, who has operational authority over the Department and appoints managers and directors who are charged with the operations of the Department. The City Council of the City (the “City Council”) has the authority to approve the Department’s budget, to set rates and charges of the City utilities, including the Wastewater System, and to approve execution of certain contracts. See “THE WASTEWATER SYSTEM,” “WASTEWATER SYSTEM CAPITAL IMPROVEMENT PROGRAM,” and “WASTEWATER SYSTEM FINANCIAL OPERATIONS.”

The climate of the City of San Diego is tempered by the prevailing winds from the Pacific Ocean, with the result that summers are cool and winters warm in comparison with other places along the same general latitude. Temperatures of freezing or below have rarely occurred but hot weather, 90 degrees or above, is more frequent. The seasonal rainfall is about 10 inches in the City but increases with elevation and distance from the coast. Eighty-five percent of the rainfall occurs from November through March, but wide variations take place in monthly and seasonal totals. In 2020 the National Oceanic and Atmospheric Administration U.S. Climate Normals, a comprehensive data set of observed daily weather showed a trend of warming and drying in the San Diego Region on a 30-year average. This results in more heat waves, warmer nights and more variability in rainfall leading to extreme rainfall or extended periods of drought. This boom-and-bust cycle directly and indirectly impacts wastewater flows and wastewater system operations. See “WASTEWATER SYSTEM CAPITAL IMPROVEMENT PROGRAM — Integrated Master Planning.”

The Authority

The Authority is a California joint exercise of powers authority existing pursuant to the Third Amended and Restated Joint Exercise of Powers Agreement, dated as of January 1, 2013, by and among the City, the City in its capacity as the designated successor agency (the “Successor Agency”) to the former Redevelopment Agency of the City of San Diego (the “Former RDA”) and the Housing Authority of the City of San Diego (the “Housing Authority”). The Authority is organized, in part, to finance certain public capital improvements of the City, the Successor Agency or the Housing Authority.

Except as provided by the Indenture, the Authority has no liability to the Owners or Beneficial Owners of any Series 2024A Bonds and has pledged none of its moneys, funds or assets toward the payment of any amount due in connection with the Series 2024A Bonds. The Authority is governed by its own Board of Commissioners consisting of the members of the City Council. The Authority is dependent upon the officers and employees of the City to administer its program.

Forward-Looking Statements

Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements.” Such statements are generally identifiable by the terminology used such as “plan,” “expect,” “estimate,” “budget,” “projected” 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. Although such expectations reflected in such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct in whole or in part. Neither the City nor the Authority is obligated to issue any updates or revisions to the forward-looking statements if or when expectations, or events, conditions or circumstances on which such statements are based do or do not occur.

PLAN OF FINANCE

The Series 2024A Bonds are being issued to: (i) finance the costs of the design, acquisition, construction and installation of improvements to the City’s Wastewater System and (ii) pay costs of issuance with respect to the Series 2024A Bonds.

The Series 2024A Bonds will finance ongoing projects for the Wastewater System. Planned projects and improvements of existing projects include, but are not limited to, pipelines, pump stations, trunk sewers and treatment plants. See “WASTEWATER SYSTEM CAPITAL IMPROVEMENT PROGRAM – Capital Improvement Financing Plan.”

ESTIMATED SOURCES AND USES OF FUNDS

The proceeds of the Series 2024A Bonds and their expected uses are set forth below:

SOURCES:	
Principal Amount of the Series 2024A Bonds	\$
Net Original Issue Premium/Discount	
Total Sources	<u>\$</u>
USES:	
Deposit to Acquisition Fund	\$
Underwriters’ Discount	
Costs of Issuance ¹	
Total Uses	<u>\$</u>

¹ Includes Trustee, municipal advisor fees and expenses, rating agency fees, bond and disclosure counsel fees and expenses, printing costs and other costs of issuing the Series 2024A Bonds.

DESCRIPTION OF THE SERIES 2024A BONDS

General

The Series 2024A Bonds will be issued as fully-registered bonds in denominations of \$5,000 and any integral multiple thereof and when issued, will be registered in the name of Cede & Co., as the nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository for the Series 2024A Bonds. Ownership interests in the Series 2024A Bonds may be purchased in book-entry form only. So long as DTC or its nominee is the Owner of the Series 2024A Bonds, principal of and

interest on the Series 2024A Bonds will be made as described in “APPENDIX D—INFORMATION REGARDING THE BOOK-ENTRY ONLY SYSTEM.”

The Series 2024A Bonds will accrue interest from their date of delivery, and interest thereon will be payable on May 15 and November 15 of each year, commencing on November 15, 2024. The Series 2024A Bonds will bear interest at the respective rates set forth on the inside cover page hereof.

Interest on the Series 2024A Bonds will be calculated on the basis of a 360-day year, comprised of twelve 30-day months. Interest coming due on a date which is not a Business Day will be payable on the immediately following Business Day. Each Series 2024A Bond will bear interest from the Interest Payment Date next preceding the date of authentication thereof, unless such date of authentication is during the period commencing after a Record Date through and including the next succeeding Interest Payment Date, in which event it will bear interest from such Interest Payment Date, or unless such date of authentication is on or before the first Record Date, in which event it will bear interest from its dated date; provided, however, that if on the date of authentication of any Series 2024A Bonds, interest is then in default on the Outstanding Series 2024A Bonds, such Series 2024A Bonds will bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment on the Outstanding Series 2024A Bonds. Payment of interest on the Series 2024A Bonds due on or before the maturity or prior redemption thereof will be made to the Owner or Owners of record as of the Record Date preceding the applicable Interest Payment Date, on the registration books kept by the Trustee, such interest to be paid by check mailed by first-class mail on such Interest Payment Date to such Owner at his address as it appears on such books; provided, that in the event the ownership of such Series 2024A Bonds is no longer maintained in book-entry form by the Depository, such payment will be made by wire transfer to any Owner of at least \$1,000,000 in aggregate principal amount of Series 2024A Bonds, in immediately available funds to an account in the continental United States designated in writing by such Owner to the Trustee prior to the applicable Record Date.

Redemption*

Optional Redemption. The Series 2024A Bonds maturing on and before May 15, 20__ are not subject to optional redemption prior to their stated maturities. The Series 2024A Bonds maturing on and after May 15, 20__ shall be subject to redemption, in whole or in part, at the option of the Authority (upon the direction of the City), on any date on or after May 15, 20__, at any time, from and to the extent of prepaid Series 2024-1 Installment Payments paid pursuant to the 2024-1 Supplement, at a redemption price equal to the principal amount of Series 2024A Bonds called for redemption, together with interest accrued thereon to the date fixed for redemption, without premium.

Mandatory Sinking Fund Redemption. The Series 2024A Bonds maturing on May 15, 20__ (the “20__ Term Bond”) are subject to mandatory sinking fund redemption prior to their stated maturity, in part by lot, from sinking account payments deposited in the Subordinated Bonds Redemption Account, on each May 15 commencing on May 15, 20__ at a redemption price equal to the principal amount thereof, plus interest accrued to the date fixed for redemption, without premium, in the principal amounts as follows:

* Preliminary, subject to change.

Sinking Fund Payment Dates
(May 15)

Sinking Account Payments (\$)

†

†Maturity.

The Series 2024A Bonds maturing on May 15, 20__ (the “20__ Term Bond,” and together with the 20__ Term Bond, the “Term Bonds”) are subject to mandatory sinking fund redemption prior to their stated maturity, in part by lot, from sinking account payments deposited in the Subordinated Bonds Redemption Account, on each May 15 commencing on May 15, 20__ at a redemption price equal to the principal amount thereof, plus interest accrued to the date fixed for redemption, without premium, in the principal amounts as follows:

Sinking Fund Payment Dates
(May 15)

Sinking Account Payments (\$)

†

†Maturity.

At the option of the Authority, it may credit against any sinking account payment requirement Term Bonds or portions thereof which are of the same maturity as the Term Bonds subject to redemption and which, prior to said date, have been purchased, with funds other than moneys in the Subordinated Bonds Redemption Account, at public or private sale or redeemed and cancelled by the Authority and not theretofore applied as a credit against any mandatory sinking account payment requirement. The principal amount of Term Bonds that have been redeemed at the option of the Authority pursuant to the Indenture shall be credited against the sinking account payments of such Term Bonds as may be specified by the City on behalf of the Authority.

Notice of Redemption. Pursuant to the Indenture, each notice of redemption will be mailed to the Owners not more than 60 days nor less than 20 days prior to the redemption date by first class mail to the respective Owners of the Series 2024A Bonds designated for redemption at their addresses appearing on the registration books of the Trustee. Each notice of redemption will state the date of such notice, the redemption price, the place of redemption (including the name and appropriate address of the Trustee), the CUSIP number of the maturity or maturities, and, in the case of Series 2024A Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice will also state that on said date there will become due and payable on each of the Series 2024A Bonds to be redeemed and in the case of a Series 2024A Bond to be redeemed in part only, the specified portion of the principal amount thereof to be redeemed, together with interest accrued thereon to the redemption date, and that from and after the redemption date, interest thereon will cease to accrue, and will require that such Series 2024A Bonds be then surrendered at the address of the Trustee specified in the redemption notice. Notice of redemption may be conditioned upon the occurrence of future events, including but not limited to the

issuance of refunding bonds, and may be given and rescinded by the Trustee prior to the redemption date, upon written instruction of the Authority.

Effect of Redemption. If notice of redemption has been duly given as provided in the Indenture, and money for the payment of the redemption price of the Series 2024A Bonds called for redemption is held by the Trustee, then on the redemption date designated in such notice, the Series 2024A Bonds will become due and payable, and from and after the date so designated, interest on the Series 2024A Bonds so called for redemption will cease to accrue, and the Owners of such Series 2024A Bonds will have no rights in respect thereof except to receive payment of the redemption price thereof. A deficiency in any such notice will not affect the sufficiency of the proceedings for redemption. All Series 2024A Bonds redeemed pursuant to the provisions of the Indenture will be cancelled by the Trustee and will not be reissued, and the Trustee will thereupon deliver a certificate of cancellation to the Authority.

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2024A BONDS

Sources of Payment; Pledge of Subordinated Revenues

The Series 2024A Bonds are limited obligations of the Authority payable solely from Subordinated Revenues of the Authority pledged for such purpose under the Indenture and amounts on deposit in certain funds and accounts established under the Indenture. The term “Subordinated Revenues” means all Subordinated Installment Payments received by or due to the Authority pursuant to the Installment Purchase Agreement and the interest or profits from the investment of money in the Subordinated Bonds Payment Fund. The 2024-1 Installment Payments are secured by and payable solely from Net System Revenues and are required to be paid by the City to the Authority exclusively from the Sewer Revenue Fund. See “—Net System Revenues” below for a description of Net System Revenues. See also “APPENDIX A—SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—INSTALLMENT PURCHASE AGREEMENT—Commitment of Net System Revenues.”

The pledge and right of payment from Net System Revenues securing the 2024-1 Installment Payments (which, in turn, secure the Series 2024A Bonds) is subordinate to the pledge and right of payment from Net System Revenues securing the Installment Payments represented by the Authority’s Outstanding Senior Obligations and other Senior Obligations that may be issued from time to time in accordance with the Installment Purchase Agreement. See “PLAN OF FINANCE” and “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2024A BONDS—Outstanding Senior Obligations and Subordinated Obligations,” and “—Incurrence of Additional Obligations.” All Senior Obligations, including Senior Installment Payment Obligations, are secured by a first priority lien on and pledge of Net System Revenues. All Senior Obligations are of equal rank with each other without preference, priority or distinction of any Senior Obligations over any other Senior Obligations.

All Subordinated Obligations, including the 2024-1 Installment Payments, are secured by a second priority lien on and pledge of Net System Revenues that is junior and subordinate to the lien on and pledge of Net System Revenues securing Senior Obligations. All Subordinated Obligations are of equal rank with each other without preference, priority or distinction of any Subordinated Obligations over any other Subordinated Obligations.

Sewer Revenue Fund

The City accounts for its wastewater operations through an enterprise fund known as the “Sewer Revenue Fund” (also referenced as the “Sewer Utility Fund” in the City’s Annual Comprehensive Financial Report for the Fiscal Year ended June 30, 2023 (the “2023 ACFR”)). The Sewer Revenue Fund was

established by an amendment to the Municipal Code of the City (the “City Municipal Code”) on August 2, 1956. All System Revenues are deposited in the Sewer Revenue Fund.

All moneys in the Sewer Revenue Fund must first be used to pay: (a) directly or as otherwise required all Maintenance and Operation Costs of the Wastewater System; (b) to the Trustee amounts due in respect of Senior Installment Obligations for deposit in the Payment Fund for Senior Installment Obligations (including the Senior Bonds and the Senior SRF Loans), the amounts specified in any Issuing Instrument, as payments due on account of Senior Installment Obligations; (c) to the obligee specified therein, any payment due as to any Senior Obligation that is not a Senior Installment Obligation (including any Credit Provider Reimbursement Obligations designated as Senior Obligations), other than (i) payments due on account of Qualified Take or Pay Obligations, and (ii) payments due by the City under a Qualified Swap Agreement; (d) to the obligee specified therein, any payment due as to Qualified Take or Pay Obligations; and (e) to the counterparty specified in any Qualified Swap Agreement, the amounts or payments due under such Qualified Swap Agreement as Senior Obligations. In the event there are insufficient Net System Revenues to make all of the payments contemplated by clauses (b), (c), (d) and (e) of the immediately preceding sentence, then said payments shall be made as nearly as practicable, pro rata, based upon the respective unpaid principal amounts of said Senior Obligations. After such payments have been made, any remaining Net System Revenues must be used to make up any deficiency in the Reserve Funds or Reserve Accounts for Senior Obligations.

There are no Outstanding Qualified Take or Pay Obligations or Qualified Swap Agreements, and there will be no such obligations or agreements as of the date of issuance of the Series 2024A Bonds.

Notwithstanding anything in the Installment Purchase Agreement to the contrary, no payments from the Sewer Revenue Fund will be made in respect of any Subordinated Obligations, including the 2024-1 Installment Payments, unless the following conditions are met: (a) all Maintenance and Operation Costs of the Wastewater System are being and have been paid and are then current; and (b) all deposits and payments contemplated by the Installment Purchase Agreement have been made in full for Senior Obligations and no deficiency in any Reserve Fund or Reserve Account for Senior Obligations shall exist, and there shall have been paid, or segregated within the Sewer Revenue Fund, the amounts payable during the current month pursuant to the Installment Purchase Agreement; provided, however, that if the amounts payable during any month pursuant to the Installment Purchase Agreement for Senior Obligations are not able to be determined at the time of the payment of any Subordinated Obligation due to periods in which the actual interest rate accruing in respect of any Senior Obligations cannot yet be determined, then no payments from the Sewer Revenue Fund shall be made in respect of any Subordinated Obligations unless there shall have been segregated within the Sewer Revenue Fund the maximum amount that may be payable in that month under the Installment Purchase Agreement for Senior Obligations as specified in the Issuing Instruments of the Senior Obligations and in accordance with applicable law.

Subject to the Installment Purchase Agreement, the City will apply any amounts thereafter remaining in the Sewer Revenue Fund (a) to the payment of Subordinated Credit Provider Expenses and (b) to the obligee specified therein, any payment due as to any Subordinated Obligations. In the event that there are insufficient Net System Revenues remaining in the Sewer Revenue Fund after the payments described in the Installment Purchase Agreement for Subordinated Obligations to make all payments contemplated by clause (b) of the immediately preceding sentence, then said payments shall be made as nearly practicable, pro rata, based on the respective unpaid principal amounts of said Subordinated Obligations.

Net System Revenues

“Net System Revenues” means, for any Fiscal Year, the System Revenues for such Fiscal Year less the Maintenance and Operation Costs of the Wastewater System for such Fiscal Year.

The term “System Revenues” is defined in the Installment Purchase Agreement to include all income, rents, rates, fees, charges and other moneys derived from the ownership or operation of the Wastewater System, including, without limiting the generality of the foregoing, (a) all income, rents, rates, fees, charges (including standby and capacity charges), or other moneys derived by the City from the wastewater services, facilities, and commodities or byproducts sold, furnished or supplied through the facilities of or in the conduct or operation of the business of the Wastewater System, but including, without limitation, investment earnings on the operating reserves to the extent that the use of such earnings is limited to the Wastewater System by or pursuant to law, earnings on any Reserve Fund for Obligations, but only to the extent that such earnings may be utilized under the Issuing Instrument for the payment of debt service for such Obligations; (b) the proceeds derived by the City directly or indirectly from the lease of a part of the Wastewater System; (c) any amount received from the levy or collection of taxes which are solely available and are earmarked for the support of the operation of the Wastewater System; (d) amounts received under contracts or agreements with governmental or private entities and designated for capital costs; and (e) grants received from the United States of America or from the State of California; provided, however, that System Revenues do not include: (i) in all cases, customers’ deposits or any other deposits or advances subject to refund until such deposits or advances have become the property of the City; and (ii) the proceeds of borrowings. Notwithstanding the foregoing, there will be deducted from System Revenues any amounts transferred into a Rate Stabilization Fund as contemplated by the Installment Purchase Agreement, and there will be added to System Revenues any amounts transferred out of such Rate Stabilization Fund to pay Maintenance and Operation Costs of the Wastewater System.

“Maintenance and Operation Costs of the Wastewater System” is defined in the Installment Purchase Agreement to include: (a) a Qualified Take or Pay Obligation; and (b) the reasonable and necessary costs spent or incurred by the City for maintaining and operating the Wastewater System, calculated in accordance with generally accepted accounting principles, including (among other things) the reasonable expenses of management and repair and other expenses necessary to maintain and preserve the Wastewater System in good repair and working order, and including administrative costs of the City attributable to the Project and the Installment Purchase Agreement, salaries and wages of employees, payments to employees’ retirement systems (to the extent paid from System Revenues), overhead, taxes (if any), fees of auditors, accountants, attorneys or engineers and insurance premiums, and including all other reasonable and necessary costs of the City or charges required to be paid by it to comply with the terms of the Obligations, including the Installment Purchase Agreement, including any amounts required to be deposited in the Rebate Fund pursuant to the Tax Certificate, fees and expenses payable to any Credit Provider (other than in repayment of a Credit Provider Reimbursement Obligation), and expenses incurred or accrued incident to the formation of an entity to which the City may transfer substantially all of the Metropolitan Sub-System pursuant to the Installment Purchase Agreement, but excluding in all cases (i) depreciation, replacement and obsolescence charges or reserves therefor; (ii) amortization of intangibles or other bookkeeping entries of a similar nature; (iii) costs of capital additions, replacements, betterments, extensions or improvements to the Wastewater System which under generally accepted accounting principles are chargeable to a capital account or to a reserve for depreciation; (iv) charges for the payment of principal and interest on any general obligation bond heretofore or hereafter issued for Wastewater System purposes; and (v) charges for the payment of principal and interest on any debt service on account of any obligation on a senior basis or subordinate to the Installment Payments.

Obligation of City Under Installment Purchase Agreement

Pursuant to the Installment Purchase Agreement, the City commits, absolutely and unconditionally, to make Installment Payments (including the 2024-1 Installment Payments) to the Authority solely from Net System Revenues until such time as the Purchase Price has been paid in full (or provision for the payment thereof has been made pursuant to the Installment Purchase Agreement). The City will not discontinue or suspend any 2024-1 Installment Payments required to be made by it under the Installment Purchase Agreement when due, whether or not the Project or any part thereof is operating or operable or has been completed, or its use is suspended, interfered with, reduced or curtailed or terminated in whole or in part, and such 2024-1 Installment Payments will not be subject to reduction whether by offset or otherwise and will not be conditioned upon the performance or nonperformance by any party of any agreement for any cause whatsoever.

Under the Installment Purchase Agreement, the City has retained the right to transfer ownership of substantially all of the Metropolitan Sub-System, including amounts in the Sewer Revenue Fund attributable to the Metropolitan Sub-System and any amounts in the Rate Stabilization Fund agreed upon by the City and the transferee as being attributable to the Metropolitan Sub-System, to the District or any other governmental agency whose primary purpose is to provide wastewater treatment and disposal services upon the satisfaction of certain conditions. See “THE WASTEWATER SYSTEM—General” and “APPENDIX A—SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—INSTALLMENT PURCHASE AGREEMENT—Selected Covenants of the City—Transfer of Metropolitan System Components.”

Rate Covenant

The City has covenanted in the Installment Purchase Agreement to fix, prescribe and collect rates and charges for the Wastewater Service, which will be at least sufficient to yield the greater of (a) Net System Revenues sufficient to pay during each Fiscal Year all Obligations payable in such Fiscal Year or (b) Net System Revenues during each Fiscal Year equal to 120% of the Senior Obligations payable for such Fiscal Year (the “Rate Covenant”). The Wastewater Service rendered by the City includes services relating to the Metropolitan Sub-System, of which the Participating Agencies (herein defined) are a part. See “THE WASTEWATER SYSTEM—Participating Agencies” for a description of the rates and charges paid and to be paid by the Participating Agencies. Obligations include Senior Obligations and Subordinated Obligations. The City may make adjustments from time to time in such rates and charges and may make such classification thereof as it deems necessary to the fullest extent permitted by law, but the City will not reduce the rates and charges then in effect unless the Net System Revenues from such reduced rates and charges will at all times be sufficient to meet the requirements of the Installment Purchase Agreement. Pursuant to the Installment Purchase Agreement, from time to time, the City may deposit into the Rate Stabilization Fund, from current System Revenues, such amounts as the City determines, and the amount of available current System Revenues will be reduced by the amount so transferred. Amounts may be transferred from the Rate Stabilization Fund solely and exclusively to pay Maintenance and Operation Costs of the Wastewater System, and any amounts so transferred will be deemed System Revenues when so transferred. All interest or other earnings upon amounts in the Rate Stabilization Fund may be withdrawn therefrom and accounted for as System Revenues. However, funds in the Rate Stabilization Fund are not pledged to the payment of Installment Payments. See “WASTEWATER SYSTEM FINANCIAL OPERATIONS—Sewer Revenue Fund Reserves.” See also “RISK FACTORS—Rate-Setting Process Under Proposition 218” and “CONSTITUTIONAL LIMITATIONS ON TAXES AND WASTEWATER RATES AND CHARGES—Articles XIIC and XIID” for a description of State Constitutional limits upon the City’s rate-setting process.

In addition, pursuant to the agreements executed by the City in connection with certain of the SRF Loans (as defined herein), the City has covenanted to ensure that net revenues are equal to at least 1.1 times maximum annual debt service on all Obligations in each Fiscal Year. The covenants in the agreements for the SRF Loans are not made for the benefit of the Owners of the Series 2024A Bonds, and Owners of Series 2024A Bonds do not have a right to enforce such covenants.

No Debt Service Reserve Fund for Series 2024A Bonds

The Series 2024A Bonds will not be secured by a debt service reserve fund.

Outstanding Senior Obligations and Subordinated Obligations

The 2024-1 Installment Payments securing payment of the Series 2024A Bonds are payable from Net System Revenues on a basis that is subordinate to the right of payment by the City of the Senior Obligations incurred and to be incurred under the Installment Purchase Agreement.

As of July 1, 2024, there is \$638,117,265 aggregate principal amount of Outstanding Senior Obligations, consisting of obligations related to the Series 2015 Bonds, the Series 2016 Bonds, and the amounts drawn on fourteen State Revolving Fund (“SRF”) Program loans made by the California State Water Resources Control Board (the “State Water Resources Board”) to the City from the State’s Clean Water State Revolving Fund (the “CWSRF”) (the “Existing Senior SRF Loans”).

As of July 1, 2024, not including the 2024-1 Installment Payments, there is \$164,354,323 aggregate principal amount of Subordinated Obligations outstanding, consisting of the Series 2022 Bonds and the three loans made by the State Water Resources Board to the City from the State’s CWSRF (the “Existing Subordinated SRF Loans”) and the Series 2022 Bonds.

As of July 1, 2024, the City had \$33,400,000 in aggregate principal amount of 2022 Subordinated Revolving Loans outstanding. The City expects to borrow additional amounts under the Revolving Credit Agreement in the future. On December 23, 2022, the City posted a Material Event Notice – Incurrence of Financial Obligation on the EMMA System that sets forth the terms and conditions under which the 2022 Subordinated Revolving Loans may be incurred and the terms thereof.

The following table sets forth certain terms of the Revolving Credit Agreement.

Revolving Credit Agreement

Revolving Credit Bank	Wells Fargo Bank, N.A.
Principal Amount	\$150,000,000
Expiration/Maturity Date	December 11, 2025 ¹

¹ May be converted to a Term Loan payable in equal installments beginning on or after the ninetieth (90th) calendar day following December 11, 2025, or if such day is not a Business Day the next preceding Business Day, and the first Business Day of each third (3rd) calendar month occurring thereafter prior to the Amortization End Date (as defined in the Revolving Credit Agreement), and the related Amortization End Date, if specified conditions are satisfied.

The City anticipates issuing additional Obligations in Fiscal Years 2025 through 2029 to finance the costs of certain projects in the Wastewater System CIP in the approximate amount of \$1.275 billion through a combination of SRF Loans of approximately \$470 million and revenue bonds of approximately

\$720 million and, as economic conditions allow, to refund outstanding Obligations. The lien status of all of the anticipated Obligations is yet to be determined.

Table 1 below sets forth the Outstanding Senior Obligations (which includes the Installment Payments relating the outstanding Series 2015 Bonds, the Series 2016 Bonds and the Existing Senior SRF Loans), the Series 2022 Bonds, the Existing Subordinated SRF Loans and the 2022 Subordinated Revolving Loans, as of July 1, 2024. [to be updated by July 8 with any additional SRF outstanding obligations due to disbursements that occurred in June]

TABLE 1
OUTSTANDING SENIOR AND SUBORDINATED OBLIGATIONS
SECURED BY NET SYSTEM REVENUES OF THE WASTEWATER SYSTEM
(as of July 1, 2024)
(Unaudited)

Name of Issue	Original Issue Size	Principal Outstanding ³	Scheduled Final Maturity Date
<u>Senior Obligations</u>			
Series 2015 Bonds	\$ 313,620,000	\$113,595,000	May 15, 2027
Series 2016 Bonds	403,280,000	270,130,000	May 15, 2039
Existing Senior SRF Loans ^{1,2}	288,075,106	254,392,265	October 31, 2055
<i>Total Senior Obligations</i>	<u>\$1,004,975,106</u>	<u>\$638,117,265</u>	
<u>Subordinated Obligations</u>			
Series 2022 Bonds	\$ 168,250,000	\$162,995,000	May 15, 2052
Existing Subordinated SRF	98,991,020	1,359,323	March 30, 2026
2022 Subordinated Revolving Loans	N/A	33,400,000	December 11, 2025
<i>Total Subordinated Obligations</i>	<u>\$ 267,241,020</u>	<u>\$197,754,323</u>	
<i>Total Senior and Subordinated Obligations</i>	<u><u>\$1,272,216,126</u></u>	<u><u>\$835,871,588</u></u>	

Source: Public Utilities Department

¹ See Note 6 “—BUSINESS-TYPE ACTIVITIES LONG-TERM LIABILITIES” contained in the 2023 ACFR for a schedule of the Existing Senior and Subordinate SRF Loans.

² The Existing Senior SRF Loans reflects the principal outstanding attributable to the amount drawn on a respective SRF Loan if the project related to the respective SRF loan is still in its construction phase.

³ Does not reflect the issuance of the Series 2024A Bonds. See - “PLAN OF FINANCE.”

Incurrence of Additional Obligations

General. The City may at any time issue or incur additional Senior Obligations or Subordinated Obligations, in each such case subject to satisfaction of the conditions specified in the Installment Purchase Agreement, including the requirement that there shall not have occurred and be continuing (i) an Event of Default under the Installment Purchase Agreement or any Issuing Instrument, or (ii) an Event of Default or Termination Event (as defined in any Qualified Swap Agreement) under any Qualified Swap Agreement.

No Pledges Senior to, and No Rights to Payment Prior to, Senior Obligations. The City may not create any Obligations the payments of which are senior or prior to the pledge and right of payment from Net System Revenues securing the Senior Obligations.

Incurrence of Additional Senior Obligations and Additional Subordinated Obligations. In connection with the issuance or occurrence of additional Senior Obligations or additional Subordinated

Obligations, the City shall obtain or provide a certificate or certificates, prepared by the City or at the City's option by a Consultant, showing that:

<u>Additional Senior Obligations</u>	<u>Additional Subordinated Obligations</u>
<p>(a) the Net System Revenues as shown by the books of the City for any 12 consecutive month period out of the 18 consecutive months ending immediately prior to the incurring of such additional other Senior Obligations shall have amounted to at least 1.20 times the Maximum Annual Debt Service on all Senior Obligations Outstanding during such period; and</p> <p>(b) the estimated Net System Revenues for the next 12 months following the date of issuance of such other Senior Obligations will be at least equal to 1.20 times the Maximum Annual Debt Service for all Senior Obligations which will be Outstanding immediately after the issuance of the proposed Senior Obligations.</p>	<p>(a) the Net System Revenues as shown by the books of the City for any 12 consecutive month period within the 18 consecutive months ending immediately prior to the incurring of such additional Subordinated Obligations shall have amounted to at least 1.00 times the Maximum Annual Debt Service on all Obligations to be Outstanding immediately after the issuance of the proposed Subordinated Obligations; or</p> <p>(b) the estimated Net System Revenues for the five Fiscal Years following the earlier of (i) the end of the period during which interest on those Subordinated Obligations is to be capitalized or, if no interest is to be capitalized, the Fiscal Year in which the Subordinated Obligations are issued; or (ii) the date on which substantially all new facilities financed with such Subordinated Obligations are expected to commence operations, will be at least equal to 1.00 times the Maximum Annual Debt Service for all Obligations to be Outstanding immediately after the issuance of the proposed Subordinated Obligations.</p>

Factors Taken Into Account in Computations Made Under Each Clause (b) Above. For purposes of the computations to be made as described in each clause (b) above, the determination of Net System Revenues:

(A) may take into account any increases in rates and charges which relate to the Wastewater System and which have been approved by the City Council and shall take into account any reduction in such rates and charges which have been approved by the City Council, which will, for purposes of the test described in (b) above, be effective during any Fiscal Year ending within the 12-month period for which such estimate is made; and

(B) may take into account an allowance for any estimated increase in such Net System Revenues from any revenue-producing additions or improvements to or extensions of the Wastewater System to be made with the proceeds of such additional indebtedness, with the proceeds of Obligations previously issued or with cash contributions made or to be made by the City, all in an amount equal to the estimated additional average annual Net System Revenues to be derived from such additions, improvements and extensions during the first 36-month period contemplated by clause (b) above, all as shown by such certificate of the City or its Consultant, as applicable; and

(C) for the period contemplated by (b) above, shall initially include Maintenance and Operation Costs of the Wastewater System in an amount equal to such costs for the 12 consecutive months immediately prior to incurring such Senior Obligations, but adjusted if deemed necessary by the City or its Consultant, as applicable, for any increased Maintenance and Operations Costs of the Wastewater System

which are, in the judgment of the City or its Consultant, as applicable, essential to maintaining and operating the Wastewater System and which will occur during the Fiscal Year ending within the period contemplated by (b) above.

The certificate or certificates described above in clause (b) will not be required if the Senior Obligations or Subordinated Obligations, as the case may be, being issued are for the purpose of refunding (i) then-Outstanding Senior Obligations in the case of the additional Senior Obligations incurrence test, or then-Outstanding Senior Obligations or Subordinated Obligations in the case of the additional Subordinated Obligations incurrence test, (A) in the case of the additional Senior Obligations incurrence test, if at the time of the issuance of such Senior Obligations a certificate of an Authorized City Representative is delivered showing that the sum of Debt Service in each Fiscal Year on all Senior Obligations Outstanding after the issuance of the refunding Senior Obligations will not exceed Debt Service in each corresponding Fiscal Year on all Senior Obligations Outstanding prior to the issuance of such refunding Senior Obligations, or (B) in the case of the additional Subordinated Obligations incurrence test, if at the time of the issuance of such Subordinated Obligations a certificate of an Authorized City Representative is delivered showing that the Debt Service in each Fiscal Year on all Senior Obligations and Subordinated Obligations Outstanding after the issuance of the refunding Subordinated Obligations will not exceed Debt Service in each corresponding Fiscal Year on all Senior Obligations and Subordinated Obligations Outstanding prior to the issuance of such refunding Subordinated Obligations; or (ii) then-Outstanding Balloon Indebtedness, Tender Indebtedness or Variable Rate Indebtedness, but only to the extent that the principal amount of such indebtedness has been put, tendered to or otherwise purchased by a standby purchase or other liquidity facility relating to such indebtedness.

For additional information relating to the terms and conditions for the issuance of the Senior Obligations or the Subordinated Obligations under the Installment Purchase Agreement, see “APPENDIX A—SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—INSTALLMENT PURCHASE AGREEMENT—Additional Bonds.”

More Restrictive Incurrence Requirements Required by SRF Loans. The obligation of the City to make all payments required by the Existing Senior SRF Loans to the State Water Resources Board is a Senior Obligation under the Installment Purchase Agreement and payable solely from Net System Revenues. The obligation of the City to make all payments required by the Existing Subordinated SRF Loans to the State Water Resources Board is a Subordinated Obligation under the Installment Purchase Agreement and payable solely from Net System Revenues.

Pursuant to the Existing Senior SRF Loans, the City may incur additional Senior Obligations (the payments of which are senior or prior in right to the payment by the City of its obligations required by the Existing Subordinated SRF Loans, and all other contracts between the City and the State Water Resources Board that, by their terms, expressly provide therefor), provided that (a) Net System Revenues are equal to at least (i) 1.2 times the maximum annual debt service for the then-Outstanding Senior Obligations, and (ii) 1.1 times the maximum annual debt service for the then-Outstanding Senior Obligations and Subordinated Obligations, and (b) the Senior Obligations (except Additional Senior SRF Loans) proposed to be incurred have an “A” rating (without regard to any refinement or gradation of such rating category by a numerical modifier or otherwise) or better by at least two nationally recognized rating agencies (the “SRF Senior Obligation Rating Requirement”). The requirements for the incurrence of Senior Obligations set forth in the Existing Senior SRF Loans are in addition to the requirements set forth in the Installment Purchase Agreement, which are described above.

Pursuant to the Existing Subordinated SRF Loans, the City may incur additional Senior Obligations; provided that (a) the SRF Senior Obligation Rating Requirement is satisfied; and (b) the City fixes, prescribes and collects rates and charges for Wastewater Service which will be sufficient to ensure

that Net System Revenues to pay the obligations required by the Existing Subordinated SRF Loans are at least 1.10 times the current year's debt service on the Existing Subordinated SRF Loans.

The covenants in the agreements for the SRF Loans are not made for the benefit of the Owners of the Series 2024A Bonds, and Owners of Series 2024A Bonds do not have a right to enforce such covenants.

Annual Debt Service Requirements on Senior and Subordinated Obligations

Table 2 below sets forth the amounts required in each Fiscal Year for the payment of principal of and interest on the Series 2024A Bonds, the Outstanding Senior Obligations (which include the outstanding Series 2015 Bonds, Series 2016 Bonds, and Existing Senior SRF Loans), the Series 2022 Bonds and the Existing Subordinated SRF Loans. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2024A BONDS." [to be updated by July 8 with any additional SRF debt service due to disbursements that occurred in June]

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TABLE 2
DEBT SERVICE ON ALL OUTSTANDING OBLIGATIONS
(as of July 1, 2024)

Fiscal Year Ending June 30	Total Senior Obligations Debt Service ¹	Existing Subordinated Obligations Debt Service ²	Series 2024A Bonds			Total Debt Service on Subordinated Obligations	Total Debt Service ⁴
			Principal	Interest	Total Principal and Interest		
2025	\$ 86,042,994	\$ 11,638,778				\$ 11,638,778	\$ 97,681,772
2026	66,949,499	11,639,278				11,639,278	78,588,777
2027	68,967,791	10,943,750				10,943,750	79,911,541
2028	52,132,831	10,939,750				10,939,750	63,072,581
2029	52,215,498	10,943,250				10,943,250	63,158,748
2030	37,142,087	10,938,500				10,938,500	48,080,587
2031	37,227,147	10,940,500				10,940,500	48,167,647
2032	37,312,226	10,938,500				10,938,500	48,250,726
2033	37,395,624	10,942,250				10,942,250	48,337,874
2034	36,483,081	10,941,000				10,941,000	47,424,081
2035	35,901,170	10,939,500				10,939,500	46,840,670
2036	35,105,255	10,942,250				10,942,250	46,047,505
2037	32,967,978	10,938,500				10,938,500	43,906,478
2038	32,654,390	10,943,000				10,943,000	43,597,390
2039	32,744,685	10,939,750				10,939,750	43,684,435
2040	7,899,669	10,938,500				10,938,500	18,838,169
2041	7,899,669	10,938,500				10,938,500	18,838,169
2042	7,899,669	10,939,000				10,939,000	18,838,669
2043	7,899,669	10,939,250				10,939,250	18,838,919
2044	7,899,669	10,943,500				10,943,500	18,843,169
2045	7,899,669	10,940,750				10,940,750	18,840,419
2046	7,899,669	10,940,500				10,940,500	18,840,169
2047	7,899,669	10,941,750				10,941,750	18,841,419
2048	7,899,669	10,943,500				10,943,500	18,843,169
2049	7,899,669	10,939,750				10,939,750	18,839,419
2050	7,899,669	10,939,750				10,939,750	18,839,419
2051	7,899,669	10,942,250				10,942,250	18,841,919
2052	7,899,669	10,941,000				10,941,000	18,840,669
2053	7,899,669	—				—	7,899,669
2054	7,899,669	—				—	7,899,669
2055	4,929,116	—				—	4,929,116
2056	2,752,283	—				—	2,752,283
Total ³	<u>\$807,418,690</u>	<u>\$307,736,556</u>				<u>\$307,736,556</u>	<u>\$1,115,155,246</u>

Source: Department of Debt Management, City of San Diego

¹ Debt service on the Series 2015 Bonds, the Series 2016 Bonds and the Existing Senior SRF Loans as of July 1, 2024. The Existing Senior SRF Loans reflects the debt service attributable to the amount drawn on a respective SRF loan if the project related to the respective SRF loan is still in its construction phase.

² Debt service on the Series 2022 Bonds and the Existing Subordinated SRF Loans as of July 1, 2024. Does not include the 2022 Subordinated Revolving Loans.

³ Amounts may not total due to rounding.

⁴ Debt service does not include the interest costs of the \$33,400,000 million of principal amount of 2022 Subordinated Revolving Loans outstanding as of July 1, 2024, on the Revolving Credit Agreement. The interest to be paid on the principal outstanding is 80% of Secured Overnight Financing Rate (SOFR) plus 0.31%. The rate is reset weekly.

THE WASTEWATER SYSTEM

General

The “Wastewater System” consists of two sub-systems, the Metropolitan Sub-System (the “Metropolitan Sub-System” or the “Metropolitan System”) and the Municipal Sub-System (the “Municipal

Sub-System” or the “Municipal System”). The Municipal Sub-System is a municipal sewage collection system for the City’s residents and consists of all elements required for the collection and conveyance of wastewater generated by the service area. The Municipal Sub-System consists of the piping and pumping facilities that service the City and ultimately discharge into the Metropolitan Sub-System. The Metropolitan Sub-System is a regional sewage treatment and disposal system that serves the City and various other public agencies, including cities situated within common drainage areas. The Metropolitan Sub-System includes all the facilities associated with treatment and disposal within the San Diego metropolitan area. The Metropolitan Sub-System treats and disposes of the wastewater generated by the City and certain amounts from 12 other cities and districts, including Chula Vista, Coronado, Del Mar, El Cajon, Imperial Beach, La Mesa, National City and Poway, the Lemon Grove Sanitation District, the Otay Water District, the Padre Dam Municipal Water District, and the County of San Diego (on behalf of Winter Gardens Sewer Maintenance District and the Alpine Lakeside and Spring Valley Sanitation Districts) (each such city or district a “Participating Agency,” and collectively referred to as the “Participating Agencies”). The Metropolitan Sub-System was designed to provide sufficient capacity to accommodate a regional population in excess of 2.7 million, reflecting ongoing water conservation trends. The communities and agencies served by the Wastewater System form the second largest metropolitan area in the State, surpassed only by the Los Angeles metropolitan areas. The map that follows the Table of Contents of this Official Statement sets forth the sewer service area boundaries of the Wastewater System. As of June 30, 2023, the Metropolitan Sub-System served a population of approximately 2.4 million. Additionally, as of June 30, 2023, the Wastewater System had approximately 275,000 customers, 12 Participating Agencies and approximately \$370 million in sewer service charge revenues. The Wastewater System is managed by the Department and covers approximately 450 square miles, including most of the City, and stretches from Del Mar and Poway to the north, Alpine and Lakeside to the east, and south to San Ysidro, California. The service area within the City is serviced by the Municipal Sub-System, and the service area for the Participating Agencies is serviced by the Metropolitan Sub-System.

Governance and Management of Wastewater System

General. The Wastewater System is owned by the City and operated by the City through the Department. The Department is comprised of several branches that are funded by both the Sewer Revenue Fund and the Water Utility Fund, depending upon which system benefits from the tasks completed. Though the different branches cover all the tasks required by the Department, separate accounting is kept for each fund. The Department ultimately reports to the Mayor, who has operational authority over the Department and appoints managers and directors who are charged with the operations of the Department. The City Council of the City (the “City Council”) has the authority to approve the Department’s budget, to set rates and charges of the City’s utilities, including the Wastewater System, and to approve execution of certain contracts. For information on how the City sets the rates and charges of the Wastewater System see “—Oversight—*Mayor and City Council*” and “WASTEWATER SYSTEM FINANCIAL OPERATIONS—Establishment, Calculation and Collection of Sewer Service Charge Revenue and Treatment Plant Services Revenue—*Sewer Service Charge Revenue*.” In accordance with the provisions of the City Charter, the Wastewater System funds are separate from the City’s General Fund.

Officers. The current Senior Executive officers managing the Department and their respective biographies are as follows:

Kris McFadden. Mr. McFadden serves as a Deputy Chief Operating Officer and as of March 2023 oversees the following departments: Public Utilities, Transportation, and Stormwater. Prior to March he oversaw Development Services, Engineering & Capital Projects, Environmental Services, Planning, Special Capital Projects, Sustainability & Mobility, and Transportation since June of 2022. Mr. McFadden joined the City of San Diego in April 2008 as Deputy Director in the Storm Water Department and was promoted to oversee the Transportation & Storm Water Department in 2014. He has worked for the City of

San Diego for over 16 years and has over 25 years of government experience. Before joining the City, Mr. McFadden worked for the City of Fort Lauderdale where he was responsible for all environmental regulations related to Storm Water, Water, and Wastewater. Before this time, Mr. McFadden worked for the State of Florida as an Environmental Specialist, where he focused on water quality and 401 Certification programs. Mr. McFadden has a Bachelor's Degree in Biology from Allegheny College, a Master's Degree in Biology from Florida Atlantic University, and a Master's Degree in Marine Affairs & Policy from the University of Miami.

Juan Guerreiro. Mr. Guerreiro currently serves as the Director for the Department. Mr. Guerreiro was previously the Executive Assistant Director for the Department overseeing the day-to-day operations of the Department. He started with the City in 2016 as an Assistant Deputy Director for the Wastewater Treatment & Disposal Division, and since then has served as Deputy Director and Assistant Director within the Department. He has over 19 years of experience throughout the San Diego region in water and wastewater operations, management, and training. Mr. Guerreiro has a Bachelor of Arts degree from San Diego State University in Public Administration, and a Master of Science degree from the University of Oxford in Water Science, Policy and Management.

Lisa Celaya. Ms. Celaya serves as the Executive Assistant Director for the Department overseeing day to day operations and directly oversees Customer Support Division. Over the last three years, Lisa has served as an Assistant Director in the Department for the Business Support Branch and most recently for the Water Delivery Branch. In addition to over 16 years of experience with the City in finance and analytical roles, Ms. Celaya spent nearly seven years with the San Diego County Water Authority as the Financial Resources Manager. She earned a Bachelor of Science in Business Administration from San Diego State University and a Master of Public Administration from National University.

Doug Campbell. Mr. Campbell serves as the Interim Assistant Director of the Water Recovery Branch which includes the Wastewater Collection Division and the Wastewater Treatment & Disposal Division. These divisions are responsible for the operation and maintenance of the Municipal Collection System and operation of the wastewater treatment plants. Mr. Campbell has over 24 years of experience in the water, wastewater, and potable reuse industry, including serving as the Laboratory Director of the City of San Diego Water Quality Laboratory, Assistant Deputy Director over the City's drinking water treatment plants, and Deputy Director over the City's Pure Water Operations division. He earned his Bachelor of Science in Earth Sciences – Chemistry and Master of Science in Earth Sciences from the University of California San Diego.

Amy Dorman. Ms. Dorman is the Assistant Director over the Pure Water Program, which is responsible for the planning, construction and operations of both Phase 1 and Phase 2 of the Pure Water Program. Previously, Amy Dorman served as the Deputy Director over the Pure Water Program operations and has played a critical role in the City's water and potable reuse efforts stretching over 30 years. She earned her Bachelor of Science in Mechanical Engineering from the University of California, Berkeley, and a Master of Business Administration from San Diego State University and is a professional engineer in the State of California.

Yajaira Gharst. Ms. Gharst serves as the Interim Assistant Director of the Business Support Branch. In this capacity she oversees the day-to-day operations of all Business Support activities which include the Employee Services & Quality Assurance ("ESQA"), Finance, and Innovation & Technology Divisions. Ms. Gharst's responsibilities include financial forecasts, rate setting for the water and wastewater enterprise systems, budgeting, accounts payable, grants management, innovative and technological solutions, security, training, human resources, contracts management, procurement, and records management for the Department. Prior to her current role, she served as the Interim Deputy Director in the Department overseeing the Employee Services & Quality Assurance Division where she was responsible

for the oversight, management, and direction of the division. Ms. Gharst is a Certified Public Manager. She has over 15 years of experience in city and county government. She earned a Bachelor of Arts in Sociology from California State University of San Marcos and a Master of Public Administration from National University.

Drew Kleis. Mr. Kleis is serving as the Assistant Director of the Water Delivery Branch. The Water Construction & Maintenance Division is responsible for the management, administration, planning, and technical support associated with the maintenance and construction activities for the water distribution system, backflow preventers, fire hydrants, isolation valves, and metered service connections including meter reading. It also provides capital improvement program support for the City's replacement of aging water distribution pipelines. The Water System Operations Division is responsible for the management, administration, planning, and technical support associated with the operations and maintenance of the nine reservoirs, three water treatment plants, and the water distribution system. Prior to his role, Mr. Kleis served as the Deputy Director of the City's Storm Water Department and has 21 years of experience in storm water planning and management. He earned his Bachelor of Arts in Environmental Studies from the University of California, Santa Barbara and a Master of City & Regional Planning from California Polytechnic State University, San Luis Obispo.

Orelia DeBaal. Ms. DeBaal is serving as the Assistant Director of the Technical Support Branch. The Technical Support Branch is responsible for determining the quality of the City's source water, drinking water, recycled water, wastewater, and the marine environment; administering the Industrial Wastewater Control Program to regulate local industry discharges; overseeing the Department's NPDES permits; managing the dam safety program; conducting air and storm water compliance audits for Department facilities; and planning, engineering, and capital program management that ensures new facilities and upgrades for municipal potable water, raw water, reclaimed water, and regional wastewater systems are implemented to meet regulatory standards in a fiscally and technically sound manner. Prior to this role, she served as the Deputy Director at the County of San Diego Department of Public Works and has over 20 years of experience in public works operations, regulatory compliance, and program management. She earned her Bachelor of Arts in International Studies at the University of Washington.

Oversight.

IROC. The Independent Rates Oversight Committee ("IROC") was established by City ordinance to oversee and advise on various aspects of the water system (the "Water System") and the Wastewater System. There are 11 members on IROC, appointed by the Mayor and confirmed by the City Council, and two ex-officio members, one representing and appointed by the Metropolitan Wastewater Joint Powers Authority, and one representing and appointed by the ten-member City representatives to the San Diego County Water Authority. IROC serves as an official advisory body to the Mayor and the City Council on policy issues relating to the oversight of Department operations; their recommendations are taken into consideration but are not binding on the Department.

Mayor and City Council. The Mayor proposes and the nine-member City Council has the authority to approve annual budgets, to set rates and charges of the City's utilities, including the Wastewater System, and to approve execution of certain contracts. The City Council and the City Council's Independent Budget Analyst review quarterly financial monitoring reports and also perform reviews of specific programs, capital projects, and contracts.

Metro JPA. The Metropolitan Joint Powers Authority ("Metro JPA") is a coalition of municipalities and special districts that share in the use of the City's regional wastewater facilities. The mission of the Metro JPA is to create an equitable partnership with the City Council and Mayor on regional wastewater issues. Through stakeholder collaboration, open dialogue, and data analysis, the partnership seeks to ensure

fair rates for Participating Agencies, concern for the environment, and regionally balanced decisions. The Metro JPA member agencies are the cities of Chula Vista, Coronado, Del Mar, El Cajon, Imperial Beach, La Mesa, National City and Poway; the Lemon Grove Sanitation District; the Padre Dam Municipal and Otay Water Districts; and the County of San Diego (on behalf of the Winter Gardens Sewer Maintenance District, and the Alpine, Lakeside and Spring Valley Sanitation Districts). Although, the City has the right to make all decisions with respect to the planning, design, construction, operation and maintenance of the Metropolitan Sub-System, decisions on issues that impact the Participating Agencies are made with the advice of the Metro JPA.

Metropolitan Sub-System Facilities [Bracketed items in this section to be updated after June 30, 2024 with FY24 final numbers]

General. The current Metropolitan Sub-System infrastructure, with the exception of the South Metropolitan Interceptor Pipeline, is located within the jurisdictional boundaries of the City. The map that follows the Table of Contents of this Official Statement shows the geographic concentration of the Metropolitan Sub-System’s infrastructure and identifies the major trunk lines that service the Participating Agencies. The Metropolitan Sub-System’s infrastructure currently consists of three wastewater treatment plants, two ocean outfalls, a biosolids center, four large pump stations (Pump Station No. 1 and Pump Station No. 2, that began operation in 1963; the Grove Avenue Pump Station, that began operations in 2002 and the Otay River Pump Station, added to the Metropolitan Sub-System in 2003), force mains and gravity flow interceptors. The Metropolitan Sub-System infrastructure also includes two interceptors, which collect and route wastewater to the City’s Point Loma Wastewater Treatment Plant (the “Point Loma Plant”) from the Municipal Sub-System and the Participating Agencies. Additionally, the Metropolitan Sub-System includes 98 permanent flow monitoring stations that are utilized for multiple purposes, including strength-based billing, facility planning, sewer modeling, criticality evaluation, infiltration/inflow analysis and spill detection. The City is required to maintain certain permits and waivers with respect to the Wastewater System under federal and State law. If existing permits and waivers are not maintained, the City could incur costs in addition to those currently included in the Department’s budgets and projections. See “WASTEWATER SYSTEM REGULATORY REQUIREMENTS—Treatment of Sewage.”

The City has the right to make all decisions with respect to the planning, design, construction, operation and maintenance of the Metropolitan Sub-System. Decisions on issues that impact the Participating Agencies are made with the advice of the Metro JPA. Although the Metro JPA may make recommendations to the City, the City retains ownership and decision-making authority over all elements of the Metropolitan Sub-System, including the capital improvements for the Metropolitan Sub-System.

The following is a summary description of the Metropolitan Sub-System’s current facilities and their respective primary functions.

Point Loma Plant. The Point Loma Plant began operation in 1963. The site is part of the Fort Rosecrans military reservation and was acquired by the City from the U.S. Department of the Interior, Bureau of Land Management. The Point Loma Plant currently operates under a National Pollutant Discharge Elimination System (“NPDES”) Permit Order Number CA0107409 (the “Point Loma Discharge Permit”). The Point Loma Plant is the principal treatment facility in the Metropolitan Sub-System, with a permitted treatment capacity of 240 mgd flow with 432 mgd peak wet weather flow. During Fiscal Year 2024, the Point Loma Plant had an average daily flow rate of [149.6] mgd, including return flows from the North City Water Reclamation Plant (the “North City Plant”), centrate from the Metropolitan Biosolids Center, and sludge from the South Bay Plant. The average daily flow rate at the Point Loma Plant accounted for approximately 88% of the wastewater flow generated within the Metropolitan Sub-System. Almost all the inflow to the Point Loma Plant is conveyed through the Metropolitan Sub-System’s Pump Station No. 2, which is the terminus for the North Metropolitan Interceptor Pipeline and South Metropolitan Interceptor

Pipeline. Flow from the North City Plant which is not distributed to recycled water users is returned to the sewage conveyance system and is treated at the Point Loma Plant. In addition, the Point Loma Plant serves as a standby facility for the North City Plant and the South Bay Plant in the event one or both of these facilities are taken off-line for maintenance purposes. Treated wastewater from the Point Loma Plant is discharged into the ocean through the Point Loma Ocean Outfall.

The Point Loma Plant is currently permitted to discharge up to 240 mgd of chlorinated advanced primary treated wastewater to the ocean via the Point Loma Outfall in accordance with a waiver for modified secondary treatment standards of the Clean Water Act, which was originally received by the City in 1995. See “WASTEWATER SYSTEM REGULATORY REQUIREMENTS—Treatment of Sewage—*Treatment Waivers for Point Loma Plant.*”

Operations at the Point Loma Plant are monitored and controlled from a distributed, computer-based control system located in the Point Loma Plant’s control center. Local control stations are also strategically located around the Point Loma Plant and can be used to access the entire plant control system.

Presently, the Point Loma Plant is capable of removing 85% to 92% of total suspended solids (“TSS”). The Point Loma Plant has increased its TSS removal rates through operational improvements of its chemical treatment processes. The wastewater treatment process currently employed at the Point Loma Plant consists of advanced chemical primary treatment and a digester gas utilization facility. Dewatering of sludge is provided at the Metropolitan Biosolids Center. Methane gas produced during the digestion is fed to a City-owned cogeneration plant where it is converted to electricity and used to provide power to operate the Point Loma Plant. Excess gas not converted to energy is directed to a third party, under the terms of an agreement to polish the gas and sell the gas to the local utility via an existing utility pipeline. See “*Metropolitan Biosolids Center*” below.

North City Plant. The North City Plant is a sewage treatment facility that is capable of processing sewage to both secondary and tertiary treatment levels. The North City Plant commenced operations in 1997 and is located adjacent to Interstate 805 and Miramar Road in the northwestern quadrant of the City. The North City Plant operates pursuant to “Waste Discharge and Water Recycling Requirements for the Production and Purveyance of Recycled Water,” Order No. 97-03, Addendum No. 1, which was adopted by the Regional Water Quality Control Board on June 11, 2003 (the “North City Plant Permit”). The North City Plant Permit, as amended, is effective until it is revoked or further modified. See “WASTEWATER SYSTEM REGULATORY REQUIREMENTS.”

The North City Plant receives influent through the North City Tunnel Connector and from the Peñasquitos Pump Station. The North City Plant process includes screening, grit removal, settling, flow equalization, activated sludge processing, tertiary filtration and effluent disinfection. The Metropolitan Biosolids Center (described below) digests and dewateres the sludge that is produced at the North City Plant. Support facilities of the North City Plant include an administration building that houses the operation and maintenance functions and a chemical building. The North City Plant has a permitted capacity of 30 mgd average daily flow. Per the requirements of a grant the City received from the Environmental Protection Agency (the “EPA”) for construction of the North City Plant, flows into the North City Plant must constitute a minimum of 75% of the plant’s design capacity (at least 22.5 mgd). In Fiscal Year 2011, the Department notified the EPA that it would be temporarily reducing total flows from 22.5 mgd to 15 mgd to meet the actual demand for recycled water. The EPA has acknowledged this reduction and the City’s good faith effort to maximize recycling and beneficial reuse. In Fiscal Year 2024, the North City Plant operated at an average flow rate of approximately 14.8 mgd and produced approximately [] mgd of recycled water for distribution to users through the Northern Water Distribution System. The North City Plant also uses approximately [1] mgd of recycled water for plant processes. The City still maintains its commitment to maximize recycling and beneficial reuse, and is expanding the North City Plant’s total wastewater treatment

capacity up to [52] mgd with the implementation of the Pure Water Program. The North City Plant also is capable of providing treatment beyond the tertiary level through the demineralization of a portion of the effluent, to reduce total dissolved solids (“TDS”) to meet recycled water customers’ needs. The North City Plant limits its production of recycled water to meet demand. Excess treated effluent is returned to the wastewater system for conveyance to the Point Loma Plant and ocean outfall. In Fiscal Year 2024, approximately [] mgd was returned to the wastewater system. See “*Point Loma Outfall*” below. The solids that are removed during the sewage treatment process, either by sedimentation or biological oxidization, are pumped to the Metropolitan Biosolids Center for further treatment. See “*Metropolitan Biosolids Center*” below.

As of June 30, 2024, the North City Plant produced recycled water that served [] retail and four wholesale meters. Three of the wholesale meters serve the Olivenhain Municipal Water District, and the remaining wholesale meter serves the City of Poway. Recycled water also is used for industrial processing, cooling towers, construction site dust suppression and soil compaction, decorative fountains and toilet and urinal flushing. Revenues from the sale of recycled water are collected by the Department for deposit in the Water Revenue Fund and used to pay for the cost of the recycled water distribution system, then operations and maintenance cost for tertiary treatment for reclaimed water (non-potable) with any remaining revenue being transferred to the Sewer Revenue Fund. See “WASTEWATER SYSTEM CAPITAL IMPROVEMENT PROGRAM— Capital Improvement Projects—*Pure Water Program*” for additional information on the Wastewater System’s production of recycled water.

South Bay Plant. The South Bay Plant commenced operations in 2002. This plant, located on Dairy Mart Road north of the International Border with Tijuana, Mexico, is a sewage treatment facility that is capable of processing sewage to both secondary and tertiary treatment levels. The South Bay Plant currently operates under a NPDES Permit Order Number R9-2021-0011, as amended by Order Number R9-2014-0071 (the “South Bay Plant Discharge Permit”), for the treatment and disposal of wastewater through the shared South Bay Ocean Outfall (the “South Bay Outfall”). Additionally, the South Bay Plant has been issued Recycled Water Permit No. 2000-203 (the “South Bay Recycled Water Permit”), which authorizes water recycling at the South Bay Plant. The South Bay Recycled Water Permit is effective until it is revoked. See “WASTEWATER SYSTEM REGULATORY REQUIREMENTS.”

The South Bay Plant has a permitted capacity of 15 mgd average daily flow. For Fiscal Year 2024 the South Bay Plant operated at an average flow rate of approximately [6.5] mgd. The South Bay Plant produced an average of [] mgd of recycled water that was distributed to one wholesale and six retail meters. The wholesale connection is to the Otay Water District, and, contracted at the retail rate, is pursuant to a take or pay recycled water service agreement for up to [] mgd. Revenues from the sale of recycled water are collected by the Department for deposit in the Water Revenue Fund and then transferred into the Sewer Revenue Fund.

The South Bay Plant limits its production of recycled water to meet demand. The South Bay Plant uses a phased tertiary process that allows the tertiary process to be bypassed when recycled water is not being produced, which increases efficiency and reduces plant operations and maintenance cost. Excess treated effluent is discharged to the South Bay Outfall for disposal. See “*South Bay Outfall*” below. However, during warmer periods of the year, almost the entire amount of wastewater treated at the South Bay Plant is reused. The South Bay Plant does not treat its own solids and cannot discharge its solids to the Metropolitan Biosolids Center directly. Primary sludge is pumped to the South Metropolitan Interceptor Pipeline and conveyed to the Point Loma Plant for further treatment and from there to the Metropolitan Biosolids Center for processing. See “*Point Loma Plant*” above and “*Metropolitan Biosolids Center*” below.

Point Loma Outfall. The Point Loma Outfall was constructed in 1963 to provide a method for disposal of all Point Loma Plant effluent. The original capacity of the 2.5 mile long, 108-inch diameter outfall has been estimated at 390 mgd under the original design configuration. The Point Loma Outfall Extension, a 2.0 mile extension of the original outfall, was completed in 1993, resulting in a 4.5-mile long outfall discharging treated sewage effluent at an approximate depth of 320 feet of water at the discharge point and a capacity of 432 mgd.

South Bay Outfall. The South Bay Outfall discharges flow from the South Bay Plant and the International Boundary and Water Commission's South Bay International Treatment Plant (a treatment plant located in San Diego County that treats sewage originating in Tijuana, Mexico). The South Bay Outfall consists of a land portion running 3.3 miles and an ocean portion discharging 3.5 miles off the coast at a depth of 95 feet. The outfall is jointly owned by the City and the International Boundary and Water Commission. The City has a 40% ownership interest in the South Bay Outfall, or approximately 133 mgd of the peak flow capacity of 333 mgd.

Metropolitan Biosolids Center. The Metropolitan Biosolids Center is the City's regional biosolids processing facility that receives raw biosolids from the North City Plant and digested biosolids from the Point Loma Plant. The principal unit processes at the Metropolitan Biosolids Center are grit removal, centrifuge thickening, anaerobic digestion, and centrifuge dewatering. The facility produces Class-B dewatered biosolids, which are disposed of in a landfill and off-site by land application. Centrate, the liquids removed by thickening and dewatering centrifuges, is pumped north to the North City Plant where it is discharged to the sewer for treatment at the Point Loma Plant. Biogas from the Metropolitan Biosolids Center anaerobic digesters is collected by the City and conveyed to a cogeneration building (the "Cogeneration Building") where it fuels generators that produce electricity. The Cogeneration Building is owned and operated by wholly-owned affiliates of a private firm, OPAL Fuels. Those affiliates, Minnesota Methane San Diego LLC ("MMSD") and Miramar Energy LLC, run 6.4 megawatt and 3.2 megawatt generators, respectively. The generators run by MMSD produce electricity for both the Metropolitan Biosolids Center and the adjacent landfill (the "Miramar Landfill"), with the remainder being sold to San Diego Gas & Electric Company ("SDG&E"). Miramar Energy LLC's generators produce electricity for the United States Marine Corps at Miramar Marine Corps Air Station.

The Metropolitan Biosolids Center commenced operations in 1998 on a 39-acre site leased from the United States Navy within the Miramar Marine Corps Air Station located off Highway 52 in the north central portion of the City. The Metropolitan Biosolids Center is regulated under the Point Loma Discharge Permit because all fluid waste streams from the Metropolitan Biosolids Center are sent to the Point Loma Plant for treatment. See "WASTEWATER SYSTEM REGULATORY REQUIREMENTS—Treatment of Sewage." The lease with the United States Navy (the "Metropolitan Biosolids Lease") expires in 2045. The United States Navy may terminate the Metropolitan Biosolids Lease during its term without the payment of any compensation to the City only in the event of a national or military emergency or with cause if the City fails to cure any breach of the lease within 30 days' notice from the United States Navy. In the event the Metropolitan Biosolids Lease is terminated during its term by the United States Navy, the City would be obliged to vacate the site and relocate this facility elsewhere. The City believes that the Navy's reliance on the landfill gas and cogeneration system, as well as its interest in not assuming the responsibility for landfill gas control and free trash disposal at the Miramar Landfill, makes the Navy's early termination of the Metropolitan Biosolids Lease unlikely.

The expansion of the North City Plant under the Pure Water San Diego Program is projected to increase raw biosolids flows and loadings to the Metropolitan Biosolids Center. To accommodate these increased raw biosolids flows and loadings, upgrades and improvements at the Metropolitan Biosolids Center will be necessary. The Metropolitan Biosolids Center improvements also include recommended

equipment replacements needed due to the age and condition of existing equipment and to provide adequate redundancy.

Interceptors. The Metropolitan Sub-System interceptors consist of two major branches, the South Branch and the North Branch, which meet at Pump Station No. 2. Interceptor capacities are adequate for current peak flows, and the City believes its model's capacity is consistent with all current regulations.

Customers of the Metropolitan Sub-System

The Metropolitan Sub-System provides “wholesale” treatment and disposal services to the City’s municipal customers and the Participating Agencies pursuant to the Regional Wastewater Disposal Agreement, which became effective in June 1998 (the “Regional Wastewater Disposal Agreement”).

The Regional Wastewater Disposal Agreement was amended and restated on July 23, 2021 (the “Amended and Restated Regional Wastewater Disposal Agreement”). Some of the primary changes incorporated into the Amended and Restated Regional Wastewater Disposal Agreement include: Cost allocation of Phase 1 of the Pure Water Program allocating costs and future revenue from the sale of potable water reuse between wastewater and water utilities; allocating Wastewater System CIP costs based on projected 2050 flow and strength capacity of contributing members, and a \$1.8 billion limit on future wastewater expenditures, limiting exposure to wastewater customers for costs associated with the Pure Water Program. See “WASTEWATER SYSTEM CAPITAL IMPROVEMENT PROGRAM— Capital Improvement Projects—*Pure Water Program*.” The Amended and Restated Regional Wastewater Disposal Agreement also opened up future negotiations on alternative billing methodologies for Metropolitan Sub-System expenses accounting for decreases in average flow but increases in the number of peak flow events, the inclusion of inspection and monitoring programs for industrial discharges, and incorporating the East County Advanced Water Purification (the “ECAWP”) and other future non-Metropolitan Sub-System secondary, tertiary, or advanced wastewater treatment facilities upstream of Metropolitan Sub-System facilities. See “—*Recent Developments Regarding the Participating Agencies*” below for further discussion on the ECAWP.

Pursuant to the Amended and Restated Regional Wastewater Disposal Agreement, the Participating Agencies are required to pay their respective share of planning, design and construction of Metropolitan Sub-System facilities and costs relating to the operation and maintenance of the Metropolitan Sub-System by the City. These aggregate costs have consistently constituted approximately 33% of the total Metropolitan Sub-System’s operation and maintenance and capital improvement program costs. Annual costs attributable to the Participating Agencies include those associated with administration, operation, maintenance, replacement, annual debt service costs and other periodic financing costs and charges, capital improvement, insurance premiums, claims payments and claims administration costs of the Metropolitan Sub-System. Additionally, pursuant to an administrative protocol between the Department and the Participating Agencies, Participating Agencies are required to (i) fund a 45-day operating reserve held by the City, and (ii) make annual contributions towards the 1.20 times debt service coverage requirement on Senior Obligations that were incurred to finance improvements to the Metropolitan Sub-System. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2024A BONDS—Rate Covenant.”

The Participating Agencies have historically paid charges due and payable under the Amended and Restated Regional Wastewater Disposal Agreement in a timely manner. The Participating Agencies may only dispute amounts owed after payment of the amounts set forth in their respective invoices from the City. Between Fiscal Years 2019 and 2023, the Department received, on average, approximately \$86.5 million in System Revenues per Fiscal Year from the Participating Agencies. See “WASTEWATER SYSTEM FINANCIAL OPERATIONS” for additional information on the charges collected from the Participating Agencies.

Capacity Rights and Actual Flow from Participating Agencies. During Fiscal Year 2023, total average daily sewage flow from the Participating Agencies was approximately 55 mgd, which was approximately 63% of the total capacity rights that have been granted to the Participating Agencies. The Participating Agencies have capacity rights of approximately 88 mgd. None of the Participating Agencies are currently utilizing all of their capacity rights for sewage treatment and disposal.

The following Table 3 sets forth for each Participating Agency and the City their respective capacity rights, the percentage of total capacity represented by the respective capacity rights and average daily flow for the Fiscal Year ended June 30, 2023.

TABLE 3
CITY AND PARTICIPATING AGENCIES FLOW AND CAPACITY RIGHTS
Fiscal Year Ended June 30, 2023

Participating Agencies	Estimated Population ¹	Capacity Rights (in Million Gallons per Day)	% of Total Capacity	Average Flow (Million Gallons per Day)	% of Total Average Flow
City of Chula Vista	280,007	20.864	8.18%	17.665	10.89%
City of Coronado	26,370	3.250	1.28	1.376	0.85
City of Del Mar ²	4,477	0.876	0.34	(0.006)	0.00
City of El Cajon	110,000	10.915	4.28	8.083	4.98
City of Imperial Beach	28,079	3.755	1.47	2.069	1.28
City of La Mesa	61,700	6.993	2.74	4.809	2.97
City of National City	64,308	7.487	2.94	4.112	2.54
City of Poway	43,263	5.894	2.31	2.623	1.62
San Diego County/Spring Valley Sanitation Districts ³	215,000	17.503	6.86	9.665	5.96
Lemon Grove Sanitation District	26,700	3.027	1.19	1.996	1.23
Otay Water District	5,450	1.287	0.51	0.288	0.18
Padre Dam Municipal Water District	50,100	6.225	2.44	2.812	1.73
Subtotal	915,454	88.076	34.54%	55.493	34.23%
City of San Diego	1,447,865	166.924	65.46%	106.690	65.77%
Total	2,363,319	255.000	100.00%	162.182 ⁴	100.00%

¹ Participating Agencies provided population figures for their respective agencies from information provided by the San Diego Association of Governments (SANDAG). Population for the City of San Diego is from information provided by the California Department of Finance.

² Flows from the City of Del Mar are being diverted to the San Elijo Plant and are only sent to the City during maintenance or in the event of an emergency. Flows are essentially zero, however the negative flow number reflects calculations based on actual monthly meter readings as well as estimated flows for two communities based on the number of Equivalent Dwelling Units (“EDUs”).

³ These facilities reflect the combined East Otay, Lakeside-Alpine, Winter Gardens, and Spring Valley Sanitation Districts.

⁴ Excludes flow through plants that are not part of the Metropolitan Sub-System - Escondido Plant and Solana Beach (which is serviced by the San Elijo Plant).

Sources: Participating Agencies; and Public Utilities Department, City of San Diego.

Historical Metropolitan Wastewater System Flow

Over the past ten years, the Department has seen relatively stable wastewater flows, with flows decreasing due to ongoing water conservation efforts (consumers upgrading to high efficiency appliances including toilets, dishwashers, and washing machines, etc.) and flows increasing due to population growth and spikes in wet weather (as seen in Fiscal Year 2023). The Department projects that the aggregate overall wastewater flows will slightly increase over the next ten years as a result of the expected population growth. Table 4 below sets forth total annual system flow through the Wastewater System (including the Point Loma Plant and the South Bay Plant) and through the City of Escondido to the Escondido Plant and the City of Solana Beach to the San Elijo Plant, and total annual recycled water flow through the North City

Plant for Fiscal Years 2014 through 2023. See “*Additional Contractual Capacity to the Escondido Plant and the San Elijo Plant*” for more details.

TABLE 4
WASTEWATER SYSTEM
TOTAL ANNUAL FLOW¹
Fiscal Years Ended June 30, 2014 through June 30, 2023
(in Million Gallons)

Fiscal Year Ended June 30	City Flow Through Loma Plant	Participating Agency Flow Through Loma Plant	City Flow Through Escondido Plant²	City Flow Through San Elijo Plant²	Recycled Water Through North City Plant	City Flow Through South Bay Plant	Total System Flow³	Average Million Gallons Per Day For The Year
2014	34,378	19,366	935	32	2,375	2,919	60,005	164
2015	33,321	18,224	896	32	2,232	2,851	57,556	158
2016	32,073	16,759	969	33	1,865	2,688	54,387	149
2017	34,110	18,029	1,108	33	2,068	2,752	58,099	159
2018	31,890	16,402	914	33	2,517	2,502	54,258	149
2019	35,090	17,724	978	33	2,181	2,336	58,342	160
2020	34,455	18,728	994	33	2,271	2,386	58,867	161
2021	32,051	18,408	842	33	2,718	2,384	56,435	152
2022	32,534	18,448	793	33	2,150	2,460	56,417	152
2023	35,127	19,499	844	33	2,210	2,361	60,073	171 ⁴

¹ The Wastewater System consists of the Metropolitan Sub-System (collects and treats the wastewater generated by the City and 12 other agencies) and the Municipal Sub-System (all elements required for the collection and conveyance of the wastewater generated by the City).

² The City does not treat flows through the Escondido Plant or the San Elijo Plant.

³ Total sewage flow collected at each facility does not include recycled flow to distribution system which is included in the 2023 ACFR statistical section (unaudited) Table 19 “OPERATING INDICATORS BY FUNCTION.”

⁴ Higher than average flows in Fiscal Year 2023 are correlated with atypically wet weather.

Source: Public Utilities Department, City of San Diego.

Disputes Regarding the Participating Agencies. The City is in ongoing negotiations with several of the Participating Agencies for payment of capital improvement projects on portions of the Municipal Sub-System through which wastewater from such Participating Agencies flows. The Participating Agencies are required to contribute to capital improvements to the Metropolitan Sub-System on a pay-as-you-go basis and by making annual debt service payments on Outstanding Obligations issued to fund such improvements based upon their respective allocable share of benefits derived from such improvements. In contrast to the Metropolitan Sub-System, Participating Agencies are only obligated to contribute to capital projects on the portions of the Municipal Sub-System they use.

The Department anticipates that overall Metropolitan Sub-System treatment costs will remain relatively unchanged since a large portion of those costs are fixed. Pursuant to the Amended and Restated Regional Wastewater Disposal Agreement, any Participating Agency may negotiate an agreement with the City to withdraw all flows from the Metropolitan Sub-System, which would require such withdrawing Agency to pay its proportionate share of any capital improvement costs (which include the Participating Agency’s proportionate share of financing costs associated with planning, design, construction or reconstruction wastewater facilities) associated with the Metropolitan Sub-System. The City and the Participating Agencies continue to explore and negotiate alternative billing structures that better represent the Metropolitan Sub-System’s expected decrease in daily average flows, while still needing to maintain

treatment capacity to handle peak wet weather flows, as well as waste associated with the production of potable water from wastewater flows.

Additionally, the City is in the process of negotiating certain wastewater transportation agreements between the City and the Participating Agencies that have expired. Transportation of wastewater through the Municipal Sub-System to the Metropolitan Sub-System is facilitated by 14 separate transportation agreements. The Participating Agencies and the City are responsible for the retail collection operations within their respective jurisdictions. The Participating Agencies transport collected sewage through large municipal trunk lines to the Metropolitan Sub-System. The Department receives approximately \$600,000 in wastewater transportation charges each Fiscal Year. The largest outstanding items with the expired agreements are reimbursement of past capital expenses incurred by the Municipal Sub-System from the Participating Agencies.

Recent Developments Regarding the Participating Agencies. The Padre Dam Municipal Water District (“Padre Dam Water District”) began operation of its Demonstration Plant for the new East County Advanced Water Purification (the “ECAWP”) program in March 2015, with the full ECAWP program scheduled to be complete between Fiscal Years 2026 and 2027. The ECAWP program is a partnership between four agencies: Padre Dam Municipal Water District, the City of El Cajon, portions of San Diego County (Lakeside/Alpine and Winter Gardens), and Helix Water District. In addition to providing a new local water supply to accommodate 30% of East County's drinking water demand, the ECAWP program will eliminate the need to send most of East County's average daily wastewater to the Point Loma Plant, where it is currently treated and then discharged into the ocean. In Fiscal Year 2023, the average flow through the Metropolitan Sub-System for the ECAWP program member agencies described above was 19.6 mgd, which represented approximately 35% of the total flow from the Participating Agencies. Several negotiated items in the Amended and Restated Regional Wastewater Disposal Agreement address how this project will impact future wastewater flows, including how these changes in flows affect the allocations of Pure Water Phase 1 capital costs, and future negotiations will address changes in billing methodology to fairly allocate the largely fixed costs of the Metropolitan Sub-System across all Participating Agencies. Absent any change in the current agreement, the reductions in flow to the Metropolitan Sub-System resulting from the ECAWP will shift cost to the other nine Participating Agencies and the City in proportion to the relative flows, chemical oxygen demand and suspended solids of the remaining wastewater and the Department expects that revenue from the Participating Agencies will remain above approximately \$80 million a year through Fiscal Year 2027. The projections described in “WASTEWATER SYSTEM FINANCIAL OPERATIONS—Financial Projections” herein account for the reduction in flow to the Metropolitan Sub-System as a result of the scheduled completion of the ECAWP and expects up to \$10 million in expenses will be supported by City customers that were previously supported by ECAWP members due to reduced flows. The exact impact will be determined based on the actual flows observed in each fiscal year as well as any changes currently being negotiated by the City and the Participating Agencies. See “RISK FACTORS—Wastewater System Demand.”

Additionally, the Amended and Restated Regional Wastewater Disposal Agreement provides that the City and the Participating Agencies negotiate in good faith regarding the disposal, treatment, and/or wastewater treatment residuals (solids, brine, and centrate) produced at any new non-Metropolitan Sub-System wastewater treatment facilities upstream of any City Pure Water Program facilities. To mitigate residual flows, the City sold the East Mission Gorge Pump Station to the ECAWP program and will construct a brine line to divert brine and centrate away from City Pure Water Program facilities. The City and the ECAWP executed an agreement regarding residuals management which allocated preliminary planning and environmental compliance costs, as well as addressing any outstanding issues related to capital infrastructure cost allocation. The East Mission Gorge Pump Station is a critical component of the ECAWP which will be retrofitted to divert 15 mgd of untreated wastewater from the member agencies to the ECAWP treatment facility, as well as continue to convey peak wet weather flows to the City's Metropolitan Sub-

System. The City expects additional costs will be identified as the ECAWP and the City continue to refine the final design and formally coordinate operations of both the ECAWP and Pure Water Facilities.

Municipal Sub-System Facilities

The Municipal Sub-System consists of approximately 3,000 miles of trunk sewers and collector mains, 74 small sewer pump stations, and three large pump stations, including Sewage Pump Station No. 64, that began operation in 1986, Sewage Pump Station No. 65, that began operation in 1997, and the Peñasquitos Pump Station, that began operation in 1997, serving approximately 275,000 accounts with connections to the sanitary wastewater system. In addition, several participating agencies utilize the City's Municipal Sub-System to transport waste generated in their jurisdiction for treatment in the Metropolitan Sub-System see "*—Disputes Regarding The Participating Agencies.*" Approximately 84% of these connections are from accounts relating to single family dwellings, 10% are from accounts relating to multi-family dwellings, and the remaining 6% are from accounts relating to commercial and industrial customers (these percentages include multiple accounts at some locations). On average, these accounts generate 99 mgd of wastewater which is conveyed by the Municipal Sub-System to the Metropolitan Sub-System for treatment and disposal. The Municipal Sub-System also includes 64 permanent flow monitoring stations which are utilized for multiple purposes, including strength-based billing, facility planning, sewer modeling, criticality evaluation, infiltration/inflow analysis and spill detection.

Additional Contractual Capacity to the Escondido Plant and the San Elijo Plant

Pursuant to a sewage disposal agreement with the City of Escondido entered into in 1972, up to 5 mgd of sewage emanating from the Rancho Bernardo sewer service area of the City may be treated at Escondido's Hale Avenue Resource Recovery Facility (the "Escondido Plant"). The Escondido Plant is not owned by the City and is not part of the Municipal Sub-System. [This agreement was scheduled to terminate in 2022, fifty years from the date on which sewage flow commenced through the Escondido Plant, and the City expects to execute its option for an unlimited number of 10-year extensions. The Escondido Plant, which can process up to 18 mgd of sewage, currently is treating approximately 3 mgd of flow from the City. The City of Escondido is considering options to increase its treatment capacity to accommodate expected population growth.] [To be confirmed by 6/30]

Pursuant to a sewage disposal agreement (the "Solana Beach Agreement") with the Solana Beach Sanitation District originally entered into in 1974, the City has the right to connect to sewer lines within the Solana Beach Sanitation District. Pursuant to the Solana Beach Agreement, the City may permit the connection to the sewage system of the Solana Beach Sanitation District of up to 300 equivalent dwelling units (one equivalent dwelling unit or "EDU" is equal to 280 gallons per day of wastewater flow for a single family residence), or 84,000 gallons per day, of sewage emanating from the portion of the City contiguous to Del Mar and Solana Beach to be treated at the San Elijo Water Reclamation Plant (the "San Elijo Plant"). The Solana Beach Sanitation District has agreed to allow the City to connect EDUs in excess of the 300 EDUs provided for in the Solana Beach Agreement to the District's system and the City currently connects approximately 337 EDUs. Sewage treated at the San Elijo Plant is disposed of through the San Elijo Ocean Outfall, which is owned by the City of Solana Beach and the Cardiff Sanitation District and operated by the Solana Beach Sanitation District, the Cardiff Sanitation District and the City of Escondido. The San Elijo Plant and the San Elijo Ocean Outfall are not owned by the City and they are not part of the Municipal Sub-System. The Solana Beach Agreement expires in 2033 and may be extended by mutual agreement by the parties.

WASTEWATER SYSTEM REGULATORY REQUIREMENTS

General

Wastewater System operations are subject to federal, State, and local environmental regulations that primarily address the quality of effluent that may be discharged from the Wastewater System, the disposal of sludge generated by the Wastewater System, and the nature of waste material (particularly industrial waste) discharged into the collection system. The federal regulations that have the most significant effect on the Wastewater System are the Clean Water Act (which is administered by the EPA, the State Water Resources Board and the Regional Water Quality Control Board), the federal Clean Air Act, and the federal Resource Conservation and Recovery Act. The Wastewater System is in compliance with the major elements of each of the foregoing regulations and other programs managed by the federal government and the State.

Collection of Sewage

The Clean Water Act and the NPDES permit system, including the Point Loma Discharge Permit and the South Bay Discharge Permit issued thereunder, set effluent limitations on the discharge of pollutants at treatment plants and generally prohibit the discharge of pollutants into navigable waterways. Such prohibited discharges from the collection system are also subject to injunctive or penalty proceedings by the Regional Water Quality Control Board.

The Clean Water Act prohibits the discharge of sewage to surface waters, including discharges as a result of sanitary sewer overflows (“SSOs”) into the collection system, except as authorized under an NPDES permit. The California Water Code has a broader interpretation of SSOs, to include waste discharges that could affect the quality of State waters, both surface and groundwater.

To provide a consistent, statewide regulatory approach to address SSOs, the State Water Resources Board adopted the Statewide General Waste Discharge Requirements for Sanitary Sewer Systems, Water Quality Order No. 2006-0003 on May 2, 2006 (the “Sanitary Sewer Order”). The Sanitary Sewer Order requires public agencies that own or operate sanitary sewer systems to develop and implement a Sewer System Management Plan (“SSMP”) and report all SSOs to the State Water Resources Board’s SSO database. The SSMP must include an operation and maintenance program, a current map of the sanitary sewer system, a rehabilitation and replacement plan, a training plan and an inventory of equipment and replacement parts.

The Department initiated a program to reduce SSOs by maintaining a system-wide cleaning schedule, video monitoring and assessing the condition of the oldest and most problematic sewer lines in the Wastewater System and increasing the number of miles of sewer lines replaced or rehabilitated annually. As a result, the Department has reduced spills from a high of 365 in 2001, down to an average of 40 spills per year over the last five years. The City plans to continue with the replacement and rehabilitation program of approximately 40 miles of pipeline per year but will be doing a cost-benefit and risk analysis of pipeline replacement and other sewer assets as part of the Department’s integrated master planning study.

Treatment of Sewage

The Clean Water Act generally requires that all wastewater treatment plants provide secondary treatment for sewage before it is discharged into waterways. The Clean Water Act allows wastewater treatment plants to apply for a waiver from the secondary treatment standards for certain ocean discharges (a “Treatment Waiver”). The Clean Water Act grants the EPA the discretion to grant or deny any Treatment Waiver. The City operates the Point Loma Plant subject to a Treatment Waiver from the EPA.

The City applied for and was granted the Point Loma Plant Treatment Waiver on November 9, 1995 (such Treatment Waiver, granted pursuant to the Ocean Pollution Reduction Act of 1994 (“OPRA”), is referred to herein as a “Modified Permit”). The City must seek a renewal of its Modified Permit every five years if it seeks to renew the Point Loma Discharge Permit.

The City submitted a renewal application in January 2015, the existing Modified Permit became effective October 1, 2017 and expired on September 30, 2022. The City submitted a renewal application on March 24, 2022, approximately 180 days prior to expiration of the prior permit. The existing Modified Permit has administratively continued until approval of the new Modified Permit by all regulatory agencies.

On March 13, 2024 the San Diego Regional Water Quality Control Board (the “Regional Board”) conducted a public hearing on the renewal of the Modified Permit (the “Proposed Modified Permit”). They noted that the City’s renewal application included a schedule of tasks for Pure Water San Diego to demonstrate its continued commitment to reducing flows and TSS loading to the ocean and increasing indirect potable reuse. The Regional Board also noted seven significant differences between the Proposed Modified Permit and current Modified Permit.

1. For the fifth year of the Proposed Modified Permit, the mass emissions limitation for TSS is more stringent than the requirements in the Modified Permit.

2. Based on new monitoring data the Proposed Modified Permit replaces effluent limitations with performance goals and reduces the monitoring frequency from weekly to monthly.

3. The Proposed Modified Permit adds a requirement to develop and submit an Asset Management Plan to ensure the City properly operates and maintains its facilities and thus achieves compliance with the conditions of the Proposed Modified Permit.

4. The Proposed Modified Permit includes an updated schedule of tasks for Pure Water San Diego to be completed during the term of the Proposed Modified Permit to demonstrate the City’s commitment to reduce wastewater flows and TSS loading to the ocean and increasing indirect potable reuse.

5. The Proposed Modified Permit modifies the influent monitoring description to account for the planned changes at the Point Loma Plant to accept onsite stormwater flows to the Point Loma Plant headworks, downstream of Monitoring Location INF-001.

6. The Proposed Modified Permit also adds effluent monitoring for Per- and Polyfluoroalkyl Substances (“PFAS”) compounds to identify and understand PFAS in the wastewater.

7. The Regional Board and EPA provided the Tentative Order and Tentative Decision Document to the City and interested parties for formal public review and comment on March 1, 2024. The public comment period closed on April 1, 2024.

The Regional Board’s staff is currently reviewing public comment and will be incorporating feedback in a future meeting, as well as coordinating with other State and federal agencies, including the EPA, on modifications or approval of the proposed permit. No timeline has been set for those decisions.

Absent a Modified Permit, the Point Loma Plant would need to be modified to comply with the Clean Water Act’s secondary treatment requirements. The estimated cost to bring the Point Loma Plant into compliance with the secondary treatment requirements of the Clean Water Act would be approximately \$2.1 billion based on current dollar estimates. Increased costs associated with bringing the Point Loma Plant to the secondary treatment level could potentially result in increased service charges. Such estimated

costs are not reflected in the financial information included in Tables 5 and 16. See “WASTEWATER SYSTEM CAPITAL IMPROVEMENT PROGRAM” and “WASTEWATER SYSTEM FINANCIAL OPERATIONS—Financial Projections.”

The estimated costs described in the previous paragraph to bring the Point Loma Plant into compliance with the secondary treatment requirements of the Clean Water Act do not incorporate the expected reduction of flows that will result from the implementation of the Pure Water Program. The Pure Water Program will offload wastewater from the Point Loma Plant to make the effluent from the Point Loma Plant substantially equivalent to what would be realized through secondary treatment of the flows assumed without the Pure Water Program. The offloaded wastewater will then go through advanced water treatment to create potable water. See “WASTEWATER SYSTEM CAPITAL IMPROVEMENT PROGRAM— Capital Improvement Projects—*Pure Water Program*”. The City believes that implementation of the Pure Water Program will assist the City in receiving Modified Permits in the future and satisfy the proposed permitting requirements under the OPRA II (defined below) legislation. Wastewater flows to and the total amount of solids handled by the Point Loma Plant will be reduced, thereby improving the discharge to the ocean over the discharge that has consistently qualified for past Modified Permits. See “*Cooperative Agreement and OPRA II*” below.

In the event the Modified Permit is not approved for renewal, the Department would reevaluate the projected costs of bringing the Point Loma Plant into compliance with the secondary treatment requirements given the reduced flows that are expected to result from the implementation of Phase 1 of the Pure Water Program. See “RISK FACTORS—Statutory and Regulatory Compliance.”

Cooperative Agreement and OPRA II. The Mayor and City Council approved a Cooperative Agreement (the “Cooperative Agreement”), between the City and local environmental groups to work together to implement the Pure Water Program. The Cooperative Agreement requires the parties to jointly pursue the passage of the Ocean Pollution Reduction Act II (H.R. 587) (“OPRA II”) in Congress. The environmental groups also will reach out to other environmental groups to convince them to support, or at least not object, to OPRA II.

OPRA II would amend the Clean Water Act to allow the Point Loma Plant to remain at advanced primary treatment in return for reducing flows from the Point Loma Plant and implementing a total of 83 mgd of potable reuse by the end of calendar year 2035. Building the facilities necessary to implement potable reuse will offload wastewater from the Point Loma Plant such that the effluent levels will be equivalent to converting the Point Loma Plant to secondary treatment. OPRA II would also change the permitting process for the Point Loma Plant to treat it like every other secondary wastewater treatment plant.

On, March 22, 2023, the Ocean Pollution Reduction Act II (H.R. 1720), which proposes modifying the permitting requirements for discharge of pollutants from the Point Loma Plant was introduced into the 118th U.S. Congress. The bill contains required milestones in line with projected reductions in both the treated discharges from the Point Loma Plant and the production of potable water expected with Phase 1 and Phase 2 of the Pure Water Program. No timeline for consideration by Congress is available at this time.

Discharge and Disposal of Sewage

The Clean Water Act is a comprehensive revision of prior federal water pollution control legislation requiring operators of wastewater treatment plants to operate such facilities in accordance with NPDES permits which set forth discharge limitations and reporting requirements applicable to the treatment and discharge of wastewater. The NPDES permit sets effluent limitations (waste discharge requirements) on

what is discharged into any public waters and prohibits any non-authorized discharges such as wastewater system overflows.

The Point Loma Plant and the South Bay Plant must obtain separate NPDES permits authorizing them to discharge treated wastewater to the Pacific Ocean via the Point Loma Outfall and the South Bay Outfall, respectively. The Point Loma Plant is currently permitted to discharge up to 240 mgd of chlorinated advanced primary treated wastewater to the ocean via the Point Loma Outfall in accordance with a waiver for modified secondary treatment standards of the Clean Water Act, which was originally received by the City in 1995. See “—Treatment of Sewage—*Treatment Waivers for Point Loma Plant*” above for additional information with respect to the Modified Permit. The South Bay Plant is currently permitted to discharge up to 15 mgd of secondary treated wastewater to the Pacific Ocean via the South Bay Outfall in accordance with the requirements specified in Order No. R9-2021-0011. Order R9-2021-0011 was adopted by the Regional Water Quality Control Board on May 12, 2021, became effective on July 1, 2021, and will expire on June 30, 2026.

The City also must comply with effluent water-quality based State requirements. The California Water Code Article 4 (commencing with Section 13160) of Chapter 3 of Division 7 requires the State Water Resources Board to formulate and adopt a water quality control plan for the ocean waters of the State known as the California Ocean Plan (the “Ocean Plan”). The Ocean Plan sets forth waste discharge limitations and monitoring and enforcement guidelines to ensure that water quality objectives are met. Section 303(c)(1) of the Clean Water Act and Section 13170.2(b) of the State Water Code require that ocean water quality standards be reviewed at least once every three years.

Recent Regional Spills

The City reported a sanitary sewer overflow (“SSO”) that occurred on January 16, 2023, which resulted in the estimated discharge of about 11.3 million gallons of untreated sewage, with about 11.1 million gallons of sewage reaching San Diego Bay and possibly other surface waters. The SSO was believed to be caused by a programmable logic controller programming error at the City’s Pump Station No. 2 which caused pumps to shut down resulting in releases of sewage from several manholes and buildings located in the downtown and midway areas of the City during a wet weather rain event. On February 22, 2023 the Regional Board issued a Notice of Violation.

On January 22, 2024, the San Diego region received a sudden influence of rain from an atmospheric river resulting in a peak wet weather rain event, with some areas of the region receiving two inches of rain over the course of three hours. This event knocked out power to key city facilities and resulting floodwaters damaged several key pieces of equipment at the City’s Pump Station No. 1 and Pump Station No. 2. Together with above average rainfall, resulted in large sewer backups and spills on January 22, 2024, and subsequent spills due to rain events through February 6, 2024. The City’s spills were reported to the Regional Board along with other agencies’ spills in the region. The City estimates that 11.5 million gallons of sewage mixed with infiltrated flood waters may have been spilled during this period and expects to receive Notices of Violations from the Regional Board.

Pursuant to California Water Code Section 13385(c), the Regional Board has the authority to impose fines on wastewater agencies of up to \$10 per gallon of sewage spilled plus up to \$10,000 per day that a spill continued. The Department estimates that the maximum possible fine the Regional Board could impose on the Department for these sewer spills would be approximately \$110 million each for the two large spills, excluding any additional factor multipliers. Based upon its past experiences with the Regional Board, however, the Department believes any such fine would be an order of magnitude less than the maximum. When assessing past fines, which were significantly less than the statutory maximums, the Regional Board took into consideration (among other factors) extenuating circumstances outside of the

Department's control that contributed to the spills, as well as the responsiveness and comprehensiveness of the Department's mitigation efforts regarding the duration of and damage caused by the spills. The Department does believe that climate change may result in more extreme wet weather events that have contributed to past spills, and it is working to minimize those impacts on the wastewater system in the future, to reduce the chances of or size of future spills.

The Department has entered into negotiations with the Regional Board on the January 16, 2023 spill and expects to enter into negotiations on the 2024 spills within a year of receiving the notice of violation. The Department will negotiate to minimize the fine as much as possible, while ensuring any underlying deficiencies in the Wastewater System are addressed. Historically, this process has taken 2 to 3 years from the date of the initial spill. In the unlikely event the Department were fined the maximum of penalties, such a fine would likely be payable at one time and, such a payment could affect the Department's cash reserves that it expects to use to pay for projects in the Wastewater System CIP. The impact to Net System Revenues would be incurred when a loss resulting from the fine is probable and sufficiently measurable, in accordance with generally accepted accounting principles. These potential impacts are not included in the projections included under TABLE 16 "PROJECTED NET SYSTEM REVENUES AND DEBT SERVICE COVERAGE." If the Department's cash reserves were affected by a large payment to the Regional Board, the Department would explore different solutions to minimize the impact of such a payment on the Wastewater System CIP such as adjusting the timing of certain projects and/or seeking other sources of funding in place of using cash.

As of the date of this Official Statement, the Department cannot predict what, if any, actions the Regional Board may take against the Department or the amount of any fine that may be imposed on the Department as a result of these sewage spills.

Biosolids Management

The City must comply with various federal and State laws regarding the biosolids created by the wastewater treatment process management. Under federal regulation, the EPA promulgated its "Standards for the Use or Disposal of Sewage Sludge" (Code of Federal Regulations Title 40, Part 503), which established, among other things, pollutant limitations, operational standards, management practices and other provisions intended to protect public health.

In addition to federal requirements, the City must also comply with State Water Resources Board adopted Water Quality Order No. 2004-0012-DWQ, which expands upon federal regulations with respect to biosolids and streamlines the regulatory process for the use of biosolids as a soil amendment. Senate Bill 1383 ("SB 1383") passed the California Legislature in 2016 and has a number of provisions that impact the wastewater sector. One of the main objectives is to reduce methane emissions by 2030 by 40% using 2013 as a baseline. In order to achieve that, 75% of organics must be diverted away from landfills by 2025 using 2014 as a baseline. Biosolids are included in their definition of organics. So, this means biosolids which have historically been used as alternative daily cover ("ADF") and have qualified as a beneficial reuse, are now considered disposal under SB 1383.

The current biosolids production of the Metropolitan Biosolids Center is approximately 300-350 wet tons per day, dewatered to approximately 25-29% total Class-B solids, and this production amount is expected to increase modestly with the addition of the Pure Water Program. The City has maintained contracts for biosolids management since the late 1990s, utilizing directed landfill disposal, alternative daily cover at landfills and direct land application on farmland as the primary management options. Currently, a private contractor transports 100% of the Metropolitan Biosolids Center biosolids to Arizona farmland where they are directly land-applied for soil amendment or receive additional treatment with lime stabilization before being land-applied. These Class-B options have been available and fairly cost effective

during this period, but with the passage of SB 1383, and the potential for other legislation to limit how or where Class-B biosolids can be managed, the City is exploring additional biosolids management options that can complement farmland disposal.

Industrial Wastewater Control Program

The Point Loma, the South Bay, and the Pure Water Discharge Permits, as well as various federal regulations, require the City to control industrial discharges to the Wastewater System by implementing an industrial wastewater control program (an “IWCP”). The Metropolitan Sub-System has had an IWCP in effect since 1972, although it was not formally approved by the EPA until 1983. The Metropolitan Sub-System’s IWCP administers and enforces federal general and specific discharge prohibitions, federal categorical pretreatment standards, treatment plant-specific local limits and enhanced source control (“ESC”) programs within the City. The City’s Industrial Waste Ordinance lists federal general and specific prohibitions and authorizes the issuance of permits, which include applicable federal and local discharge standards. The City’s Industrial Waste Ordinance also authorizes administrative penalties and other enforcement measures in response to permit or ordinance violations. The City has entered into inter-jurisdictional pretreatment agreements (each, a “Pretreatment Agreement” and, collectively, the “Pretreatment Agreements”) with eleven of the Participating Agencies, including four of the five County service areas that constitute the County’s Participating Agency, whose sewage is treated by the Department; the agreement with the remaining County service area is being finalized. The Pretreatment Agreements specify that each Participating Agency must either implement an equivalent IWCP or authorize the City to administer an IWCP in their respective agencies. Collectively, the IWCP operated by the City regulates 1,756 dischargers throughout the Metropolitan Sub-System’s tributary area. In addition, inspections have determined that an additional 468 facilities do not require permits at this time. The IWCP is also currently evaluating an additional 11,000 industries to determine whether permitting may be required. The City and the Participating Agencies continue to negotiate the inclusion of inspection and monitoring programs for industrial discharges as a Metropolitan Sub-System expense and have discussed the City taking on a more centralized role in industrial wastewater control program for the region. Annual Pretreatment Program audits by the EPA and the Regional Water Quality Control Board have determined that the IWCP, with the exception of ordinance modification required by EPA contractors, is in compliance with the Point Loma, the South Bay, and the Pure Water Plant Discharge Permits and federal program requirements. Certain ordinance modifications required by EPA contractors are pending review and submittal to the City Council for review.

Grant and Loan Related Regulatory Requirements

The City is subject to regulatory requirements, in addition to those described above, as a condition of the receipt of federal and State grants and low-interest loans under the Clean Water Act for the planning and construction of various improvements to the Wastewater System. Among other grant-related requirements are guidelines concerning planning methodologies, design criteria, construction activities, and the operation, maintenance and financing of facilities.

Low-interest loans through the SRF Program (“SRF Loans”) fund a portion of the Wastewater System CIP consistent with the intent of the Clean Water Act and the Safe Drinking Water Act (collectively, the “Acts”). Pursuant to regulations to implement the federal Acts’ CWSRF Program and Drinking Water State Revolving Fund (“DWSRF”) Program, the Acts provide for the creation of a SRF Program capitalized by federal and State funds. The Acts authorize financial assistance through loans and other financing mechanisms for a wide variety of pollution control and drinking water efforts designed to meet the goals of the Acts. Under federal and State law, the primary purpose of the SRF Program is to provide financing for eligible projects to restore and maintain water quality in the State. The SRF Program is also designed to support multiple objectives where economically and technically feasible. These additional objectives must

be cost-effective and complement both the federal and state criteria and the policy goals of the State Water Board.

In compliance with the State Water Resources Board regulations, the City shall, to the extent permitted by law, fix, prescribe and collect rates, fees and charges for the Wastewater System during each Fiscal Year which are reasonable, fair, and nondiscriminatory. The City may make adjustments from time to time in such fees and charges and may make such classifications thereof as it deems necessary, but shall not reduce the rates, fees and charges then in effect unless the Net Revenues from such reduced rates, fees and charges will at all times be sufficient to meet the requirements of the agreements executed in connection with certain of the SRF Loans.

WASTEWATER SYSTEM CAPITAL IMPROVEMENT PROGRAM

Background

The Department prepares a five-year Wastewater System Capital Improvement Program (“CIP”) (consisting of the current budget year and future year projections) on an annual basis, and the City incorporates the first year of such plan into the Wastewater System’s annual budget. The Department’s Engineering and Program Management Division also prepares a ten-year internal Wastewater System Capital Improvement Program in connection with the consideration of longer-term projects. The Wastewater System CIP includes the total estimated project cost since project inception, including expenditures, encumbrances, continuing appropriations, the annual budget for the current Fiscal Year and projections of expenses in subsequent years. The general objectives of the Wastewater System CIP are to meet federal and State requirements and City policy regarding water pollution control, to provide satisfactory levels of service to users of the Wastewater System, and to maintain the operational and financial integrity of the Wastewater System.

The Wastewater System CIP is an ongoing capital program to allow the Department to plan for the renovation, relocation, or replacement of facilities and equipment that have reached or exceeded their service lives. In addition, the Wastewater System CIP includes phased funding to accommodate and appropriate funding of construction contracts. This practice maximizes the Department’s use of available funds by identifying defined portions or phases of projects on a contingent basis.

Any ongoing project under the Wastewater System CIP, other than an annual allocation that was initiated prior to the current Fiscal Year, will have expenditures, encumbrances or continuing appropriations in the current Fiscal Year. The Department may budget additional funding for such projects during current and future Fiscal Years depending upon project scheduling. The Department includes the amounts it has budgeted for each Fiscal Year in an annual appropriation ordinance (each, an “Annual Appropriation Ordinance”), which becomes effective upon adoption by the City Council. Each Annual Appropriation Ordinance authorizes the City to appropriate revenues for expenditures relating to capital improvement projects for the applicable Fiscal Year. In addition, each Annual Appropriation Ordinance provides guidance regarding the administration of the Wastewater System CIP. Modifications to a project’s budget may occur during the course of the Fiscal Year through City Council action. Appropriations for projects which are contained in the Wastewater System CIP for Fiscal Year 2025 have been approved in the Annual Appropriation Ordinance for Fiscal Year 2025.

Integrated Master Planning

The Department is currently preparing the first Integrated Master Plan (the “IMP”) that will examine existing assets and future projects for its Water and Wastewater utilities to develop a prioritized capital improvement program. This planning effort is for the first time looking holistically across the

Department's Water, Metropolitan and Municipal wastewater systems. This is also the first integrated master plan to be done since the City's implementation of SAP's Enterprise Asset Management software. This will allow the system and the planning efforts to be used hand in hand to make more informed decisions on capital outlays and associated maintenance work.

Another critical addition to this IMP is the assessment of climate change impacts to the Department's facilities and operations and recommendations for specific adaptation measures that will become essential inputs to the IMP. Sea level rise, flooding, droughts, wildfires, extreme heat, and other climate change related hazards will impact existing and new facilities and can present challenges to the Department's operations in the future. The planning document will review vulnerability assessments and information will be evaluated for the degree to which each of the Department's facilities is susceptible to the adverse effects of climate and climate change. The vulnerability assessment was performed for future conditions incorporating climate change. For the climate change analysis, the projected changes in the vulnerability metrics are estimated for two future 30-year periods with respect to the historical period. The analysis is conducted for calendar years 2036-2065 in the near future and calendar years 2061-2090 in the late future. The historical reference period for climate change analysis is calendar years 1981-2010. The sea level rise scenarios are analyzed through calendar year 2100.

Preliminary work has identified several areas of climate impacts that are being incorporated into the planning discussion including:

- The number of extreme heat days is projected to be substantially greater at nearly all wastewater collection and distribution facilities, however days exceeding 95°F are not projected to significantly impact many facilities in the Wastewater System.
- Increasing wildfire probability will increase the vulnerability of several pump stations.
- Flooding vulnerability is projected to increase for nearly half of the facilities in the Wastewater System. Pumpstations are particularly vulnerable due to their low-lying nature and in many cases, closeness to the Pacific Ocean.
- Increased cliffs retreat rate due to sea level rise is projected for the Point Loma Plant and several pumpstation stations.
- Point Loma/Metro Bio Center Sludge Line and Mission Gorge Interceptor are important linear assets that are impacted by sea level rise and flooding hazards.

See "WASTEWATER SYSTEM FINANCIAL OPERATIONS — Climate Change Assessment and Mitigation Plans of the City."

Capital Improvement Projects

Metropolitan Sub-System. The following is a summary description of certain projects identified in the Wastewater System CIP to be constructed for the Metropolitan Sub-System, including annual allocation projects in the majority of these categories.

- (a) Pure Water Program – these projects include the planning, design and construction costs associated with Pure Water Program Phase 1, Pure Water Program Phase 2 Demonstration Facility, and Pure Water Program Phase 2.

(b) Treatment Plants—these projects include renovations or upgrades, including the North City Plant, the South Bay Plant, the Metropolitan Biosolids Center and the Point Loma Plant to implement operating efficiencies, optimize the existing facilities and comply with revised regulatory and operation plan requirements.

(c) Large Pump Stations – these projects include upgrades, renovations, restoration and replacement of major equipment for Metropolitan Sub-System Pump Stations, Pump Station No. 1 and Pump Station No. 2.

(d) Trunk Sewers – these projects include replacement or rehabilitation of various sewer interceptors which are deteriorating or have insufficient capacity.

(e) SDG&E Relocation Advance – the City and SDG&E are currently in dispute over the costs of utility relocations in connection with the Pure Water Program and other projects. Absent and until a resolution is reached, to avoid project delays, the City has included projected costs to advance funding to SDG&E to relocate energy facilities.

(f) Other – these projects include, among other things, the Environmental Monitoring and Technical Services boat dock; the Alvarado and Naval Training Center Laboratory Remodels, and the Solar Implementation at the Employee Training and Development Center.

Municipal Sub-System Projects. The following is a summary description of certain projects identified in the Wastewater System CIP to be constructed for the Municipal Sub-System, including annual allocation projects in all of these categories, through Fiscal Year 2029.

(a) Pipelines – these projects include replacement or rehabilitation of various sewer mains located throughout the City due to deterioration or insufficient capacity.

(b) Muni Pump Stations – these projects include upgrades, renovations, restoration and replacement of major equipment at the Municipal Sub-System’s pump stations.

(c) Trunk Sewers – these projects include replacement or rehabilitation of existing trunk sewers (larger than 15 inches in diameter) due to deterioration, or to increase capacity.

(d) Other – these projects include, among others, the Advanced Metering Infrastructure (“AMI”) Program, the Alvarado Laboratory Remodel, and the Solar Implementation at Department Facilities.

Pure Water Program. The City is engaged in a phased multi-year water reuse program titled the “Pure Water Program” to develop treatment, storage, and conveyance facilities in order to provide a safe, secure, and sustainable local drinking water supply for the City. Advanced water purification technology will be used to produce potable water from recycled water already treated to Title 22 specifications under the California Code. The Pure Water Program represents a significant capital improvement program of the City’s Water System and Wastewater System that is expected, upon full implementation by the end of calendar year 2035, to produce at least 83 mgd capacity of water. The program is contemplated to occur in multiple phases. The Pure Water Program is also expected to reduce flows into the Point Loma Plant, which would reduce TSS discharged and recycle a valuable and limited resource that is currently discharged to the Pacific Ocean. The Point Loma Plant continues to operate under a Modified Permit to provide enhanced primary treatment. See “—Treatment of Sewage—*Treatment Waivers for Point Loma Plant*” above for additional information with respect to the Modified Permit.

Pure Water Program –Phase 1. The Phase 1 projects are being constructed in the North City area of the City and are expected to produce up to 30 mgd of purified drinking water. Projects include: (1) the North City Plant expansion and influent conveyance; (2) the new North City Advanced Water Purification Facility which will treat the tertiary-treated water to purified water standards; (3) a new 30-mgd North City Pure Water Program Pump Station, which will convey the purified water to the Miramar Reservoir; (4) a new 8-mile North City Pure Water Program Pipeline at the end of which the purified water will be blended with the City’s other water supplies and be treated at the adjacent Miramar Water Treatment Plant and distributed to customers; (5) the North City Morena Boulevard Pump Station and Pipeline, that will convey wastewater from the pump station to the North City Plant for treatment; and (6) certain Miramar Water Treatment Plant and Miramar Reservoir Pump Station Improvements, which will continuously pump the raw water from the Miramar Reservoir to the Miramar Water Treatment Plant. California Environmental Quality Act and National Environmental Policy Act reviews are complete for the North City Phase 1 Project, and the Environmental Impact Report (“EIR”) was certified by the San Diego City Council on April 10, 2018. The U.S. Bureau of Reclamation issued the Record of Decision on the Final Environmental Impact Statement on November 1, 2018, and in May 2020, the Miramar Reservoir NPDES Permit, which allows purified water to be released to Miramar Reservoir, was formally adopted by the Regional Water Quality Control Board. That master permit established a schedule for several conditions that must be satisfied before water can be released to Miramar Reservoir. In 2021, work continued on the Pure Water Facility Operations Plan, as well as a program to establish any additional limits on discharges to the collection system to protect the Pure Water Program facilities and reservoir water quality. The plan outline for the operational start up and release to Miramar Reservoir was reviewed with the regulators and preparation of the plan is underway. Additionally, as of May 1, 2024, the Pure Water Phase 1 project is past the 50% complete milestone. The Phase 1 projects are expected to be substantially completed by June 2027 and, following a mandated ramp-up schedule, to produce 30 mgd of water by December 2027.

The total cost for the Pure Water Program Phase 1 included in the capital projections used in this Official Statement is \$1.6 billion. The Department has determined that costs for the program will be allocated between the Water Utility and Sewer Revenue Funds of the Water System and Wastewater System, respectively, in the following way: all capital and operational costs related to facilities for the conveyance of wastewater and the treatment of the wastewater through secondary treatment would be borne by the Sewer Revenue Fund (including its customers and regional partners); all capital and operational costs related to treatment and conveyance of reused water treated beyond the secondary standards will be borne by the Water Utility Fund. Based on the cost allocation between the Water and Wastewater Systems, approximately \$930.4 million is allocated to the Water Utility Fund, and approximately \$692.2 million is allocated to the Sewer Revenue Fund (including its customers and Participating Agencies, which are required to pay their respective share of the Metropolitan Sub-System maintenance and operation and capital improvement program costs (including financing costs), currently approximately 33% of these total costs). These costs include contractual services for program management, treatment process optimization, environmental reports, and design and construction support services. The Pure Water Program Phase 1 project has included a 10% construction contingency of \$110 million and has allocated \$86.9 million to date, of which \$52.8 million is allocable to the Wastewater System. The Department expects that it may need to increase the contingency to 20% or \$220 million (the net \$110 million increase is not included in the \$1.6 billion Phase 1 projection described herein) if additional change orders are identified. The City has not finalized a financing plan for these increased costs but would likely initially rely on system cash followed by additional borrowing and State/federal dollars. Final cost allocation of the Phase 1 projects will begin after substantial completion is reached. Of the \$692.2 million allocation to Wastewater System for Phase 1, approximately \$248 million has been expended through Fiscal Year 2023, \$132.1 million is projected for Fiscal Year 2024 and the remaining \$312 million is projected for Fiscal Years 2025 through 2029. The Phase 1 projects are expected to be funded with [\$653.6 million in SRF Loans out of the \$664 million in secured loans and \$38.6 million in grant funding]. See “—Capital Improvement Financing Plan—SRF Loans.” See also TABLE 5 “WASTEWATER SYSTEM PROJECTED CAPITAL

IMPROVEMENT PROGRAM EXPENDITURE SUMMARY” and TABLE 6 “SOURCES AND USES OF FUNDS FOR CAPITAL EXPENDITURES OF THE WASTEWATER SYSTEM CAPITAL IMPROVEMENT PROGRAM” below. See “WASTEWATER SYSTEM FINANCIAL OPERATIONS—Financial Projections.”

Pure Water Program Phases. The City has taken a phased approach to the Pure Water Program’s implementation, with full implementation expected by 2035. The implementation of Phase 1 is not dependent on implementation of the future Pure Water Program phases. Because the wastewater supplying the Phase 2 facilities is being generated from a sewer shed different than that supplying Phase 1, the regulating agencies require a new demonstration facility to be constructed and operated to prove that the processes can produce purified water that meets regulatory requirements. The City has begun the design of the Phase 2 project. The Phase 2 demonstration facility is expected to begin operations in 2025. Approximately \$44 million is projected to be spent from the Wastewater System for Fiscal Year 2022 through Fiscal Year 2029 for the Phase 2 projects. See TABLE 5 “WASTEWATER SYSTEM PROJECTED CAPITAL IMPROVEMENT PROGRAM EXPENDITURE SUMMARY.” The \$44 million of Phase 2 costs occurring between Fiscal Year 2022 through 2029 will be funded from cash and federal grants.

Phased implementation will allow the City to adapt to changing conditions, and in some cases, to update previous planning assumptions. The City continues to review and evaluate Pure Water Program Phase 2, including the methods to be employed to purify water and the final locations of the facilities. The remaining 53 mgd of the total 83 mgd Pure Water Program goal were originally planned to be delivered by facilities located in the central and southern areas of the City. Master planning was originally performed in 2012 and is currently being revisited to account for changes in treatment technology, wastewater flows, water demands, and projections of both flows and demands. This work is ongoing and is expected to continue through at least 2025. As part of the current Pure Water Program planning update, other alternatives, including the feasibility of producing all of the remaining 53 mgd in the Central Area (Phase 2), are being evaluated. The major remaining decision related to Phase 2 Central Area is whether to use Murray Reservoir or San Vicente Reservoir as the discharge location for Phase 2 Central Area purified water. If the City goes with the Lake Murray options, it would be done as direct potable reuse and would need to meet different regulation than Phase 1.

Table 5 below sets forth the Wastewater System CIP for Fiscal Years 2024 through 2029 and the expected allocations between the Municipal Sub-System and Metropolitan Sub-Systems as of 2024. These projections include an assumed 3.1% annual increase in Wastewater System CIP project costs for Fiscal Years 2026 through 2029. The 3.1% inflation factor is based on the Engineering News Report Construction Cost Index (ENR CCI) 20-Year average as of Fiscal Year 2020. The City would note that recent construction inflation has been higher than the 20-year long term average, and sustained increases above these historical averages will cause capital costs to grow larger than the projections included in these forecasts. The City expects to re-evaluate these assumptions in its upcoming cost of service study and adjust rates or project expectations accordingly. See “RISK FACTORS—Wastewater System CIP.” The Department projects expenditures of \$494.3 million in Pure Water Program costs between Fiscal Year 2024 through Fiscal Year 2029. These costs consist of approximately 32% of total projected capital improvement costs in that period. The Department currently expects to fund the costs of the Wastewater System CIP with proceeds of additional Obligations (including proceeds of bonds issued by the Authority and loans received from the State Water Resources Board), federal and State grants and Department cash. See TABLE 6 “SOURCES AND USES OF FUNDS FOR CAPITAL EXPENDITURES OF THE WASTEWATER SYSTEM CAPITAL IMPROVEMENT PROGRAM” below for additional information on the projected funding sources for the Wastewater System CIP.

TABLE 5
WASTEWATER SYSTEM
PROJECTED CAPITAL IMPROVEMENT PROGRAM EXPENDITURE SUMMARY¹
Fiscal Years Ending June 30, 2024 through June 30, 2029
(\$ in thousands)

Expected Projects	2024⁵	2025	2026	2027	2028	2029	Total
Municipal Sub-System Projects							
Pipelines	\$77,891	\$151,818	\$88,841	\$97,189	\$90,067	\$27,323	\$533,129
Muni Pump Stations	316	748	1,495	1,807	6,576	10,170	21,111
Trunk Sewers	11,272	21,720	23,715	29,997	29,678	46,297	162,678
Other ²	1,306	3,377	8,605	20,251	18,848	11,659	64,046
Subtotal Municipal Sub-System Projects⁴	\$90,785	\$177,663	\$122,655	\$149,244	\$145,169	\$95,448	\$780,964
Metropolitan Sub-System Projects							
Treatment Plants	\$33,889	\$31,238	\$17,749	\$18,463	\$15,225	\$7,177	\$123,741
Pure Water Program	135,496	261,105	43,553	20,016	16,863	17,217	494,249
Large Pump Stations	4,011	2,823	7,600	16,849	16,440	23,729	71,452
Trunk Sewers	230	1,423	—	4,695	22,305	3,208	31,859
Recycled Water	—	—	—	—	—	—	—
SDGE Relocation	542	(542)	—	—	—	—	—
Other ³	1,739	2,155	5,286	11,368	16,973	2,356	39,878
Subtotal Metropolitan Sub-System Projects⁴	\$175,908	\$298,203	\$74,188	\$71,390	\$87,805	\$53,686	\$761,179
TOTAL⁴	\$266,693	\$475,865	\$196,843	\$220,635	\$232,973	\$149,134	\$1,542,143

Source: Public Utilities Department, City of San Diego.

¹ Includes an assumed 3.1% annual increase in Wastewater System CIP project costs for Fiscal Years 2026 through 2029.

² The \$494.3 million for the Pure Water Program includes \$451.6 million for the Pure Water Program Phase 1, and \$42.8 million for the Pure Water Program Phase 2, for the Pure Water Program Central Facility. See “WASTEWATER SYSTEM CAPITAL IMPROVEMENT PROGRAM—Capital Improvement Projects—*Pure Water Program*.”

³ Includes the AMI Program, the Alvarado and Naval Training Center Laboratory Remodels; and Solar Implementation at Department’s Facilities in Fiscal Years 2024 through 2029.

⁴ Amounts may not total due to rounding.

⁵ Amounts for Fiscal Year 2024 are based on assumptions and estimates and do not reflect actual expenditures for the Fiscal Year.

Capital Improvement Financing Plan

The Department’s share of the costs of the projects in the Wastewater System CIP for Fiscal Years 2024 through 2029 is expected to be approximately \$1.54 billion in the aggregate.

Overall, the Wastewater System CIP for Fiscal Years 2024 through 2029 is expected to be financed with a combination of additional Obligations (revenue bonds and proceeds from SRF Loans) and funded by grants, cash and Capacity Charge revenues. Pursuant to the Master Installment Purchase Agreement, the City may incur additional Obligations, payments with respect to which will be senior to or on parity with the City’s obligation to make 2024-1 Installments Payments, subject to the satisfaction of the conditions specified in the Master Installment Purchase Agreement. Some, but not all, of the funding sources for certain projects of the Wastewater System CIP have already been secured. The estimated costs of, and the projected schedule for, the Wastewater System CIP are subject to various uncertainties. In addition, it is possible that the City will pursue projects not incorporated in the Wastewater System CIP. The City may ultimately decide not to proceed with certain Wastewater System CIP projects or may proceed with them on a different schedule, resulting in different results than those described in this Official Statement. See “RISK FACTORS – Wastewater System CIP Projects.”

SRF Loans. The City anticipates financing a total of \$677 million of Wastewater System CIP with SRF Loans during Fiscal Years 2024 through 2029. Of the total \$677 million in anticipated SRF Loan reimbursements from the State, the City has four existing loan agreements for Pure Water Phase 1 projects with an estimated [\$204.3 million] [to be updated 6/30] reimbursed in Fiscal Year 2024 and \$434.9 million projected to be reimbursed in Fiscal Year 2025-2029. The City has one loan application requesting a \$50 million loan for Alvarado Trunk Sewer and projects to be reimbursed for a portion of the total loan amount by Fiscal Year 2029. The issuance of such SRF Loans is reflected in the projected senior debt service in Table 16 below. See TABLE 16 “PROJECTED NET SYSTEM REVENUES AND DEBT SERVICE COVERAGE.”

Additional Obligations. The City anticipates issuing approximately \$720 million in additional Obligations (including the Series 2024A Bonds) during Fiscal Years 2025 through 2029 to finance the costs of certain projects in the Wastewater System. Similar to the Series 2024A Bonds, the future bond issuances projected for Fiscal Years 2027 and 2029 currently reflect a subordinate lien level. The actual lien status may change in the future when the Obligations are incurred. See TABLE 16 “PROJECTED NET SYSTEM REVENUES AND DEBT SERVICE COVERAGE.”

Department Cash and Capacity Charge Revenues. During Fiscal Years 2024 through 2029, a portion of the Wastewater System CIP is expected to be funded with Department cash and capacity fees currently estimated at \$101.2 million, which includes approximately \$42.8 million for the Pure Water Program Phase 2. Additionally, capacity charge revenues will be used to fund Wastewater System CIP in the amount of approximately \$138.9 million.

The Wastewater System CIP includes the costs of the projects described in Table 5 above. In the event the City fails to obtain successive Modified Permits, the capital costs of the Wastewater System CIP could increase substantially. See “WASTEWATER SYSTEM REGULATORY REQUIREMENTS—Treatment of Sewage.”

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TABLE 6
SOURCES AND USES OF FUNDS FOR CAPITAL EXPENDITURES OF THE
WASTEWATER SYSTEM CAPITAL IMPROVEMENT PROGRAM
Fiscal Years Ending June 30, 2024 through June 30, 2029
(\$ in thousands)

	2024 ⁴	2025	2026	2027	2028	2029	Total ³
Source of Funds:							
Proceeds of Authority Bonds ¹	\$ 3,924	\$300,000	\$ 0	\$240,000	\$ 0	\$180,000	\$ 723,924
SRF Loans ²	207,193	218,621	119,030	73,465	32,247	26,444	677,001
Federal and State Grants ²	0	0	0	0	0	0	0
Capacity Fees	32,000	25,000	25,000	25,000	25,000	25,000	157,000
Cash Funding ⁵	23,575	(67,756)	52,813	(117,831)	175,726	(82,310)	(15,783)
Total Sources³	<u>\$266,693</u>	<u>\$475,865</u>	<u>\$196,843</u>	<u>\$220,635</u>	<u>\$232,973</u>	<u>\$149,134</u>	<u>\$1,542,143</u>
Use of Funds							
Municipal Sub-System Expenditures	\$ 90,785	\$177,663	\$122,655	\$149,244	\$145,169	\$ 95,448	\$ 780,964
Metropolitan Sub-System Expenditures	175,908	298,203	74,188	71,390	87,805	53,686	761,179
Total System³	<u>\$266,693</u>	<u>\$475,865</u>	<u>\$196,843</u>	<u>\$220,635</u>	<u>\$232,973</u>	<u>\$149,134</u>	<u>\$1,542,143</u>

Source: Public Utilities Department, City of San Diego

¹ Includes proceeds of Authority Bonds that will be provided to the City under the Installment Purchase Agreement. The Installment Payments relating to the Authority bonds are presently expected to be secured by a pledge of Net System Revenues on parity with the 2024-1 Installment Payments relating to the Series 2024A Bonds but the actual lien status may change in the future when the Obligations are incurred.

² The projected time frame for the reimbursement of SRF Loan funds and federal and State Grants funds may be delayed depending on the federal and State governments' fund distribution timing.

³ Amounts may not total due to rounding.

⁴ Amounts for Fiscal Year 2024 are based on assumptions and estimates and do not reflect actual expenditures for the Fiscal Year.

⁵ Negative cash funding indicates a reimbursement to cash from other sources of funding for the respective Fiscal Year.

WASTEWATER SYSTEM FINANCIAL OPERATIONS

General

The Department manages and operates the Wastewater System with funds derived primarily from service charges which are deposited in the Sewer Revenue Fund. The Sewer Revenue Fund was established in 1956 pursuant to the City Municipal Code. Funds in the Sewer Revenue Fund are used for the operation, maintenance and capital improvement of the Metropolitan Sub-System and the Municipal Sub-System. See “—Establishment, Calculation and Collection of Sewer Service Charge Revenue and Treatment Plant Services Revenue” below.

The primary sources of monies deposited in the Sewer Revenue Fund are derived from revenues generated by sewer service charges collected from City residents and commercial enterprises, capacity charges on new, additional or larger connections to the Wastewater System within the City, revenues from the Participating Agencies pursuant to the Amended and Restated Regional Wastewater Disposal Agreement and the Transportation Agreements, and interest income on fund balances. See “THE WASTEWATER SYSTEM—Participating Agencies.”

Budgetary Process

In November of each year, the Department submits a Five-Year Financial Outlook to guide long-range planning and serve as the framework for the development of the Wastewater System budget for the following Fiscal Year. The Five-Year Financial Outlook focuses on the overall fiscal condition of the Sewer

Revenue Fund, assesses impacts to revenues and expenditures, and explores funding strategies to finance major capital investments. The following April, the Mayor submits the Department's budget for the following Fiscal Year to the City Council for approval. The City budgets revenues and expenditures to support the costs the Department incurs to operate and maintain the Wastewater System.

Budget estimates for the Wastewater System CIP are prepared based upon the capital needs of the Metropolitan Sub-System and the Municipal Sub-System. Cost information and schedules provided by the design and operations staff are used to prepare the capital budget for the Wastewater System. The Department prepares a five-year Wastewater System CIP each year as part of its internal budget process. See "WASTEWATER SYSTEM CAPITAL IMPROVEMENT PROGRAM—Background." The Wastewater System CIP consists of anticipated costs and a schedule for projects planned for completion and is based on planning information from prior years, progress toward stated goals and objectives, future and long-term needs and planning information developed during the Wastewater System CIP planning cycle. The Wastewater System CIP provides the basis for review of the annual budget for the Wastewater System CIP and near-term projects and is divided into projects for each of the Municipal Sub-System and the Metropolitan Sub-System to address their respective requirements.

Additionally, the Department periodically commissions a wastewater cost of service, rate design and capacity fee study to help develop recommendations for the establishment of fair and equitable sewer rates for the users of the Wastewater System and a revenue program that will be acceptable to the State Water Resources Board. See "—Service and Capacity Charges," and "—Establishment, Calculation and Collection of Sewer Service Charge Revenue and Treatment Plant Services Revenue."

Service and Capacity Charges

Sewer Rate Charges

Historical and Current Sewer Rate Charges. Prior to Fiscal Year 2022, the City did not impose any rate increases for its Wastewater System for ten years, from Fiscal Year 2012 through 2021. In September 2021, the City approved the most recent increases in wastewater rates, of 5% in January 2022, 4% in January 2023, 4% in January 2024, and the City further has the authority to increase wastewater rates by up to 3% in January 2025. The wastewater rate increases took into consideration a wastewater cost of service, rate design and capacity fee study completed in Fiscal Year 2021 (the "2021 Costs of Service Study"). The 2021 Costs of Service Study and the resulting sewer rate increases were necessary to support the additional debt service and other costs of the City's Pure Water Program. See "WASTEWATER SYSTEM CAPITAL IMPROVEMENT PROGRAM—Capital Improvement Projects—*Pure Water Program*" and "—Capital Improvement Financing Plan." The Department periodically commissions a wastewater costs of service study, in order to develop recommendations for the establishment of fair and equitable sewer rates for the users of the Wastewater System and a revenue program that will be acceptable to the State Water Resources Board. Each study includes a review of the City's financial plan or rate case, usage characteristics, and rate structure. The proposed wastewater rate increase for Fiscal Year 2025 represents the maximum amount approved by City Council in line with the 2021 Costs of Service Study, which increase is assumed in the Wastewater System financial projections included herein. See "—Financial Projections."

In considering the increased rates, the City also included a commitment to more regularly review and evaluate rate increases moving forward to ensure more smooth and predictable rates for the City's varying customer classes. The City expects to release costs of service studies in three to five-year time horizons to ensure that rates are taking into account updated information in a timely manner. The rate increases for sewer services will help the City continue to upgrade core infrastructure by replacing aging pipes and sewer mains and fund future investments like the Pure Water Program.

Future Sewer Rate Charge Increases. The City is in the process of preparing a costs of service study to be considered by City Council in Fiscal Year 2025 (the “New Costs of Service Study”), in connection with new rates to be effective on January 1, 2026, January 1, 2027, January 1, 2028 and January 1, 2029. The Department expects that the information used in the New Costs of Service Study will closely match the information used to prepare the projections used in this Official Statement, but will include actual financial results from Fiscal Year 2024 and will incorporate adjustments to the cost and scale of the Wastewater System CIP. The projected rate increases used in this Official Statement are consistent with the City’s Five-Year Financial Outlook, which was presented to City Council in December 2023. See “—Budgetary Process,” and “—Financial Projections.” However, the proposed rate increases of 7% in Fiscal Year 2026 and 6% in each of Fiscal Years 2027 through 2029 included as part of the projections used in this Official Statement require City Council action and may be subject to change under the processes dictated under the State Constitution. There can be no assurance that any proposed rate increases will be approved by City Council and/or implemented upon such approval. Failure of the City Council to approve increased rates or of the City to implement any approved rate increases as described above may have a material adverse effect on the City’s financial projections and projected debt service coverage ratios described herein and may impact the City’s ability to finance the remainder of the Pure Water Program which may have a material adverse effect on the City’s finances. See “—Service and Capacity Charges—Projected Service and Capacity Charges,” “—Financial Projections,” “RISK FACTORS—Statutory and Regulatory Compliance,” “RISK FACTORS—Rate-Setting Process Under Proposition 218,” and “CONSTITUTIONAL LIMITATIONS ON TAXES AND WASTEWATER RATES AND CHARGES.”

Table 7 below sets forth the five-year sewage service charge history approved by the City Council since Fiscal Year 2020, including sewer service charges that are currently in effect.

TABLE 7
WASTEWATER SYSTEM
FIVE-YEAR SERVICE CHARGE HISTORY FOR SINGLE-FAMILY RESIDENTIAL,
MULTI-FAMILY, AND COMMERCIAL AND INDUSTRIAL CUSTOMERS¹

Effective Date	Single Family Domestic ²	All Classes % Rate Increase/ (Decrease)	Uniform Base Fee	Single Family Residential Usage Fee \$/HCF ⁵ water	Multifamily (Other Domestic) Usage Fee \$/HCF ⁵ water	Commercial & Industrial Customers		
						Monthly Wastewater Flow \$/HCF ⁴ water	Total Suspended Solids \$/lb ⁵	Chemical Oxygen Demand \$/lb ⁵
July 1, 2019	\$47.71	N/A	\$15.33	\$3.598	\$5.028	\$3.7672	\$0.5517	\$0.2242
July 1, 2020	47.71	N/A	15.33	3.598	5.028	3.7672	0.5517	0.2242
July 1, 2021	47.71	N/A	15.33	3.598	5.028	3.7672	0.5517	0.2242
January 1, 2022 ³	52.46	5.00%	14.14	4.786	4.786	3.1910	0.4690	0.2080
January 1, 2023 ³	58.36	4.00	14.71	4.977	4.977	3.3190	0.4880	0.2160
January 1, 2024	60.69	4.00	15.29	5.177	5.177	3.4510	0.5070	0.2250

¹ This table consolidates the “Wastewater System Approved Rate Increases for Single-Family Residential, Multi-family, and Commercial and Industrial Customers” disclosure requirement of the 2015 Bonds & 2016A Bonds Continuing Disclosure Certificates (“CDC”) and the “Wastewater System Five-Year Service Charge History for Single-Family Residential, Multi-family, and Commercial and Industrial Customers” disclosure requirement of the 2022A Bonds CDC.

² Represents the average monthly amount and new customer amount.

³ Includes sewer service charges that are currently in effect.

⁴ 1 Hundred Cubic Feet (HCF) equals 748 gallons.

⁵ LB = pound.

Source: Public Utilities Department, City of San Diego.

Capacity Charges

A capacity charge is a one-time fee based on EDUs for a new, additional or larger connection to the Municipal Sub-System within the City. The calculated capacity fee is based on the capital costs of existing facilities and the growth-related portion of future improvement costs. Capacity fees are not treated as operating income for financial reporting purposes but are considered System Revenues, deposited in the Sewer Revenue Fund, and included in the calculation of debt service coverage. Pursuant to State law, capacity fees are applied only to capital expansion, bonds, contracts, or other indebtedness of the Wastewater System related to expansion. Capacity fees are primarily collected on new construction within the City and revenues therefrom vary based upon construction activity. The City included a review of capacity fees as part of its 2021 Costs of Service Study. Wastewater development capacity fees were also studied to assess the impact of new development connecting to the City's Wastewater System. Wastewater development capacity fees were updated to address the cost of existing available capacity as well as the value of future capacity projects. See TABLE 9 "PROJECTED SERVICE AND CAPACITY CHARGES" below for a schedule of projected capacity charges for the Municipal Sub-System.

Table 8 below sets forth the Wastewater System's EDUs and Capacity Charge Revenues for Fiscal Years 2019 through 2023.

TABLE 8
WASTEWATER SYSTEM - MUNICIPAL SUB-SYSTEM
CAPACITY CHARGE REVENUES
Fiscal Years Ended June 30, 2019 through June 30, 2023
(\$ Amounts in Thousands)

Fiscal Year	New Equivalent Dwelling Units	Capacity Charge Revenues¹
2019	2,955	\$13,292
2020	3,712	15,319
2021	4,676	19,284
2022	6,141	25,338
2023	5,667	26,137

¹ Amounts are not available to pay for operations and maintenance costs.

Sources: Public Utilities Department; and Department of Finance, City of San Diego.

The City Council reviews capacity charges on a periodic basis. Pursuant to State Water Resources Board guidelines and City policy, the City must use a fair and equitable apportioning of costs based on each user class's contributions of flow and strength of wastewater pollutants discharged. The current sewer capacity charge was adopted by City Council on September 21, 2021. Beginning on January 1, 2022 the rate increased to \$5,154 per EDU from \$4,124 in prior years.

Projected Service and Capacity Charges

Table 9 below sets forth the projected service and capacity charges and revenues for Fiscal Years 2024 through 2029, as of late 2023. Single Family Monthly Service Charges in Fiscal Year 2024 includes the 4% increase effective as of January 1, 2024; Fiscal Year 2025 represents the maximum rate increase authorized by City Council of 3%; and Fiscal Years 2026 through 2029 assume proposed additional rate increases of 7% in Fiscal Year 2026 and 6% in each of Fiscal Years 2027 through 2029. The proposed rate increases in Fiscal Years 2026 through 2029 require City Council action and may be subject to change under the processes dictated under the State Constitution. There can be no assurance that any proposed rate

increases will be approved by City Council and/or implemented upon such approval. Failure of the City Council to approve increased rates or of the City to implement any approved rate increases as reflected in Table 9 below, may have a material adverse effect on the City’s financial projections and projected debt service coverage ratios described herein and may impact the City’s ability to finance the remainder of the Pure Water Program which may have a material adverse effect on the City’s finances. See “—Service and Capacity Charges—*Projected Service and Capacity Charges*,” “—Financial Projections,” “RISK FACTORS—Statutory and Regulatory Compliance,” “RISK FACTORS—Rate-Setting Process Under Proposition 218,” and “CONSTITUTIONAL LIMITATIONS ON TAXES AND WASTEWATER RATES AND CHARGES.” The projected capacity charges for Fiscal Years 2024 through 2029 are steady at \$5,154 per EDU. See “—Calculation and Collection of Capacity Charges” for a schedule of historical capacity charge revenues. New system hook-ups (measured in EDUs) are projected based on population growth and building permits, assuming historical trends.

TABLE 9
PROJECTED SERVICE AND CAPACITY CHARGES
Fiscal Years Ending June 30, 2024 through June 30, 2029¹

	<u>2024¹</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>
Single Family Monthly Service Charge ²	\$60.69	\$62.81	\$65.98	\$70.25	\$74.46	\$78.93
Single Family Residential Accounts	230,586	231,162	231,740	232,319	232,900	233,482
Total Service Charge Revenues ³	\$311,838	\$323,345	\$340,659	\$364,781	\$387,611	\$411,870
Capacity Charge (per EDU)	\$5,154	\$5,154	\$5,154	\$5,154	\$5,154	\$5,154
Annual EDUs	6,209	4,851	4,851	4,851	4,851	4,851
Total Capacity Charge Revenue ³	\$32,000	\$25,000	\$25,000	\$25,000	\$25,000	\$25,000

Source: Public Utilities Department, Rate Model as of early 2024.

¹ Single Family Monthly Service Charge and Capacity Charge were computed at half of old rate plus half of new rate.

² Based on average usage of 9 hundred cubic feet/month. Projected Service Charges in Fiscal Years 2024 and 2025 represent the maximum rate increases authorized by City Council of 4% and 3%, respectively, and Fiscal Years 2026 through 2029 assume proposed additional rate increases of 7% in Fiscal Year 2026 and 6% in each of Fiscal Years 2027 through 2029.

³ In thousands.

Establishment, Calculation and Collection of Sewer Service Charge Revenue and Treatment Plant Services Revenue

Sewer Service Charge Revenue. The City deposits sewer service charge revenues, which are primarily derived from sewer service charges received from City residents and commercial enterprises, into the Sewer Revenue Fund. In accordance with the provisions of the City Municipal Code, these funds are administered in an enterprise account separate from the City’s General Fund. Sewer service charges are collected on a municipal bill, which also includes water charges, storm drain fees and other related fees. Bills are distributed on a bi-monthly basis for most customers and on a monthly basis for higher consumption residential, commercial and industrial customers.

The City establishes fees based upon the costs incurred by the City to collect, treat and discharge wastewater and pay for required capital improvements. Department staff and senior management within the City analyze rates and charges to determine the amounts necessary to support the Wastewater System based upon revenue and expenditure data from the Department. On an ongoing basis, Department staff evaluates the adequacy of revenues and recommends rate adjustments to correspond with projected changes in Maintenance and Operations Costs and the timing and magnitude of capital expenditures. Periodically, these recommendations are analyzed and validated by a third-party consultant through the cost of service study process. See “—Service and Capacity Charges.”

Sewer service charges are based on the characteristics of the wastewater discharged by each sewer user. All sewer users are charged based upon the amount of flow, solids and organic material which they discharge into the Wastewater System. As sewage discharge is not metered, water sales are used to approximate each customer's sewage flow. TSS and organics are based upon the standard industrial classification code or determined by site inspections and/or analyses as required or requested.

The Wastewater System's sewer billing rate under the existing rate structure is determined separately for each water meter based upon three factors: (1) "The Percent Return to Sewer," calculated as the water delivered to the facility through the water meter less any water lost from the facility as evaporation, irrigation, or in products leaving the site divided by the water delivered to the facility; (2) TSS in the wastewater; and (3) effective October 1, 2004, COD of the wastewater. Incorporation of COD into the rate structure was designed to help the City meet requirements of certain grants issued pursuant to the Clean Water Act and loans granted pursuant to the State Water Resources Board's SRF Loan program. Under this rate structure, revenues derived from sewer fees and charges are used solely for the purpose of defraying costs incurred to provide sewer collection and transportation, treatment and disposal services; facilities and equipment maintenance, and capital projects.

Each single-family residential customer's individualized flat sewer rate is based upon the amount of water used during the previous winter, and includes a usage cap of 20 hundred cubic feet and an assumed return factor of 95%. See "RISK FACTORS—Risks Relating to the Water Supply." Every winter, primarily during the months of December through March, the City monitors the amount of water each customer uses. The winter months are when the measuring takes place because that is when the highest percentage of water used is returned to the wastewater system. The City monitors water usage during two billing cycles and uses the total from the cycle with the least amount of usage to calculate the sewer rate. Once the monitoring period is finished, an individualized flat rate is determined for each customer, and that rate goes into effect beginning with the bill that includes July 1 of the following year. The rate is in effect for one year and will be updated with new data every July 1. Multifamily residential rates are based on 95% of actual water use. Chemical Oxygen Demand ("COD") and TSS loadings components of the charge are the same for both single family residential and multifamily accounts and do not vary from month-to-month. These fixed strength loadings are incorporated into the class-specific fixed charges for commercial and industrial accounts and based on actual monthly water use and the percentage return COD loading and TSS loading, which varies between industries. See "—Accounts Receivable" below for additional information on the Department's enforcement of rates and collection of bills.

Treatment Plant Services Revenue. Pursuant to the terms of the Amended and Restated Regional Wastewater Disposal Agreement, the City bills each Participating Agency based on its use of the Wastewater System and its capacity rights. See "THE WASTEWATER SYSTEM—Participating Agencies." The City bills the Participating Agencies quarterly based on the budget for the corresponding Fiscal Year. An audit is performed at the end of each Fiscal Year to confirm the amount of Metropolitan Sub-System expenditures. Actual expenditures are compared to the budget used to bill each Participating Agency, and each Participating Agency is then issued either a refund or invoiced for any underpayment. The adjustments, which have ranged from \$1 million to \$20 million (and on average \$5 million), reflect a reconciliation of the estimated amounts charged by the Department to the actual expenditures of the Department. The adjustments have historically been revenue-neutral to the Wastewater System. The Participating Agencies set the sewer service and capacity charges that are used to bill their respective customers in order to meet their own wastewater needs and their share of the Metropolitan Sub-System costs. The sewer service charges currently in effect for the various Participating Agencies are varied and are not controlled by the City. Any failure by a Participating Agency to generate sufficient sewer revenues does not affect the obligation of such Participating Agency to pay amounts owed to the City under the Amended and Restated Regional Wastewater Disposal Agreement.

Table 10 below sets forth the sources of sewer service charge revenues of the Sewer Revenue Fund for the Fiscal Years 2019 through 2023.

TABLE 10
WASTEWATER SYSTEM
HISTORICAL SOURCES OF SEWER SERVICE CHARGE REVENUES¹
Fiscal Years Ended June 30, 2019 through June 30, 2023
(\$ Amounts in Thousands)

Sources	2019	2020	2021	2022³	2023
Single Family Domestic	\$113,683	\$104,004	\$105,360	\$121,974	\$128,273
Multifamily (Other Domestic)	75,556	75,739	82,191	78,206	76,517
Commercial/Industrial	88,104	82,041	77,636	77,128	74,565
Treatment Plant Service for Others ²	78,311	88,555	84,805	98,947	91,058
TOTAL	\$355,654	\$350,339	\$349,992	\$376,255	\$370,413

¹ Constitutes a component of System Revenues; does not include capacity charges or other operating revenues which are included in calculating Net System Revenues as defined in the Master Installment Purchase Agreement.

² Includes sewer service charge revenues from Participating Agencies, the United States Navy, and other agencies.

³ Increase in single family domestic revenues reflects a ten percent increase in usage and rate increase implemented on January 1, 2022.

Source: Department of Finance, City of San Diego.

Table 11 below sets forth the ten largest customers of the Municipal Sub-System for Fiscal Year 2023. In Fiscal Year 2023, the ten largest customers of the Municipal Sub-System, in terms of billings, accounted for approximately 6.39% of the Wastewater System's total operating revenues. The largest customer of the Municipal Sub-System is the United States Navy, which accounted for 1.96% of the Sewer Revenue Fund's total operating revenues in Fiscal Year 2023.

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TABLE 11
MUNICIPAL SUB-SYSTEM
TEN LARGEST CUSTOMERS
Fiscal Year Ended June 30, 2023¹

<u>Customers</u>	<u>Sewer Billings</u>	<u>Percent of Total Operating Revenue²</u>
U.S. Navy	\$7,508,107	1.96%
C.P. Kelco	3,977,337	1.04
SD Family Housing LLC	3,301,425	0.86
University of California, San Diego	2,343,325	0.61
City of San Diego	2,015,324	0.53
Federal Government ³	1,310,343	0.34
San Diego Unified School District	1,050,755	0.27
San Diego State University	974,994	0.26
R.J. Donovan Correctional Facility	974,868	0.26
East Mesa Detention Facility	974,299	0.25
TOTAL⁴	\$24,430,778	6.39%

¹ Does not include Participating Agencies or customers served by Participating Agencies.

² Reflects percentage of fiscal year 2023 total operating revenues of \$382,225,820 for the Wastewater System; includes revenues from Participating Agencies. See the line item entitled "Total Operating Revenues" in TABLE 13—"SEWER REVENUE FUND STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION."

³ Excludes the United States Navy.

⁴ May not add up due to rounding.

Sources: Public Utilities Department (billings); and Department of Finance (total operating revenue), City of San Diego.

Accounts Receivable

Typically, the City seeks to collect unpaid bills by: (a) issuing a payment reminder notice 25 days after a bill is issued; (b) issuing a shut-off notice 38 days after a bill is issued; and (c) shutting off the customer's water service 48-54 days after a bill is issued. This procedure results in almost all past due bills being paid. If necessary, the City establishes a payment plan for customers who are unable to pay a past due amount. Open accounts closed with an amount due and unpaid are referred to the City Treasurer for collection activities 75 days after the bill is issued but unpaid. Bills on closed accounts are referred to the City Treasurer for collection activities 91 days after the bill is issued as unpaid. An allowance is taken each Fiscal Year for accounts receivable that are not expected to be paid. The City suspended shut-offs beginning in March 2018 due to a high volume of water billing issues, and the suspension is expected to continue in Fiscal Year 2025. The City has put an enhanced focus on outreach to its top 100 non-residential customers with delinquencies, who represent 23% of the total outstanding amount due. The City's customer service team members ensure these customers understand their accounts are delinquent and offer to set up payment plans to recover past due amounts.

Under the State of California's Water and Wastewater Arrearage Payment Program, the City submitted a \$9.6 million claim for wastewater customers on April 1, 2022. The claim was paid by the end of Fiscal Year 2022. The City submitted a second claim and received \$47 million in Fiscal Year 2024 to apply to wastewater and water accounts. The City estimates that 32% or \$15.2 million will be applied to wastewater accounts, but the final number is expected to be known by the middle of Fiscal Year 2025.

Table 12 below sets forth information related to accounts receivable and number of shut-offs.

TABLE 12
WASTEWATER CUSTOMER ACCOUNTS RECEIVABLE AND SHUT-OFFS
For Fiscal Years Ended June 30, 2019 through June 30, 2023
(\$ Amounts in Thousands)

	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Sewer Service Charge Revenue	\$355,654	\$350,339	\$349,992	\$376,255	\$370,413
Accounts Receivable ^{1,2}	\$49,799	\$56,843 ⁵	\$63,605 ⁵	\$73,379 ⁵	\$82,014 ⁵
Accounts Receivable Over 120 Days ^{1,3}	\$7,349	\$12,184 ⁵	\$18,462 ⁵	\$23,153 ⁵	\$26,945 ⁵
Number of Shut-Offs ⁴	—	—	—	—	—

¹ Excludes amounts payable by Participating Agencies.

² Accounts Receivable are as of June 30, Fiscal Year-end; includes the receivable portion of the billed customer accounts and sewer services delivered but not billed in between billing cycles.

³ The suspensions of shut-offs, as described in Footnote 4 below, contributes to the increase from the prior years for Fiscal Years 2019 through 2023.

⁴ Shut-offs are directly related to water service. The Public Utilities billing system includes both Water and Wastewater, so the Wastewater system is indirectly impacted by Water shut-offs. Shut-offs for non-payment may include multiple shut-offs associated with the same account throughout the Fiscal Year. The City suspended shut-offs beginning in March 2018 due to a high volume of water billing issues, and the suspension continued in Fiscal Years 2019 through 2023.

⁵ Accounts receivable during the last quarter of Fiscal Year 2020 through Fiscal Year 2023 may reflect the financial impact of the COVID-19 pandemic on some Wastewater customers. In June 2022, the City received a payment of approximately \$9.6 million under the California Water Arrearage Payment Program administered by the State Water Resources Control Board (the "SWRCB") to cover customer debt accrued between March 4, 2020 and June 15, 2021 resulting during the COVID-19 pandemic emergency. \$8.1 million was credited to eligible residential and commercial customer accounts in Fiscal Year 2023.

Sources: Fiscal Years 2019-2023 Annual Comprehensive Financial Report, City of San Diego with respect to "Sewer Service Charge Revenue." Public Utilities Department, City of San Diego, for all other line items and footnotes.

Historical Revenues and Expenses

Table 13 below sets forth the Statements of Revenues, Expenses and Changes in Fund Net Position for the Sewer Revenue Fund for Fiscal Years 2019 through 2023. For purposes of calculating the Net System Revenues available to pay the City's Obligations under the Installment Purchase Agreement, including the 2024-1 Installment Payments securing the Series 2024A Bonds, the following are not taken into account: amounts set forth in the line item "Depreciation," non-cash amounts set forth in the line item "Gain (Loss) on Sale/Retirement of Capital Assets," amounts set forth in the line item "Interest Expenses" and amounts relating to assets contributed by developers (which constitute a portion of the amount set forth in the line item "Capital Contributions"). For Net System Revenues available to pay the City's Obligations under the Installment Purchase Agreement for Fiscal Years 2019 through 2023, see TABLE 15 "CALCULATION OF HISTORICAL SENIOR AND AGGREGATE DEBT SERVICE COVERAGE."

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TABLE 13
SEWER REVENUE FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION¹
Fiscal Years Ended June 30, 2019 through June 30, 2023
(\$ Amounts in Thousands, Except Footnotes)

	2019	2020	2021	2022	2023
OPERATING REVENUES					
Sewer Service Charges					
Inside City:					
Domestic ²	\$189,239	\$179,743	\$187,551	\$200,180	\$204,790
Commercial and Industrial ²	88,104	82,041	77,636	77,128	74,565
Outside City:					
Treatment Plant Service for Others ²	78,311	88,555	84,805	98,947	91,058
Subtotal: Sewer Service Charges ²	\$355,654	\$350,339	\$349,992	\$376,255	\$370,413
Services provided to City departments ²	3,265	2,874	2,428	2,494	3,581
Total Charges for Services	\$358,919	\$353,213	\$352,420	\$378,749	\$373,994
Other Operating Revenues	9,060	7,610	8,914	8,310	8,231
TOTAL OPERATING REVENUES	\$367,979	\$360,823	\$361,334	\$387,059	\$382,225
OPERATING EXPENSES					
Salary and Benefits	86,954 ³	100,977 ³	108,660	90,884 ⁸	96,805
Supplies	29,259	27,062	27,141	31,110 ⁹	42,463 ⁹
Contracts	74,024	72,405	88,123 ⁴	84,092	91,392
Information Technology	7,196	7,586	6,745	11,682 ¹⁰	11,781
Energy and Utilities	20,869	20,733	20,525	25,710 ¹¹	34,545 ¹¹
Other Expenses ⁵	21,230	15,131	(3,271)	790	737
Depreciation and Amortization	77,306	78,464	80,106	83,598	84,877
TOTAL OPERATING EXPENSES	\$316,838	\$322,358	\$328,029	\$327,866	\$362,600
OPERATING INCOME (LOSS)	\$51,141	\$38,465	\$33,305	\$59,193	\$19,625
NONOPERATING REVENUES (EXPENSES)					
Earnings on Investments ⁶	12,625	11,851	1,338	(5,412)	6,518
Federal Grant Assistance	—	10,108	—	1,756	8,149 ¹³
Leases from Amortization of Defer Inflow	—	—	—	1,189 ¹²	—
Other Agency Grant Assistance	—	—	—	9,600 ¹⁴	—
Gain (Loss) on Sale/Retirement of Capital Assets	(908)	(3,715)	(912)	(711)	(1,138)
Debt Service Interest Expense	(38,835)	(36,322)	(31,086)	(26,412)	(32,949)
Other	10,033	7,155	9,119	31,097 ¹⁵	7,876
TOTAL NONOPERATING REVENUES (EXPENSES)	\$(17,085)	\$(10,923)	\$(21,541)	\$11,107	\$(11,544)
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	34,056	27,542	11,764	70,300	8,081
Capital Contributions ⁷	14,975	21,039	29,625	51,155	43,010
Transfers In	448	471	30	—	—
Transfers from Governmental Funds	—	529	443	—	—
Transfers Out	—	(1,000)	(2,350)	(665)	(1,683)
Transfers to Governmental Funds	(24)	—	—	—	—
Extraordinary Gains	—	—	—	(7,953) ¹⁶	—
CHANGE IN NET POSITION	\$49,455	\$48,581	\$39,512	\$112,837	\$49,408
NET POSITION AT BEGINNING OF YEAR	\$2,487,916	\$2,537,371	\$2,585,952	\$2,625,464	\$2,738,301
NET POSITION AT END OF YEAR	\$2,537,371	\$2,585,952	\$2,625,464	\$2,738,301	\$2,787,709

Footnotes appear on next page.

Footnotes to table on previous page.

- ¹ Terms used in this table are derived from the City's Annual Comprehensive Financial Report for the indicated year. Certain terms included in this table do not have the meanings ascribed to them in the Master Installment Purchase Agreement. Also, amounts included in this table reflect the application of generally accepted accounting principles ("GAAP") and, as such, do not match tables in this Official Statement that were not prepared in accordance with GAAP.
 - ² Unaudited.
 - ³ After completion of Fiscal Year 2019, a reallocation of Salary and Benefits was made between employees of the Water Utility Fund and the Sewer Revenue Fund of the Public Utilities Department. This resulted in a \$6.5 million correcting adjustment in Fiscal Year 2020.
 - ⁴ The increase in Fiscal Year 2021 is due to contracts related to the condition assessments of the Point Loma Plant, removal and disposal services at the Metropolitan Biosolids Center and Point Loma Plant, and an increase in liability claims expenses.
 - ⁵ Fiscal Years 2019-2023, Other Expenses include payouts to Participating Agencies. Credit balance in Fiscal Year 2021 and an increase in expense in Fiscal Year 2022 are due to adjustments of prior year estimates to Participating Agencies.
 - ⁶ In Fiscal Year 2021 decrease in investment earnings reflects the \$5.6 million reversal of Fiscal Year 2020 unrealized gains. Investment Income further decreased in Fiscal Year 2022 primarily due to a \$7.1 million unrealized loss on pooled investments. In Fiscal Year 2023 investment earnings increased due mainly to a \$7 million decrease in unrealized loss.
 - ⁷ Capital contributions include capital grants, donated/found assets, and Capacity Charges revenues.
 - ⁸ The decrease in Fiscal Year 2022 Salary and Benefits expense is primarily due to a decrease in pension expense as a result of recognition of investment gains and losses.
 - ⁹ The increase in Fiscal Year 2022 Supplies expense is primarily due to an increase in chemical cost as a result of inflation and supply availability. In Fiscal Year 2023 chemical cost further increased due to those factors. In Fiscal Year 2023, costs increased due to pump repairs, increases in other machine parts, increases in electrical and electric motive parts expenditures contributed to the overall increases over Fiscal Year 2022.
 - ¹⁰ The increase in Fiscal Year 2022 Information Technology expense is mainly due to the increase in support for the Pure Water Program, North City Water Reclamation Plant expansion, and Energy Production Program.
 - ¹¹ The increase in Fiscal Year 2022 Energy and Utilities expense is mainly due to the removal of fuel cells at the South Bay Water Reclamation Plant, unscheduled downtime of electrical generators that use methane gas produced in the Wastewater treatment process, and a reduction in the sale of naturally produced methane gas. Fiscal Year 2023 Energy and Utilities expense further increased due to inflation and higher rate charges from San Diego Gas and Electric.
 - ¹² The presentation of leases was changed in Fiscal Year 2022 with the implementation of GASB 87.
 - ¹³ The increase in Fiscal Year 2023 Federal Grant Assistance is mainly due to a \$8.1 million COVID-19 relief fund payment from the California Water Arrearage Payment Program administered by the State Water Resources Control Board from federal funding to cover customer debt accrued between March 4, 2020 and June 15, 2021 resulting during the COVID-19 pandemic emergency. Sewer Service Charges revenue was correspondingly reduced by \$8.1 million in Fiscal Year 2023 to offset the payment in the Federal Grant Assistance line.
 - ¹⁴ The increase in Fiscal Year 2022 Other Agency Grant Assistance revenue is mainly due to the State Water Resources Control Board from the Proposition 68 grant program for the North County Pure Water Phase 1 projects.
 - ¹⁵ The increase in Fiscal Year 2022 non-operating Other revenue is primarily due to receipt of \$25 million from the State appropriation to assist with the Pure Water Program Phase 1 project.
 - ¹⁶ Extraordinary Loss reflects the liability recorded for one-time costs associated with the unwinding of Proposition B.
- Source of Table: Fiscal Years 2019-2023 Annual Comprehensive Financial Report, City of San Diego.
- Source of Footnotes: Department of Finance and the City of San Diego.

Management's Discussion and Analysis

The following discussion relates to certain items set forth in Table 13. The information below, in connection with the financial condition and results of operations of the Sewer Revenue Fund for Fiscal Year 2023, is unaudited and should be read in conjunction with certain information contained in the 2023 ACFR and, specifically, the portion of the basic financial statements relating to the operation of the Sewer Revenue Fund.

Operating Revenues. Total operating revenues for Fiscal Year 2023 were \$382.2 million, which remain stable from total operating revenues in Fiscal Year 2022.

Operating Expenses. Total operating expenses for Fiscal Year 2023 were \$362.6 million, an increase of \$34.7 million from Fiscal Year 2022, which was made up of an increase in salary and benefits, contracts, supplies and energy and utilities. The \$5.9 million increase in salary and benefits is primarily due to an increase in wages and pension expense as a result of an increase in net pension liability. The

\$11.3 million increase in supplies is mainly due to increases in chemical costs, pump repair costs, other machine parts costs and electrical and electric motive parts expenditures. The \$7.3 million increase in contracts is mainly due to an increase in miscellaneous professional and technical services from as needed engineering services for condition assessments related to the Point Loma Plant as well as multiple contractual expenses related to equipment for multiple pump stations and wastewater treatment sites. The \$8.8 million increase in energy and utilities is mainly due to inflation and higher rate charges from San Diego Gas and Electric.

Non-Operating Revenues. Non-operating revenues were negative \$11.5 million, a decrease of \$22.6 million from Fiscal Year 2022, due to a combination of factors including an \$11.9 million increase in earnings on investments, a decrease of \$23.2 million in other non-operating revenues, largely due to receipt of \$25 million in Fiscal Year 2022 from the State appropriation to assist with the Pure Water Program Phase 1 project, and an increase in \$6.5 million in debt service interest expenses.

Contributions and Transfers. Contributions and transfers for Fiscal Year 2023 were \$41.4 million, which remain stable from contributions and transfers in Fiscal Year 2022.

Sewer Revenue Fund Reserves

The City has established accounts within the Sewer Revenue Fund for three reserve funds: the Rate Stabilization Fund Reserve (“Rate Stabilization Fund”), the Emergency Operating Reserve, and the Emergency Capital Reserve. The Department operates these reserve funds in accordance with the City’s reserve policy (the “City Reserve Policy”). The City’s goals with respect to the City Reserve Policy are to provide adequate cash balances to ensure that the City meets its cash flow obligations, maximizes earnings on investments, minimizes borrowing costs and maintains the highest credit on its bonds and financial obligations. As of June 30, 2023, the Sewer Revenue Fund had total reserves of approximately \$153 million. The Department expects that the Sewer Revenue Fund total reserves balance as of June 30, 2024 will be \$163 million.

The Rate Stabilization Fund was established and is maintained pursuant to the Installment Purchase Agreement. Transfers in and out of this fund serve as a revolving mechanism to mitigate potential fluctuations in the rates for the Wastewater System operations and maintain stable debt service coverage ratios for the outstanding Obligations. The permitted uses of the Rate Stabilization Fund are limited to the Maintenance and Operation Costs of the Wastewater System. The City Reserve Policy establishes a baseline target for the Rate Stabilization Fund in an amount equal to 5% of the prior Fiscal Year Wastewater System total operating revenues. The funding level in the Rate Stabilization Fund can go up or down depending on year to year changes in the Wastewater System’s operating revenues and expenditures. The Rate Stabilization Fund will be treated as a coverage stabilization tool enabling transfers into and out of the fund, as necessary by the Chief Financial Officer, upon recommendation of the Department. Transfers may be made into the Rate Stabilization Fund, increasing the balance above the 5% baseline, if there are excess Net System Revenues in any given Fiscal Year. In contrast, if Net System Revenues decrease in any given Fiscal Year, amounts can be withdrawn from the Rate Stabilization Fund to cover current Fiscal Year Maintenance and Operation Costs of the Wastewater System. If amounts on deposit in the Rate Stabilization Fund decrease below the baseline amount of 5% of the prior Fiscal Year Wastewater System total operating revenue, it will be replenished to the target level from any surplus Net System Revenue in the next Fiscal Year or in conjunction with the City Council authorization of a future cost of service study and rate adjustments. As of June 30, 2023, the balance in the Rate Stabilization Fund was \$89.3 million which is greater than the requirement by \$69.9 million. The Department expects that the balance in the Rate Stabilization Fund for June 30, 2024 will be \$90.3 million. The Department has increased the Rate Stabilization Fund in recent years in anticipation of using it from Fiscal Years 2025 through 2029 to stabilize its debt service coverage ratios. The Department expects to draw down amounts in excess of the

5% target within the City Reserve Policy by Fiscal Year 2028 to mitigate future rate increases and maintain debt service coverage ratios that meet or exceed covenanted ratios. The Rate Stabilization Fund is expected to be replenished to meet the 5% target within the City Reserve Policy by Fiscal Year 2030. Table 14 illustrates the historical use of the Rate Stabilization Fund Reserve, and Table 16 illustrates the projected utilization in future years. Projected deposits are discretionary and could be modified as needed for any reason.

The Emergency Operating Reserve is intended to be used in the event of a catastrophe that prevents the Wastewater System from operating in its normal course of business. The reserve level is defined as the number of days of operation it could support in the event of a major disruption to the Wastewater System. It is calculated based on the annual operating budget for the Fiscal Year, less the budgeted operating contingency and the budget for all debt service on the Obligations. The Emergency Operating Reserve target is equivalent to 70 days of operations. Any reserves provided by the Participating Agencies for their proportionate share of the Metropolitan Sub-System are counted toward the 70-day target. This reserve level target of 70 days recognizes that the Wastewater System has a large, diversified customer base, a steady and reliable demand for services, and other reserves available for specific needs. Use of the Emergency Operating Reserve is restricted to emergency situations, and City Council approval is required to appropriate these reserves. Any request to utilize the Emergency Operating Reserve will include a plan and timeline for replenishment, which may be in conjunction with the City Council authorization of a future cost of service study and rate adjustment. As of June 30, 2023, there was approximately \$54.1 million in the Emergency Operating Reserve, which met the reserve target of \$53.7 million for the Fiscal Year 2023. The Department expects that the balance in the Emergency Operating Reserve for June 30, 2024 will be approximately \$62.7 million.

The Emergency Capital Reserve is intended to be used for emergency capital needs. The reserve is budgeted annually at \$10.0 million in the Wastewater System CIP budget. If the reserve is used to fund unforeseen emergency conditions resulting in the need to immediately repair or replace existing assets, approval from the Chief Financial Officer or the Chief Operating Officer is required. As of June 30, 2023, there was \$10 million in the Emergency Capital Reserve. The Department expects that the balance in the Emergency Capital Reserve for June 30, 2024 will be approximately \$10.0 million.

Table 14 below sets forth the reserve amounts in the Sewer Revenue Fund and the cash and investments on deposit in the Sewer Revenue Fund for the Fiscal Years ended June 30, 2019 through 2023.

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TABLE 14
RESERVES AND CASH AND INVESTMENTS IN SEWER REVENUE FUND
Fiscal Years Ended June 30, 2019 through June 30, 2023
(\$ Amounts in Thousands, Except Footnotes)

	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
<i>Reserve Funds</i> ¹					
Emergency Operating Reserve	\$ 48,280	\$ 50,749	\$ 50,749	\$ 54,083	\$ 54,083
Rate Stabilization Fund Reserve	72,750	78,250	73,250	98,250	89,250
Emergency Capital Improvement Reserve	10,000	10,000	10,000	10,000	10,000
<i>Total Reserve Funds</i>	<u>\$131,030</u>	<u>\$138,999</u>	<u>\$133,999</u>	<u>\$162,333</u>	<u>\$153,333</u>
 <i>Cash and Investments in Sewer Revenue Fund</i> ³					
	<u>\$368,966</u> ²	<u>\$332,822</u>	<u>\$302,081</u>	<u>\$408,391</u> ⁵	<u>\$280,708</u>
 <i>Days of Cash on Hand</i> ⁴	554	490	436	492 ⁵	352 ⁶

¹ Established in accordance with City Reserve Policy. For Fiscal Year 2023, the Emergency Operating Reserve and Emergency Capital Improvement Reserve amounts met target levels and the Rate Stabilization Fund amount exceeded target levels.

² The Fiscal Year 2019 cash position was elevated due to the one-time release of \$64 million from the Debt Service Reserves after paying off the 2009A and 2009B Sewer Revenue bonds.

³ Cash and Investments (which includes the Reserve totals above) consists of cash on hand and investments held in the City Treasurer's Pooled Investment Fund, and includes Restricted Cash and Investments (Restricted Cash and Investments primarily includes bond proceeds from previous issuances and reserves related to SRF loans).

⁴ Days of Cash on Hand is calculated by: Cash and Investments of the applicable Fiscal Year / (Operating Expenses for the applicable Fiscal Year less Depreciation / 365 days).

⁵ Increases in 2022 for Total Cash and Investments and associated Days of Cash on Hand reflect bond proceeds of \$73 million, grant assistance of \$9.6 million, and a State Appropriation of \$25 million.

⁶ Decrease in days cash in 2023 is the result of the cash drawdown of bond proceeds received in 2022 and pending reimbursements under the State Revolving Funds Loans for prior and current year construction expenses for the Pure Water Program that have not been approved by the State of California for disbursement.

Sources for Reserve Funds and footnotes: Public Utilities Department; and Department of Finance, City of San Diego.

Sources for Cash and Cash Equivalents in Sewer Revenue Fund and Days Cash on Hand: City's Annual Comprehensive Financial Report for Fiscal Years 2019 through 2023.

Unaudited Cash and Investments within the Sewer Revenue Fund as of March 31, 2024 is \$145 million (unrealized gains/losses not included). This results in an estimated 162 Days Cash on Hand as of March 31, 2024 based on projected Fiscal Year 2024 operating expenses. The reduction in Days Cash on Hand since Fiscal Year 2023 is primarily due to the City's use of cash to fund Wastewater System improvements. However, such Wastewater System improvement expenses are expected to be reimbursed with proceeds of the Series 2024A Bonds of approximately \$120 million to \$150 million. The City expects that it will have sufficient unrestricted cash for its operating needs, as well as cash to advance funds for its capital needs in advance of reimbursement from debt proceeds.

Historical Debt Service Coverage

Table 15 below sets forth the total System Revenues of the Wastewater System, the total Maintenance and Operation Costs of the Wastewater System (excluding depreciation) and the resulting debt service coverage for the Outstanding Senior Obligations and all of the outstanding Obligations for Fiscal Years 2019 through 2023 consistent with the terms of the Installment Purchase Agreement.

TABLE 15
CALCULATION OF HISTORICAL DEBT SERVICE COVERAGE
Fiscal Years Ended June 30, 2019 through June 30, 2023
(\$ Amounts in Thousands, Except Footnotes)

		2019	2020	2021	2022	2023
All System Revenues prior to Rate Stabilization Fund Reserve transfers ^{1,2,3}		\$404,377	\$410,801	\$391,550	\$450,627	\$434,420
Transfers (to)/from Rate Stabilization Fund Reserve		—	(\$5,500)	\$5,000	(\$25,000)	\$9,000
Total System Revenues		\$404,377	\$405,301	\$396,550	\$425,627	\$443,420
Total Maintenance & Operation Costs⁴		\$239,556	\$244,894	\$250,273	\$244,933	\$279,405
Net System Revenues absent transfers (to)/from the Rate Stabilization Fund Reserve	A	\$164,821	\$165,907	\$141,277	\$205,694	\$155,015
Net System Revenues	B	\$164,821	\$160,407	\$146,277	\$180,694	\$164,015
Senior Obligations⁵						
Principal		\$64,635	\$65,080	\$67,954	\$71,342	\$76,617
Interest		\$38,487	\$35,115	\$32,287	\$28,625	\$25,508
Total Senior Debt Service	C	\$103,122	\$100,195	\$100,241	\$99,967	\$102,125
Senior Debt Service Coverage	B/C	1.60	1.60	1.46	1.81	1.61
All Obligations⁶						
Total Debt Service	D	\$109,181	\$106,254	\$105,412	\$104,935	\$115,140
Aggregate Debt Service Coverage absent transfers (to)/from the Rate Stabilization Fund Reserve	A/D	1.51	1.56	1.34	1.96	1.35
Aggregate Debt Service Coverage	B/D	1.51	1.51	1.39	1.72	1.42

¹ The decrease in System Revenues for Fiscal Year 2021 reflects the \$5.6 million reversal of Fiscal Year 2020 unrealized gains. Additionally, Fiscal Year 2020 includes \$10.1 million in grant proceeds which were not continued in Fiscal Year 2021 (WaterSmart Bureau of Reclamation agreement completed in Fiscal Year 2020). Increase in Fiscal Year 2022 reflects receipt of several one-time revenues including bond proceeds, grant assistance of \$9.6 million, and a State Appropriation of \$25 million for the Pure Water Program.

² “System Revenues”, in accordance with the Master Installment Purchase Agreement (“MIPA”), includes accrual basis operating revenues and non-operating revenues (i.e. interest earnings, federal and other agency grant assistance, and other income) as well as transfers from governmental and other funds, and the cash-based components of capital contributions and gain/loss on sale/retirement of capital assets. Pursuant to the MIPA, there shall be deducted from “System Revenues” any amounts transferred into the Rate Stabilization Fund and there shall be added to “System Revenues” any amounts transferred out of such Rate Stabilization Fund. Amounts in the Rate Stabilization Fund are not included in the calculation of debt service coverage for purposes of the MIPA. The amounts reflected as “All System Revenues” are revenues of the Water System prior to any such transfer and is provided for information only.

³ Pursuant to an Administrative Protocol, the Participating Agencies are required to make annual contributions towards the 1.20 times debt service coverage ratio requirement on Parity Obligations (Parity Obligations can also be referred to as Senior Obligations) that were incurred to finance improvements to the Metropolitan Sub-System.

⁴ Amounts under Total Maintenance and Operation Costs, in accordance with the MIPA, include accrual basis operating expenses, transfers to governmental and other funds, and excludes depreciation.

⁵ Parity Obligations include the Outstanding Senior Bonds and the Existing Parity SRF Loans (Senior Obligations can also be referred to as Senior Obligations). Utilizes definitions in accordance with the MIPA.

⁶ All Obligations includes Parity Obligations (including the Outstanding Senior Bonds and the Existing Senior SRF Loans), the Outstanding Subordinate Bonds, and the Existing Subordinated SRF Loans. Utilizes definitions in accordance with the MIPA.

Source of Table: Statistical Section (Unaudited) of the City’s Annual Comprehensive Financial Report for Fiscal Years 2019 through 2023 (excluding data under the headings “Net System Revenues absent transfers (to)/from the Rate Stabilization Fund Reserve” and “Aggregate Debt Service Coverage absent transfers (to)/from the Rate Stabilization Fund Reserve”); Department of Finance for data under the headings “Net System Revenues absent transfers (to)/from the Rate Stabilization Fund Reserve” and “Aggregate Debt Service Coverage absent transfers (to)/from the Rate Stabilization Fund Reserve.”

Source of Footnotes: Public Utilities Department; Department of Finance, City of San Diego.

Financial Projections

Table 16 below sets forth the financial forecast for Fiscal Years 2024 through 2029. The projections for Fiscal Year 2025 are materially consistent with the Mayor's Fiscal Year 2025 budget, which was adopted by the City Council in June 2024. In developing the financial forecast, the City has made several assumptions including the following:

Operating Revenues and Interest. The primary component of operating revenue is the sewer service charge revenues. Sewer service charge revenues are derived from the rates paid by customers for wastewater service and are based on the number of customer accounts and projected usage. The projections assume 0.25% growth in the number of accounts and a 0% increase in usage. Usage is applied against the maximum approved rates through January 1, 2025 and proposed additional increases of 7% in Fiscal Year 2026 and 6% in Fiscal Years 2027 through Fiscal Year 2029, respectively. See "WASTEWATER SYSTEM FINANCIAL OPERATIONS — Service and Capacity Charges." Actual sewer service charge revenues may vary as a result of higher or lower precipitation amounts, especially during the winter which is used to establish usage levels for the single-family residential customers, which comprise approximately 34% of total operating revenues. Another large component of operating revenues is the reimbursements from the Participating Agencies who receive wholesale wastewater treatment services. The reimbursements are projected to be approximately \$100 million in Fiscal Year 2025 \$95 million in Fiscal Year 2026 and \$85 million Fiscal Year 2027 through Fiscal Year 2029, reflecting decreases in flows from the City of El Cajon, the County of San Diego and Padre Dam wastewater customers. Actual contributions are adjusted each Fiscal Year based on audited actuals and the actual flows observed. The projections assume no major changes occur in billings or flows from the Participating Agencies during this period. See "THE WASTEWATER SYSTEM—Participating Agencies—Recent Developments Regarding the Participating Agencies."

Capacity Charges. Sewer capacity fees are collected for the maintenance or operation of existing sewer facilities, as well as future expansion, and are calculated by EDUs. As of January 1, 2022, the City increased its sewer capacity fees from \$4,639 per EDU to \$5,154 per EDU. Projections for Fiscal Year 2025 through 2029, which are approximately \$25 million per year, assumes that the level of construction activity will remain within historical averages, but on a slower pace of development from the \$32 million for Fiscal Year 2024.

Transfers to and from reserves. Transfers to and from reserves represents the aggregate activity of contributions and use of the reserves for the Sewer Revenue Fund. See "—Sewer Revenue Fund Reserves" above. The projections include funding Emergency Operating Reserve and Emergency Capital Improvement Reserve in line with their policy levels and utilizing excess reserves in the Rate Stabilization Fund above the policy target to reduce year to year variances in the Senior and Subordinated Debt Service Coverage and to moderate abrupt swings in customer rates from year to year. The projections include transfers from the Rate Stabilization Fund and transfers to the Emergency Operating Reserve. The City expects to gradually draw down amounts in the Rate Stabilization Fund, below targeted Rate Stabilization Fund levels, to mitigate future rate increases and maintain debt service coverage ratios that meet or exceed covenanted ratios. See "—Sewer Revenue Fund Reserves" above.

Maintenance and Operations. The City projects Maintenance and Operation costs through a process that begins with the budget for Fiscal Year 2024. The City then modifies these levels of costs to account for prior and current year trends identified after the costs set forth in the budget have been finalized. The City then develops a baseline projection that accounts for one-time changes in the current budget projections and assumes growth in key categories such as supplies, contracts, energy and personnel costs based on past growth and projected trends based on available information. Adjustments are made to the projections to add known programmatic changes such as the beginning of operations for the Pure Water

Program in Fiscal Year 2026 and Fiscal Year 2027 and assumed increases in salaries and benefits for certain represented employees, onto the baseline forecast. This process is further detailed in the City’s “Public Utilities Department Five-Year Financial Outlook”, which is released to the public as part of the City’s budget process in the fall and published on the City’s website. The Public Utilities Five-Year Financial Outlook is not incorporated by reference into this official statement.

The achievement of certain results or other expectations contained in Table 16 involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements reflected in Table 16 to be materially different from any future results, performance or achievements expressed or implied by such Table. Although, in the opinion of the City, such projections are reasonable, there can be no assurance that any or all of such projections will be realized or predictive of future results. The proposed rate increases in Fiscal Years 2026 through 2029 require City Council action and may be subject to change under the processes dictated under the State Constitution. There can be no assurance that any proposed rate increases will be approved by City Council and/or implemented upon such approval. Failure of the City Council to approve increased rates or of the City to implement any approve rate increases as described above may have a material adverse effect on the City’s financial projections and projected debt service coverage ratios described below and may impact the City’s ability to finance the remainder of the Pure Water Program which may have a material adverse effect on the City’s finances. See “—Service and Capacity Charges—*Projected Service and Capacity Charges*,” “RISK FACTORS—Statutory and Regulatory Compliance,” “RISK FACTORS—Rate-Setting Process Under Proposition 218,” and “CONSTITUTIONAL LIMITATIONS ON TAXES AND WASTEWATER RATES AND CHARGES.”

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TABLE 16
PROJECTED NET SYSTEM REVENUES AND DEBT SERVICE COVERAGE
Fiscal Years Ending June 30, 2024 through June 30, 2029
(\$ in thousands)¹

Description	2024⁶	2025	2026	2027	2028	2029
System Revenues						
Operating Revenue	\$429,351	\$447,063	\$459,751	\$474,516	\$497,040	\$521,308
Interest Income	11,438	12,006	12,447	14,251	13,260	11,720
Capacity Charge Revenue	32,000	25,000	25,000	25,000	25,000	25,000
Transfers (to)/from Reserves	(10,608)	23,599	(3,762)	25,946	12,167	17,926
Total System Revenues	<u>\$462,181</u>	<u>\$507,668</u>	<u>\$493,436</u>	<u>\$539,713</u>	<u>\$547,467</u>	<u>\$575,954</u>
Maintenance and Operation Costs	<u>\$326,888</u>	<u>\$349,835</u>	<u>\$364,236</u>	<u>\$374,945</u>	<u>\$384,501</u>	<u>\$395,317</u>
Net System Revenues ²	\$135,293	\$157,833	\$129,200	\$164,769	\$162,966	\$180,637
Projected Senior Debt Service ³	\$82,931	\$85,929	\$64,658	\$74,977	\$72,542	\$72,625
Senior Debt Service Coverage	1.63	1.84	2.00	2.20	2.25	2.49
Projected Subordinated Debt Service ⁴	<u>\$14,736</u>	<u>\$29,274</u>	<u>\$30,877</u>	<u>\$46,662</u>	<u>\$46,658</u>	<u>\$59,021</u>
Aggregate Senior and Subordinated Debt Service ⁵	\$97,667	\$115,202	\$95,536	\$121,639	\$119,200	\$131,646
Aggregate Senior and Subordinated Debt Service Coverage	1.39	1.37	1.35	1.35	1.37	1.37

Source: Public Utilities Department and Department of Debt Management, City of San Diego

¹ Amounts may not total due to rounding.

² Net System Revenues consists of Total System Revenues less Maintenance and Operation Costs.

³ Reflects actual debt service on the Series 2015 Bonds, the Series 2016 Bonds and the Existing Senior SRF Loans, and projected debt service on additional loans the City expects to receive from the State Water Resources Board to finance the Pure Water Program and other Wastewater System CIP projects. For Fiscal Year 2023, the Projected Senior Debt Service takes into account the SRF Loans to be finalized prior to the end of Fiscal Year 2023.

⁴ Includes Existing Subordinated SRF Loans, which will be fully paid in Fiscal Year 2026, projected Series 2024A Bonds, and projected future bonds in Fiscal Years 2027 and 2029, as reflected in Table 6 and assumes 30-year amortization structure on a level debt service basis at an interest rate of 4.7% for debt issued in Fiscal Years 2024 through 2025, 5.0% for debt issued in Fiscal Years 2026 through 2027, and 5.3% for debt issued in Fiscal Years 2028 through 2029. "SOURCES AND USES OF FUNDS FOR CAPITAL EXPENDITURES OF THE WASTEWATER SYSTEM CAPITAL IMPROVEMENT PROGRAM."

⁵ Includes Senior Obligations and the Existing Subordinated SRF Loans.

⁶ Amounts for Fiscal Year 2024 are based on assumptions and estimates and do not reflect actual expenditures for the Fiscal Year.

Labor Relations

As provided in the Fiscal Year 2024 Adopted Budget, there are approximately 952 full time equivalent employees of the Department (Wastewater Branch) of which approximately 533 are represented by the San Diego Municipal Employees' Association ("MEA"), and approximately 356 are represented by American Federation of State, County, and Municipal Employees, Local 127 ("AFSCME Local 127") (both "Recognized Employee Organizations"). The remaining employees are not represented by any labor organizations. On a citywide basis, there are four other Recognized Employee Organizations that do not represent any Department (Wastewater Branch) employees.

Collective Bargaining Agreements. The City currently has collective bargaining agreements with MEA and AFSCME Local 127, which represent employees of the Public Utilities Department (Wastewater Branch), consisting of three-year contracts that will terminate on June 30, 2026.

MEA. In June 2023, as part of a three-year agreement, the City Council approved a total of 21% general salary increase in pensionable compensation for MEA-represented employees for Fiscal Years 2024 (10%: 5% - July 1, 2023 and 5% - January 1, 2024), 2025 (6%: 4% - July 1, 2024 and 2% - January 1, 2025), and 2026 (5% - July 1, 2025). In addition, the City Council approved special salary and equity adjustments for approximately 141 classifications ranging from 2.4% to 15.3% each Fiscal Year with various implementation dates of July 1, 2023, January 1, 2024, January 1, 2025, and January 1, 2026. The City Council approved five new special assignment pays (“SAP”) that certain classifications are eligible for based on their assignment. These SAP range from 5% to 10% for Library SAP, Mt. Hope Cemetery SAP, Electrician Certification Pay, Teletype Assignment Pay and Notary Pay. In addition, the City Council extended the 15% Registration Pay to Fire Protection Engineers and a new 10% Infrastructure Pay for Certified Communication Engineers implemented on July 1, 2023. The City Council also approved several voluntary certification pays ranging from 5 – 10% for certain classifications implemented on July 1, 2023. In addition, the City Council approved converting the Voluntary Certification Pay in the Public Utilities Department from a flat dollar amount per hour to a percentage of base pay per hour, and added classifications eligible for these add-on pays.

The City Council approved increases to flexible benefits for the following tiers: Employee Only (hired on or after July 1, 2020); Employee and Spouse/Domestic Partner; and Employee and Spouse/Domestic Partner and Children. Each of these flexible benefit tiers increased as follows: between \$400-\$1,000 effective December 1, 2023; between \$400-\$850 effective December 1, 2024; and between \$400-\$850 effective December 1, 2025.

The City expects to meet and confer with MEA in Fiscal Year 2026 for a successor MOU.

AFSCME Local 127. In June 2023, as part of a three-year agreement, the City Council approved a total 21% general salary increase in pensionable compensation for Local 127-represented employees for Fiscal Years 2024 (10%: 5% - July 1, 2023 and 5% - January 1, 2024), 2025 (6%: 4% - July 1, 2024 and 2% - January 1, 2025), and 2026 (5% - July 1, 2025). In addition, the City Council approved special salary and equity adjustments for approximately 56 classifications ranging from 5.1% to 10% each Fiscal Year with various implementation dates of July 1, 2023, January 1, 2025, and January 1, 2026. The City Council approved two new special assignment pays (SAP) that certain classifications are eligible for based on their assignment. These SAP range from 9% to 10% for Greenskeeper Pay and Cemetery Pay respectively. In addition, the City Council approved converting the Voluntary Certification Pay in the Public Utilities Department from a flat dollar amount per hour to a percentage of base pay per hour, and added classifications eligible for these add-on pays.

The City Council approved increases to flexible benefits for the following tiers: Employee Only (hired on or after July 1, 2020); Employee and Spouse/Domestic Partner; and Employee and Spouse/Domestic Partner and Children. Each of these flexible benefit tiers increased as follows: between \$400-\$1,010 effective December 1, 2023; between \$400-\$700 effective December 1, 2024; and between \$400-\$675 effective December 1, 2025.

The City expects to meet and confer with Local 127 in Fiscal Year 2026 for a successor MOU.

Information Technology

Information Technology Staff and Operations. Staffing for City technology services is supported by 88 City Department of Information Technology (“IT”) professionals and 45 public-safety radio engineers and support staff. In addition to the City staff members, the services are supported by contracts with major third-party contractors for application development and maintenance, enterprise computer services, workplace services, network and voice services. The Fiscal Year 2025 Proposed Budget includes \$139 million to support the Department of IT and its projects.

Each year the Department of IT prepares a five-year strategic plan. The Fiscal Year 2024 through Fiscal Year 2028 IT Strategic Plan is a comprehensive plan developed to align with the City-wide Strategic Plan; modernize the City’s networks, infrastructure, and applications; and integrate IT industry best practices with the delivery and contracting of technology services. This plan includes the acceleration of the transition of City applications to cloud services and enhancement of the resiliency of the City’s application portfolio and securely adapting to an increasingly remote workforce. Roadmaps have been developed for each major area of service, with each roadmap containing hundreds of projects that keep the City’s systems current, adhere to IT governance, target cost reductions, enhance security, improve efficiencies, accelerate mobile and cloud adoption, drive innovation, modernize services, and increase automation.

Cybersecurity. The City’s Information Security Office (“ISO”), a group within the City’s IT department, works to adopt new technology and procedures in an effort to protect the City’s systems and confidential and proprietary data of the City, its employees and members of the public. This office also provides the development, implementation and management of all City-wide information security policies, standards, procedures, and internal controls. The ISO focuses on three core components: (1) Confidentiality – preventing the unauthorized access and disclosure of City information, including protecting personal privacy and proprietary information; (2) Integrity - guarding against improper information modification or destruction by ensuring information non-repudiation and authenticity; and (3) Availability - ensuring timely and reliable access to, and use of, City information and systems. The ISO follows industry best practices, develops City-wide security policies, provides regular security training to all users, and uses best-of-breed security tools to mitigate, prevent, deter and respond to incidents if and when they occur. Additionally, to identify potential vulnerabilities and proactively mitigate them, the City organizes weekly vulnerability scanning of critical systems, annual penetration tests of the information security environment, and regular internal testing of systems and users. These tests are performed by both the ISO and contracted third parties. During off hours, holidays and weekends security tools are monitored by a contracted Security Operations Center. In the event of a cybersecurity breach, the ISO has a documented Incident Response plan that is reviewed and updated on a quarterly basis. If additional assistance is needed, breach response teams are available per established contracts.

The City’s contracted Managed Service Providers secure the IT infrastructure and provide engineering services for the City’s information systems. The City has working relationships and meets regularly with security experts in Federal and state governments, commercial enterprises, academic institutions and law enforcement organizations. By virtue of these relationships, the City aims to stay informed of cyber threats and communicates with proper authorities regarding cyber risks and incidents.

The Department has its own IT division that is responsible for maintaining the Wastewater System’s Central Operations Management Network and distributed control systems for infrastructure monitoring and control and adheres to industrial control system standards. These systems and other industrial control systems maintained by the Department do not allow for remote access.

“See “RISK FACTORS — Cybersecurity” and “WASTEWATER SYSTEM FINANCIAL OPERATIONS — Insurance and Liability Claims.”

Climate Change Assessment and Mitigation Plans of the City

General. In August 2022, the City Council adopted the ‘Our Climate Our Future’ Climate Action Plan (“CAP”) as an update to the original CAP adopted in 2015 (see “—City’s *Climate Action Plan*” below). The Fiscal Year 2024 Adopted Budget allocated \$213.6 million to the direct costs of the CAP and future costs that were considered critical strategic expenditures in the five-year financial outlook used for the preparation of the Fiscal Year 2024 Adopted Budget. The Fiscal Year 2025 Proposed Budget allocates \$201 million to the direct costs of the CAP and future costs that were considered critical strategic expenditures in the Five-Year Outlook; these forecasts include the Wastewater System’s direct costs for the CAP. The CAP establishes a roadmap for the City to meet and exceed the greenhouse gas (“GHG”) emission reduction goals set by the State, while improving San Diego’s environment, economy and communities. In addition to the CAP, the City is developing a set of tools to facilitate transparent and accountable CAP implementation: the Climate Action Implementation Plan (“CAIP”), and the development of annual CAP workplans from implementing departments. The CAIP will provide the pathway for the sequencing of CAP actions and measures, identify departmental responsibilities, and include research into innovative funding solutions. It will also include cost estimates for each action for the first five years of implementation. The CAIP was released in February 2023. The initial estimate to implement new and expanded programs is about \$30 million per year during Fiscal Years 2024 through 2028. CAP departmental workplans are expected to be incorporated into the annual budget process to illustrate how CAP actions are being funded and implemented.

Monitoring reports are prepared by the City’s Sustainability and Mobility Department to track the City’s progress in meeting the goals identified in the CAP. The 2015 Climate Action Plan Final Report was released in 2022. The report showed a 29% reduction in regional GHG emissions in 2019 compared to emissions totals in 2010 and a 4.3% reduction in residential energy use in 2021 compared to energy use per home in 2010. The City recognizes that climate change-related hazards have the potential to negatively impact both public assets and the City’s ability to provide essential services over time.

Another step in the City’s efforts to reduce GHG has been the recent creation of San Diego Community Power (“SDCP”), a regional joint powers authority, to provide 100% clean power through community choice aggregation. SDCP began operations on March 1, 2021 with the goal of providing clean power at competitive rates and achieving 100% renewable energy by 2035. Currently, SDCP is completing enrollment for the five founding member cities of San Diego, Chula Vista, La Mesa, Encinitas, and Imperial Beach. As of January 1, 2024, SDCP serves approximately 939,617 accounts correlating to approximately 1,096,877 meters, which makes SDCP the second largest community choice aggregator in the State. The opt-in rate for customers in the City is currently over 96.6%. SDCP also completed a Community Needs Assessment in 2022 to fully inform the development of future customer programs. Enrollment for customers in National City and in unincorporated areas of the County was completed in May 2023.

Sea Level Rise Concerns. California’s Fourth Climate Change Assessment (2018) projects sea level rise of about one foot by 2050 for the San Diego area, with increases of three feet or more by the year 2100 depending on the pace of climate change in the latter half of the century. The report also projects temperatures to increase by as much as 5°F to 10°F by the end of the 21st century, which will create drier conditions and, potentially, more frequent wildfires. The City completed multiple climate change vulnerability assessments in 2019 and 2020 to better understand the potential risks posed by climate change related hazards. In accordance with State legislation (“AB691”), the City assessed the impact of sea level rise to its tidal lands which are held in public trust for the State. The AB691 State Lands Sea Level Rise Vulnerability Assessment, completed and reported in July 2019, assesses impacts of sea level rise and

coastal processes for the years 2030, 2050, and 2100 and identifies strategies to adapt and reduce potential vulnerabilities. The assessment provides a range of cost estimates for the replacement value of resources and facilities if no mitigation or adaptation measures are implemented. Assuming that storm surge may occur alongside higher sea levels, the City reported the value of City assets at risk in the State-granted land areas ranges from \$139-\$206 million by 2030, and \$208-\$370 million by 2050.

The City also prepared a Sea Level Rise Vulnerability Assessment in 2019, funded in part with support from a California Coastal Commission LCP Local Assistance Grant, as well as a City-wide Climate Change Vulnerability Assessment, funded in part with support from a Caltrans Adaptation Planning Grant. The Sea Level Rise Vulnerability Assessment evaluated the exposure of City assets to coastal flooding and erosion related to sea level rise. This effort also included the completion of a Coastal Erosion Assessment (2018) that assessed 71 site locations along the City's coastline to determine priority rankings. The Coastal Erosion Assessment ("CEA") enables the City to make informed decisions regarding cliff and shoreline improvements. These findings were folded into the City-wide Climate Change Vulnerability Assessment which evaluated the exposure of City assets to additional climate change-related hazards including wildfires, extreme heat, and precipitation driven flooding. The assessment identified increasing exposure of assets from present day through the end of the century. The City-wide Climate Change Vulnerability Assessment was an important step to identify which asset types may warrant further study or may be good candidates for adaptation strategy implementation to reduce vulnerability.

Coastal Erosion Assessment. In 1993 and 2003 the City commissioned a CEA of its 13 miles of shoreline. The study assessed 71 sites and rated them low, moderate, or high risk based on geological observations and knowledge of conditions that pose the greatest threat to the public. The 2003 CEA also included recommendations for remedial measures to improve pedestrian safety, many of which have been implemented. In 2018, the City completed an update to the 2003 CEA that assigned a priority rating to consider the presence of pedestrian hazards, limitations to pedestrian access, and signs of bluff instability. The 2018 CEA priority rankings, along with the 2003 CEA geologically based risk ratings can be utilized by the City to identify remedial actions. The City is inspecting and monitoring coastal assets identified in the CEA on an ongoing basis. As the City continues to plan for sea level rise and evaluate options for coastal assets, new capital improvement projects may be initiated to replace or modify existing coastal infrastructure.

Climate Resilient SD. In 2021, the City adopted Climate Resilient SD, a comprehensive climate adaptation and resilience plan that includes a suite of adaptation strategies to mitigate the risks identified in the vulnerability assessments as well as build City capacity to respond to and recover from climate change-related impacts. The plan addresses both City assets as well as community resilience. Additionally, the plan met the legislative requirements of Senate Bill 379, which requires that cities and counties include a set of adaptation and resilience goals, policies, and implementation in their general plan or local hazard mitigation plan. The extent to which City buildings, equipment and other properties are exposed to climate change-related risks over the next several decades is difficult to determine, as is the potential cost of risk mitigation and adaptation efforts, and any additional services. While these costs over time could be significant and could have a material adverse effect on the City's finances by requiring greater expenditures to mitigate and/or adapt to the effects of climate change, the City expects these costs will be less than the costs it may incur through inaction. The City is now moving forward with implementation of the plan's strategies under the direction of the Chief Resilience Officer, who is responsible for implementing the Climate Resilient SD initiative. An implementation tracker indicating the current status of each adaptation strategy is available on the Climate Resilient SD website.

Coastal Resilience Master Plan. The City received \$1.32 million in grant funding from the National Fish and Wildlife Foundation and the California State Coastal Conservancy to develop a Coastal Resilience Master Plan. The Coastal Resilience Master Plan is an implementation action of Climate

Resilient SD. This plan will identify potential nature-based solutions for locations along San Diego's coast to improve the resilience of the local coastline and communities to sea level rise while also benefiting wildlife, habitat and natural coastal resources. Development of the plan includes concept level designs for six locations, a stakeholder advisory committee, pop-up engagement events and workshops to gather public input, a pilot project design and California Environmental Quality Act environmental analysis.

City's Climate Action Plan. The City is in the process of integrating sustainability into departmental operations. See "WASTEWATER SYSTEM CAPITAL IMPROVEMENT PROGRAM — Integrated Master Planning." Building off the 2015 CAP, the 2022 CAP update includes an implementation plan, complete with cost estimates and annual City Council-approved departmental work plans to ensure both accountability and transparency. To strengthen CAP compliance oversight, the Sustainability & Mobility Department reviews each docketed item appearing before City Council.

The CAP is organized into six strategies. Decarbonization of the Built Environment is a strategy that includes phasing out natural gas City-wide, an all-electric reach code, and strategies to convert the City's municipal building inventory to net-zero emissions. Access to Clean and Renewable Energy maintains the City's commitment to 100% renewable energy and acknowledges that the pathway to achieve this target is through SDCP. The CAP also sets more ambitious targets for converting the City's fleet of vehicles to electric and for the first time aims to increase the number of electric vehicles used by the San Diego community. Mobility and Land Use focuses on emissions from transportation, which account for more than half of all GHG emissions in San Diego. The CAP also includes actions that support the ability to change from one form of transportation to another through mobility and land-use actions and policies, including increases in sidewalks and bike paths. Circular Economy and Clean Communities maintains a 90% waste diversion rate and includes action to fulfill State mandates for organic waste diversion. Resilient Infrastructure and Healthy Ecosystems focuses on urban greening, including increased tree canopy, and local water supply through water recycling projects included in the City's Pure Water San Diego Program, which is a capital program to produce safe, high-quality drinking water from recycled water. The final strategy Emerging Climate Actions keeps the City's options open to innovation, strategic partnerships, and technologies to remove an additional 2.3 million metric tons of CO₂ by 2035.

Carbon Disclosure Project. Since 2012, the City has annually provided a report to the Carbon Disclosure Project with the latest submittal made for 2023. The Carbon Disclosure Project is a non-profit which runs an environmental reporting platform for investors, companies, cities, states and regions globally. The annual voluntary report provides information on the City's goals to combat climate change including risk and vulnerability assessments, climate hazards, social impacts, and the vulnerable populations. The report also includes information on various related topics such as climate change and sustainability topics, the City's adaptation actions to reduce climate change risks, emissions data and goals, targets for transportation projects, waste management projects and water supply management.

Climate Equity Index. The City's CAP also addresses environmental justice and social equity concerns referred to as climate equity. The City's Sustainability Department and the University of San Diego Energy Policy Initiatives Center created the Climate Equity Index as a benchmark for this issue. The Climate Equity Index establishes benchmarks and metrics to serve as a City-wide assessment of climate equity, by assessing census tracts that intersect with the City. Based on the results of the assessment, recommendations are made by City staff to ensure the City is making progress to address climate equity when implementing the CAP and is considering the needs of all residents when planning for the City's future. The average Climate Equity Index score for the City was determined to be 61 on a 100-point scale. Census tracts that scored below the average are considered to have less access to opportunity than the tracts that scored above the average. In total, 172 census tracts scored at or above the average, and 125 tracts scored below average.

The City's Climate Equity Fund was established in Fiscal Year 2021 and can be used for infrastructure projects, primarily funded by the City's General Fund, that are intended to assist disadvantaged communities to be resilient and adapt to the effects of climate change. Revenues deposited into the Climate Equity Fund primarily come from a percentage of General Fund revenue received through the annual gas and electric franchise fees, although the Mayor and the City Council may allocate funding to the Climate Equity Fund from any source of revenue.

City CIP Project Prioritization. The City's CIP policy and prioritization process takes into account two factors that directly address climate change and sustainability. The first factor prioritizes projects that reduce the potential hazards to the public, property and environment, which includes projects that are required to comply with various City plans such as the General Plan, Community Plan, Regional Transportation Plan, the CAP, and/or other approved City-wide master plans. This factor also prioritizes projects that increase resiliency to the effects of climate hazards. The second factor prioritizes projects that improve the natural environment through sustainable designs, multiple transportation options and reduction of the need for automobile-dependency. Other considerations include projects that promote infill development, open space and landform preservation, habitat protection and biological diversity, and enhanced urban runoff management. Projects that result in greener neighborhoods and reduce or avoid the potential public exposure to pollutants, contamination and other hazards to public health and environment receive a higher score. Projects that promote climate resiliency by reducing heat island effect, and projects that result in electrification/decarbonization of municipal facilities and/or fleet also score higher under this factor.

Point Loma Plant Climate Change Action Plan. As a condition of the NPDES Permit CA0107409 Order No. R9-2017-007, the Department completed a Point Loma Plant Climate Change Action Plan. The Point Loma Plant Climate Change Action Plan identified the need to conduct site-specific analysis of selected facilities to further evaluate vulnerabilities to climate change. The plan includes the following elements:

- projected impacts on Metropolitan Sub-System facilities if current climate change trends continue,
- steps taken or planned to address greenhouse gas (GHG) emissions, and
- steps being taken or planned to address:
 - climate-related changes in flooding or rises in sea levels,
 - potential changes related to volatile rain periods (both wet and dry),
 - potential climate-related changes in wastewater flows (both high and low flows),
 - potential changes in process design parameters due to climate-related changes in influent characteristics, including biochemical oxygen demand (BOD), ammonia, and TSS,
 - potential climate-related changes on wastewater treatment operations and effluent quality,
 - the potential need to adjust NPDES permit conditions and Metropolitan Sub-System operations,
 - the financing needs to pay for planned climate-related actions,
 - schedules to update the CCAP as more data become available, and
 - any other factors of relevance to climate change.

The Department also conducted a site-specific analysis of the vulnerability of the Point Loma Plant and access road. This evaluation concluded the main access road leading to the treatment facility was at risk from coastal erosion, with the road being in close proximity to the coastal bluffs. The Department has taken follow-on steps including implementation of a comprehensive monitoring program to measure and detect additional movement or changes along the coastal bluffs and is taking action to develop a long-term

solution to preserve access to the treatment facility. In addition to the vulnerabilities of the Point Loma Plant, sewers and pumping plants can also be threatened by increased flooding risks, decreased flows, power outages, service disruptions, and other changes in subsurface conditions that are caused by the fluctuating climate extremes between wet and dry weather events.

See “RISK FACTORS — Potential Impact of Climate Change and Natural Disasters to the Wastewater System.”

Insurance and Liability Claims

The City participates in the joint purchase of property insurance and flood insurance through Public Risk Innovations, Solutions, and Management (PRISM), a statewide joint powers authority risk pool. The policy term is March 31, 2024, through March 31, 2025, which includes flood and earthquake coverage for certain scheduled locations, including bond financed locations of the Wastewater System. This joint purchase of the City’s “all risk” property insurance, insuring approximately \$4.7 billion of City property and provides coverage for loss to City property under the primary policy up to approximately \$25 million per occurrence and with access to additional excess limits. The policy is subject to a \$50,000 deductible. Additional excess limits are available as part of the City’s insurance property program through PRISM where coverage “towers” with designated coverage limits are provided. Coverage towers are groups of properties, which are diversified based on ownership (risk-pool members) and geographical location. The City participates in four coverage towers with dedicated coverage limits of \$300 million for “All Risk” and Flood. Additional rooftop limits of \$300 million for “All Risk” may be accessible. There is no sharing of limits among the City and member counties of the PRISM pool, unless the City and member counties are mutually subject to losses due to the same occurrence. Limits and coverage may be adjusted periodically in response to requirements of bond financed projects, acquisitions, and in response to changes in the insurance marketplace. The City can give no assurance that any future losses will be covered or that its insurance provider will be able to cover any such losses. Depending on availability and affordability of earthquake insurance, the City may elect not to purchase such coverage in the future. The City maintains casualty insurance on many of the assets of the Wastewater System, including, among other assets, treatment plants, pump stations, administration buildings, garages, warehouses, concession buildings, and labs. The City also maintains Cyber Liability insurance coverage for security and privacy liability claims. Coverage for website media content liability, cyber extortion, and first party data protection is also afforded under this insurance program. Coverage is purchased through the PRISM pool. The City does not maintain any insurance on the pipelines of the Wastewater System because such insurance is not commercially available.

The City is self-insured for long-term disability. The City is self-insured up to \$5 million for workers’ compensation with statutory excess insurance limits above that. For liability claims, the City is self-insured up to \$5 million per occurrence. The City carries excess liability limits up to \$50 million inclusive of the Self-Insured Retention.

The table below sets forth the budget and expenditures for liability claims of the Wastewater System for Fiscal Years 2019 through 2023.

TABLE 17
LIABILITY CLAIMS BUDGET AND EXPENDITURES
Fiscal Years Ended June 30, 2019 through June 30, 2023

<u>Fiscal Year</u>	<u>Budget</u>	<u>Expenditures¹</u>
2019	\$1,506,709	\$1,187,538
2020	1,506,709	656,312
2021	1,506,709	1,551,703
2022	1,506,709	1,222,401
2023	1,506,709	2,766,463

¹ Over-budget expenditures are paid from the Sewer Revenue Fund balance available for appropriation.

Sources: Public Utilities Department; and Risk Management Department, City of San Diego.

Investment of Funds

General. Cash in the funds and accounts of the Sewer Revenue Fund are invested by the City Treasurer in the City Treasurer’s Pooled Investment Fund (the “City Pool”) described below. Approximately 5.2% of the City Pool is allocable to the Sewer Revenue Fund.

City Pool. In accordance with State Law, the Charter of the City and authority granted by the City Council, the City Treasurer is responsible for investing the unexpended cash in the City Pool. Responsibility for the daily investment of funds in the City Pool is delegated to the City Treasurer’s Investment Officers. The City and certain related entities are the only participants in the City Pool; there are no other participants either voluntary or involuntary in the City Pool. The investment objectives of the City Pool are safety of principal, liquidity and return.

The following table sets forth the investments in the City Pool as of April 30, 2024.

TABLE 18
CITY TREASURER’S POOLED INVESTMENT FUND
At April 30, 2024
(in thousands (except for percentages))

<u>Investment Instrument</u>	<u>Book Value</u>	<u>Fair Value</u>	<u>Percent of Total⁽¹⁾</u>
U.S. Treasury Notes	\$1,719,521	\$1,691,881	63.29%
Local Agency Investment Fund	69	69	0.00
Commercial Paper	357,671	358,522	13.17
Repurchase Agreement	75,500	75,500	2.78
Corporate Notes	330,425	327,943	12.16
Asset Backed Securities	233,527	230,933	8.60
TOTAL INVESTMENTS	<u>\$2,716,713</u>	<u>\$2,684,848</u>	<u>100.00%</u>

Source: City of San Diego

⁽¹⁾ Based on book value.

The City Pool is not invested in any structured investment vehicles or mortgage-backed securities. In addition, the City has no outstanding swap arrangements or liquidity facilities in connection with its investment program.

A summary of the investments held by the City Pool as of June 30, 2023, a description of the City's Investment Policy, as well as a list of investments authorized under the California Government Code and the City's Investment Policy, are set forth in the City's ACFR at Note 3, "Cash and Investments."

Oversight and Reporting Requirements. The City Treasurer provides a monthly investment report, including the portfolio market valuation, to the Mayor, City Council, Chief Financial Officer, and other senior management officials. In addition to the monthly investment reports, the Department annually presents the City Treasurer's Investment Policy to the City Treasurer's Investment Advisory Committee, the Budget and Government Efficiency Committee, and the City Council. The City Treasurer's Investment Advisory Committee is comprised of two City employees, currently the Chief Financial Officer and the Assistant Director of Department of Finance, and three outside investment professionals and is charged with reviewing the City Treasurer's Investment Policy and overseeing the investment practices of the City Treasurer and recommending changes thereto. Investments in the City Pool are audited annually by an independent firm of certified public accountants as part of the overall audit of the City's financial statements.

The City's Investments Division uses outside vendors to provide investment portfolio valuations, accounting, and reporting services. These services provide monthly portfolio valuation, investment performance statistics, and other portfolio reports that are distributed to the Office of the City Treasurer Accounting program and the Department of Finance for review and reconciliation.

San Diego City Employees' Retirement System

General. The City has a defined benefit pension plan (the "Pension Plan") and various defined contribution pension plans covering substantially all of its employees. See "—Defined Benefit Plan" below. Cheiron, Inc. ("Cheiron"), the SDCERS actuary, prepared the Fiscal Year 2023 Actuarial Valuation for the Pension Plan (the "2023 Actuarial Valuation"), which was approved by the SDCERS Board approved on May 10, 2024. Where indicated, information from the 2023 Actuarial Valuation has been included herein.

Based on the 2023 Actuarial Valuation, the City has an Unfunded Actuarial Liability ("UAL") in the Pension Plan of approximately \$3.36 billion and an ADC of \$486.3 million as of June 30, 2023, which is required to be paid in Fiscal Year 2025. Based on an actuarial value of assets, the Pension Plan had a funded ratio of 74.3% as of June 30, 2023.

On June 5, 2012, voters within the City approved Proposition B, a pension reform initiative amending the Charter. While in effect, Proposition B prevented all employees hired on or after July 20, 2012, other than sworn police officers, from participating in the Pension Plan. In early 2021, the California Superior Court invalidated Proposition B and as a result, the City officially reopened the Pension Plan to all non-police employees initially hired by the City on or after July 10, 2021. A description of the process and certain costs with respect to the unwinding of Proposition B is set forth in Note 12 to the Fiscal Year 2023 ACFR.

Defined Benefit Plan

General. SDCERS is a public employee retirement system established in Fiscal Year 1927 by the City. SDCERS administers independent, qualified, single employer governmental defined benefit plans and trusts for the City, the San Diego Unified Port District (the "Port") and the San Diego County Regional Airport Authority (the "Airport"). The assets of the three separate plans and trusts are pooled in the SDCERS Group Trust for investment purposes. These plans are administered by the SDCERS Board to provide retirement, disability, death and survivor benefits for its members. Amendments to the City's benefit provisions require City Council approval and amendments to retirement benefits require a majority

vote by those SDCERS members who are also eligible City employees or retirees. All approved benefit changes are codified in the Municipal Code. The plans cover all eligible employees of the City, the Port, and the Airport. All City employees working half-time or greater, except those employees who elected to remain in the Supplemental Pension Savings Plan-H (“SPSP-H Plan”) (a defined contribution plan) after the unwinding of Proposition B, all sworn police officers of the City irrespective of hire date, and full-time employees of the Port and the Airport are eligible for membership and are required to join SDCERS.

SDCERS is considered part of the City’s financial reporting entity and is included in the City’s ACFR as a pension trust fund. See Note 12, “Pension Plans,” in the City’s Fiscal Year 2023 ACFR. SDCERS also prepares its own Annual Comprehensive Financial Report, the most recent of which is for Fiscal Year 2023.

The amounts and percentages set forth under this caption relating to SDCERS, including, for example, actuarial liabilities and funded ratios, are based upon numerous demographic and economic assumptions, including investment return rates, inflation rates, salary increase rates, cost of living adjustments, postemployment mortality, active member mortality, and rates of retirement. The prospective purchasers of the 2024 Bonds are cautioned that such underlying assumptions speak as of their respective dates, and are subject to change. The prospective purchasers of the 2024A Bonds are cautioned to carefully assess the reasonableness of the assumptions. In addition, the prospective purchasers of the 2024 Bonds should also be aware that some of the information presented under this caption contains forward-looking statements and the actual results of the pension system may differ materially from the information presented herein.

The information disclosed herein relates solely to the City’s participation in SDCERS and not to the participation of the Airport or the Port. City employment classes participating in the City’s defined benefit plan are elected officers, general employees and safety employees (including police, fire and lifeguard members). These classes are represented by various unions depending on the type and nature of work performed, except for elected officials, unclassified and unrepresented employees.

TABLE 19
CITY OF SAN DIEGO PLAN MEMBERSHIP
as of July 1, 2023

	<u>General</u>	<u>Safety</u>	<u>Total by Classification</u>
Active Members	7,040	2,611	9,651
Terminated Vested	603	150	753
Terminated Non-Vested	1,715	647	2,362
Retirees ⁽¹⁾	6,480	3,889	10,369
DROP Participants ⁽²⁾	509	286	795
Total Members, as of July 1, 2023	16,347	7,583	23,930

Source: SDCERS Actuarial Valuation Report as of June 30, 2023.

¹ Includes beneficiaries and disabled members.

² Participants in the Deferred Retirement Option Plan (“DROP”) no longer accrue service credits and do not make contributions to SDCERS. They continue to work for the City and contribute 3.05% of their salary, with an employer match, into a personal DROP account. Their service retirement benefit is also deposited into their DROP account and they must retire within five years of entering DROP. Employees hired after June 30, 2005 are ineligible for DROP.

The City is required by the Charter to make contributions to the pension system as determined by the SDCERS Board. Pension contributions are authorized and appropriated annually in accordance with

the adoption of the City's annual budget. The City's ADC is calculated by the SDCERS' actuary, Cheiron, and approved by the SDCERS Board. Cheiron conducts an actuarial analysis for SDCERS annually, the most recent of which is the 2023 Actuarial Valuation. The 2023 Actuarial Valuation serves as the basis for the City's pension contribution for Fiscal Year 2025. The City's actual annual pension contribution may differ from the ADC based on a number of factors discussed below, but the pension contribution is not expected to be less than the ADC in any Fiscal Year.

Actuarial Assumptions. The following are the principal actuarial assumptions used by Cheiron in preparing the 2023 Actuarial Valuation. The actuarial assumptions reflect recommendations approved by the SDCERS Board in September 2023 based on a 2023 actuarial experience study. The actuarial assumptions approved by the SDCERS Board in September 2023 revised certain prior assumptions which were based on an actuarial experience study presented to the SDCERS Board in 2020.

1. Investment Return Rate: 6.50% net of investment expenses.
2. Inflation Rate: 3.00% per year, compounded annually.
3. Administrative Expense Assumption: Administrative expenses are assumed to be \$14.7 million for Fiscal Year 2025 (assuming payment at the beginning of the Fiscal Year), increasing by 3.00% annually.
4. Interest Credited to Member Contributions: 6.50% compounded annually.
5. Projected Salary Increases Due to Inflation: 3.25%
6. Cost-of-Living Adjustments: 2.0% per year, compounded annually.
7. Additional Assumptions: Additional assumptions were used regarding cost-of-living annuity benefit, member refunds of contributions, rates of termination, rates of disability, rates of mortality for active lives, rates of mortality for retired healthy lives and terminated vested members, rates of mortality for retired disabled lives, rates of retirement, family composition, member contributions for spousal continuance, deferred member benefit and DROP account balances.

Funding Status. According to the 2023 Actuarial Valuation, as of June 30, 2023, the City had a UAL of \$3.36 billion and a funded ratio based on the actuarial value of assets of 74.3% and an ADC to SDCERS of \$486.3 million by the City in Fiscal Year 2025. The UAL increased by \$523 million over the UAL set forth in the 2022 Actuarial Valuation, which was \$2.84 billion, and the funded ratio decreased by 1.7%. In the 2023 Actuarial Valuation, it was projected that the Fiscal Year 2023 UAL would decrease by \$125.5 million, assuming all assumptions were met and there were no changes in assumptions. The unfunded liability costs related to Proposition B-affected employees who were reinstated on July 9, 2022, increased the UAL by \$119 million. Additional increases in the UAL were driven by the liability experience loss of \$329.6 million and the changes in assumptions based on the 2023 actuarial experience study, which increased the UAL by \$222.6 million (see “—*Actuarial Assumptions*” above). The liability experience loss was primarily due to salary increases being greater than expected. The most significant source of increase to liability from the assumption changes was due to the change in the COLA assumption adopted by the SDCERS Board in September 2023.

With respect to asset experience, an investment loss of \$5.6 million was anticipated. However, the actual investment experience was a gain of \$5.3 million, for a total gain of \$10.9 million. There was also a

gain from additional member contributions paid of \$11.7 million. The foregoing resulted in a net asset experience gain of \$22.6 million offsetting the increases to the UAL described above.

Table 20 below sets forth the City’s portion of SDCERS historical funding progress for Valuation Years 2014 through 2023. See Note 12 “Pension Plans,” in the City’s Fiscal Year 2023 ACFR for additional information with respect to the Pension Plan. The discussion of the Pension Plan in Note 12 of the City’s Fiscal Year 2023 ACFR is based primarily on information in the actuarial valuation as of June 30, 2022.

TABLE 20
CITY OF SAN DIEGO
SCHEDULE OF FUNDING PROGRESS
Fiscal Years 2014 through 2023
(\$ Amounts in Thousands; Except for Percentages)

Valuation Date (June 30)	Actuarial Value of Assets (A)	Market Value of Assets (B)	Actuarial Liability (AL) (C)	Funded Ratio (Actuarial) (A÷C)	Funded Ratio (Market) (B÷C)	Unfunded AL (UAL) (C-A)	AL Less Market Value of Assets (C-B)
2014	\$5,828,594	\$6,292,855	\$7,858,703	74.2%	80.1%	\$2,030,110	\$1,565,848
2015	6,204,244	6,387,829	8,205,953	75.6	77.8	2,001,709	1,818,124
2016	6,455,378	6,307,412	9,013,130	71.6	70.0	2,557,752	2,705,718
2017	6,808,418	7,000,220	9,565,802	71.2	73.2	2,757,384	2,565,582
2018	7,214,925	7,456,337	10,192,808	70.8	73.2	2,977,883	2,736,471
2019	7,595,073	7,779,226	10,602,166	71.6	73.4	3,007,093	2,822,941
2020	7,870,672	7,648,735	11,206,326	70.2	68.3	3,335,654	3,557,591
2021	8,526,118	9,457,379	11,478,109	74.3	82.4	2,951,990	2,020,730
2022 ¹	9,008,489	9,182,686	11,848,469	76.0	77.5	2,839,980	2,665,782
2023 ²	9,718,150	9,752,377	13,081,352	74.3	74.6	3,363,202	3,328,975

¹ Following the invalidation of Proposition B, the City reopened the Pension Plan to all non-police new hires on or after July 10, 2021. New hires who entered SDCERS after the reopening of the Pension Plan are reflected in the increase of the Actuarial Liability for the June 30, 2022 valuation date. Reinstated employees since July 9, 2022 are not included in the Actuarial Liability or assets for the June 30, 2022 valuation date.

² Actuarial Liability and assets for Valuation Date of June 30, 2023 includes all reinstated eligible members who were hired between July 20, 2012 and July 9, 2021 and elected to join SDCERS. The increases in the Actuarial Value of Assets and Market Value of Assets in Valuation Year 2023 are due, in part, to transfers of assets from SPSP-H Plan account balances of reinstated Proposition B-affected employees who elected to join the Pension Plan. The increases in the Actuarial Liability and UAL are due to salary increases being greater than expected, the changes in assumptions described under “—Actuarial Assumptions” above as well as the reinstatement of Proposition B-affected employees who elected to join the Pension Plan.

Source: SDCERS ACFR 2015-2022 for Valuation Dates 2014 to 2021; Cheiron Actuarial Valuation Report as of June 30, 2022 and June 30, 2023 for Valuation Dates 2022 and 2023

City and Wastewater System Pension Contributions. The following table sets forth the City’s historical ADC and pension contributions, and the Wastewater System’s share of payments for Fiscal Years 2019 through 2023. The City does not pay any portion of employee pension contributions.

TABLE 21
CITY OF SAN DIEGO AND SEWER REVENUE FUND
PENSION CONTRIBUTION
Fiscal Years Ended June 30, 2019 through June 30, 2023
(\$ Amounts in Thousands, Except Footnotes)

Fiscal Year	Pension Plan ADC (A)	Preservation of Benefits ("POB") Plan Contribution* (B)	Total City Pension Contribution¹ (A+B)	Wastewater System Contribution Pension Plan ADC² (C)	Wastewater System Operating Expenses³ (D)	Wastewater System Contribution as a Percentage of Operating Expenses (C/D)
2019 ⁴	\$322,900	\$1,403	\$324,303	\$17,996	\$316,838	5.7%
2020 ⁴	350,500	1,482	351,982	18,590	322,358	5.8
2021	365,600	1,562	367,162	18,894	328,029	5.9
2022	414,900	1,442	416,342	21,164	327,866	6.5
2023 ⁵	[384,326]	976	422,776	19,482	362,600	5.4

¹ Comprised of the pension plan contribution and the POB Plan contribution; may not sum due to rounding.

² In addition to the annual Wastewater System contribution to the Pension Plan ADC, the Wastewater System contributed \$0.4 million to the Pension Payment Stabilization Reserve in Fiscal Year 2019.

³ Wastewater System Operating Expenses include maintenance and operations, administration, and depreciation and does not include annual debt service.

⁴ For Fiscal Year 2019 Wastewater System Contribution to ADC, a revised metric was identified to provide an updated allocation between Water Utility Fund and Sewer Revenue Fund contributions. This resulted in a correcting adjustment in Fiscal Year 2020. Also, see Footnote 3 in Table 13—"Sewer Revenue Fund Statement of Revenues, Expenses, and Changes in Fund Net Position."

⁵ As part of the Proposition B unwinding, the City made a one-time additional normal cost contribution of \$37.5 million for unpaid normal costs associated with Fiscal Year 2022 and Fiscal Year 2023 for Proposition B-affected employees, which brought the total City-wide contribution to the ADC in Fiscal Year 2023 to \$421.8 million.

* Contributions to the POB Plan are funded annually on a pay-go basis by the City and the payments are calculated by Cheiron.

Sources for table: SDCERS Fiscal Year 2019-2023 Annual Comprehensive Financial Reports for "Pension Plan ADC" and "Pension Plan Contribution"; the City's Annual Comprehensive Financial Reports for Fiscal Year 2019-2023 for "POB Plan Contribution" and "Wastewater System Operating Expenses"; and Department of Finance for "Wastewater System Contribution to Pension Plan ADC".

Sources for footnotes: City of San Diego.

The City's Fiscal Year 2024 Pension Plan ADC is \$448.1 million (which the City has paid), of which \$23.2 million is budgeted to be the Sewer Utility Fund's contribution to the Pension Plan ADC. The City's Fiscal Year 2025 Pension Plan ADC is \$486.3 million ([which the City has paid]), of which \$24.7 million is budgeted to be the Sewer Utility Fund's contribution to the Pension Plan ADC.

Postemployment Healthcare Benefits – Sewer Utility Fund Contribution

The City provides retiree healthcare benefits, also known as other post-employment benefits ("OPEB"), to certain health-eligible retirees and employees who were initially hired prior to July 1, 2005. As a result of a 15-year memorandum of understanding from Fiscal Year 2012 regarding post-employment healthcare benefits ("PEHB MOU") with the City's recognized employee organizations, there are two retiree healthcare plans: a defined benefit OPEB plan ("DB OPEB Plan") and a defined contribution plan ("DC Plan"). See Note 13, "OTHER POSTEMPLOYMENT BENEFITS" in the City's ACFR for Fiscal Year 2022 for information regarding the City's OPEB plans.

Citywide and Sewer Utility Fund OPEB Contributions. Pursuant to the PEHB MOU, the City's total retiree healthcare annual contribution ("MOU Contribution") was \$63.3 million for Fiscal Year 2023 (and is budgeted as \$65.4 million in Fiscal Year 2024), distributed among the City's pay-go contribution to the DB OPEB Plan ("DB OPEB Pay-go") and its contribution to the DC Plan. The PEHB MOU also requires that certain employees contribute towards the DB OPEB Plan to fund a portion of the DB OPEB Pay-go. The terms of the PEHB MOU may be renegotiated with a two-thirds vote of the City Council. As

of the date of this Official Statement, there are no discussions ongoing to renegotiate the level of funding for the MOU Contribution.

The City's annual payment for the DB OPEB Plan and the DC Plan are made on a pay-go basis. For the last five Fiscal Years, the Sewer Utility Fund retiree health contribution has been less than \$5 million annually, which has represented less than 1% of the Sewer Utility Fund's maintenance and operation expenses. The Sewer Utility Fund's share of the Net OPEB Liability is \$33.8 million as of June 30, 2022, which is the most recent valuation. For information regarding the City's Net OPEB Liability and OPEB plans, see Note 13, "OTHER POSTEMPLOYMENT BENEFITS," in the City's Fiscal Year 2023 ACFR.

RISK FACTORS

Investment in the Series 2024A Bonds involves risks that may not be appropriate for certain investors. The following is a discussion of certain risk factors that should be considered, in addition to other matters set forth herein, in evaluating the Series 2024A Bonds for investment. The ability to pay principal of and interest on the Series 2024A Bonds depends primarily upon the receipt by the Department of revenues from the Wastewater System. Some of the events which could prevent the Department from receiving a sufficient amount of revenues to enable it to pay the principal of and interest on the Series 2024A Bonds are summarized below. The information set forth below does not purport to be an exhaustive listing of the risks and other considerations that may be relevant to an investment in the Series 2024A Bonds. In addition, the order in which the following information is presented is not intended to reflect the relative importance of any such risks.

Limited Obligations

The obligation of the City to pay the 2024-1 Installment Payments securing the Series 2024A Bonds is a limited obligation of the City and is not secured by a legal or equitable pledge or charge or lien upon any property of the City or any of its income or receipts, except the Net System Revenues. The obligation of the City to make the 2024-1 Installment Payments does not constitute an obligation of the City to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation. The City is obligated under the Installment Purchase Agreement to make the 2024-1 Installment Payments solely from Net System Revenues.

No assurance can be made that Net System Revenues, estimated or otherwise, will be realized by the City in amounts sufficient to pay the 2024-1 Installment Payments. Among other matters, drought, general and local economic conditions, and changes in law and government regulations (including initiatives and moratoriums on growth) could adversely affect the amount of Net System Revenues realized by the City. In addition, the realization of future Net System Revenues is subject to, among other things, (which impacts water usage and therefor sewage flows) the capabilities of management of the City, the ability of the City to provide sewer service to its retail customers and Participating Agencies, and the ability of the City to meet its covenant to fix, prescribe, and collect rates and charges for the Wastewater Service in amounts sufficient to timely pay the 2024-1 Installment Payments, which could in turn adversely impact the Authority's ability to make payments of the principal of or interest on the Series 2024A Bonds. The City has covenanted in the Installment Purchase Agreement to fix, prescribe and collect rates and charges for the Wastewater Service which will be at least sufficient to yield the greater of (a) Net System Revenues sufficient to pay during each Fiscal Year all Obligations payable in such Fiscal Year or (b) Net System Revenues during each Fiscal Year equal to 120% of the Senior Obligations payable for such Fiscal Year.

The Series 2024A Bonds are limited obligations of the Authority payable solely from and secured solely by the Revenues pledged therefor and amounts on deposit in certain funds and accounts established under the Indenture (other than amounts on deposit in the Rebate Fund). Funds for the payment of the

principal of and the interest on the Series 2024A Bonds are derived solely from the 2024-1 Installment Payments. The Authority has no other source of revenues from which to pay debt service on the Series 2024A Bonds. The Authority has no taxing power.

Subordinated Obligations

The Series 2024A Bonds are limited obligations of the Authority payable solely from and secured by Subordinated Installment Payments to be received by the Authority and form the amounts on deposit in certain funds held under the Indenture. The 2024-1 Installment Payments are payable from Net System Revenues on a basis that is subordinate to the right of payment by the City of its Outstanding Senior Obligations under the Installment Purchase Agreement. In the event of a default under the Indenture, the owners of the Senior Obligations have, in certain circumstance, the right to accelerate the entire principal amount of the Senior Obligations. In such circumstances, owners of the Series 2024A Bonds may not receive scheduled payments of principal of or interest on the Series 2024A Bonds until all holders of the Senior Obligations have been paid.

Wastewater System Demand, Expenses, Collections, and Future Rates

The City expects that in the future, demands on the Wastewater System will increase due to population growth, regulatory requirements, and utility costs. Increases in expenses could adversely affect the Wastewater System's financial condition and require a significant increase in rates or charges in order to pay for maintenance, operation and capital expenditures related to the Wastewater System, including those anticipated under the Pure Water Program, and to pay the debt service on account of any Obligation including, without limitation, the 2024-1 Installment Payments securing the Series 2024A Bonds.

However, there can be no assurance that the local demand for the services provided by the Wastewater System will be maintained at levels described in this Official Statement. Because of circumstances including changes in demographics or land use within the boundaries of the City, and new water purification programs which may reduce Participating Agencies' need for wastewater services, it is possible that the demand for wastewater services may decline over the term of the Series 2024A Bonds. Additionally, Water System rate increases could reduce water use, which in turn could reduce flows (and revenues) to the Wastewater System. A significant decline in demand might create a situation in which the City could not increase rates sufficiently to offset the decrease in subscribers or usage. This would reduce the City's ability to make the 2024-1 Installment Payments, which could in turn adversely impact the Authority's ability to make payments of the principal of and interest on the Series 2024A Bonds as and when due.

Wastewater System CIP

The Wastewater System CIP is a significant component of the costs of the Wastewater System. The components of the Wastewater System CIP described in this Official Statement are based on preliminary estimates by the Department, including projected schedules for the completion of project components, plans and designs, construction costs, and funding sources. The Wastewater System is highly regulated and requires coordination between different functions (transportation, treatment, and disposal) across various asset types (pump stations, treatment plants, distribution systems, etc.). With the implementation of the City's Pure Water program, the City's wastewater stream will be under enhanced scrutiny as wastewater is treated by the City's water system for human consumption, while offloading wastewater flows from the City's aging Point Loma Plant.

The ability of the Department to complete and finance capital projects may be adversely affected by various factors including: estimating variations; design and engineering variations; changes to the scope,

scheduling or phasing of the projects; delays in contract awards and/or as a result of the acts or omissions of third-parties; material and/or labor shortages; unforeseen site conditions; adverse weather conditions, earthquakes or other casualty events; contractor or other counterparty defaults; labor disputes; unanticipated levels of inflation; inability of vendors or contractors to obtain or maintain financing; environmental issues; bidding conditions through the Department's procurement process, litigation and capital markets conditions. Additionally, conditions to State and federal grants could also cause estimated costs to increase. For example, current pending legislation could require that taxpayer-funded infrastructure and public works projects use materials produced in the United States, which could increase costs.

The City has seen supply chain disruptions and higher than historical inflation levels, that were at least partially due to the COVID-19 pandemic, which have affected the schedule of capital projects and the estimated cost for several of the City's capital projects, including the Pure Water Program projects. These changes have increased the variability of project costs and timing of expenditures, which impacts the estimates used in this Official Statement. If these supply chain and inflationary pressures continue over the medium to long term, the City will have to adjust its assumptions moving forward. Although any such increases have not materially changed the City's capital allocations to date, they are expected to be factors for consideration moving forward. The City expects to re-evaluate the assumptions used in preparing the estimates for the Wastewater System CIP included in this Official Statement in its upcoming cost of service study and adjust rates or project expectations accordingly. See "WASTEWATER SYSTEM CAPITAL IMPROVEMENT PROGRAM—Capital Improvement Projects" and Table 5 under that heading.

In addition, certain funding sources are assumed to be available for the Department's projects, including the Wastewater System CIP. The Department's financing plan for the Wastewater System CIP contains assumptions as to the projected amount of additional Obligations, SRF Loans and other funding sources for the Wastewater System CIP. The relative amount of these funding sources directly affects the projected debt service and debt service coverage set forth in this Official Statement. If such funding sources are not available or the Department changes its plan of finance, the Department may need to expend additional Department funds, eliminate or scale down projects, divert financial and other resources to such projects or incur additional indebtedness, possibly including issuing additional Obligations, to finance such projects. Such changes could result in actual results, including but not limited to debt service coverage, differing materially from the forecasts in this Official Statement.

The Department's ability to finance the Wastewater System CIP also depends upon the orderly function of the capital markets which have in the past experienced substantial disruptions. Future market disruptions may negatively impact the timing and ability of issuers of municipal debt, such as the Department, to access short-term or long-term funding, as well as the cost thereof.

The largest portion of the Wastewater System CIP, in terms of cost and scope, is the Pure Water Program. Completion of the Pure Water Program includes certain assumptions (which the Department considers to be reasonable) and Department goals to pursue all options in order to obtain regulatory certainty that the Pure Water Program will suffice to offset the approximately \$2.1 billion requirement to be in full compliance with the Clean Water Act. In the event the costs of the Pure Water Program exceed the Department's original estimates, and/or if delays or unforeseen obstacles are encountered as described above, additional capital contributions may be necessary in order to pay for the total costs of the Pure Water Program. The exact amount of any such additional capital contributions will depend upon, among other things, (a) the actual costs of Phase 1 and Phase 2 of the Pure Water Program incurred to date, where costs and funding are different than anticipated, (b) any unanticipated additional costs of the Pure Water Program needed to complete the Pure Water Program, (c) approval of a rate case to address future capital program costs in Fiscal Year 2026 and later Fiscal Years, and (d) whether the terms of any bonds, loans or grants differ from those assumed by the Department.

Finally, though none are anticipated, environmental changes could adversely affect the completion of the Wastewater System CIP within the contemplated budget or current timeline.

For example, climate change increases the stress on the City's assets. Drought years followed by multiple wet years increase flows to the City's major pump stations (Pump Station No. 1 and No. 2), potentially exceeding their capacity. Particularly, if key pumps fail during sudden rain events, SSOs may occur resulting in significant fines and penalties for the Wastewater System. See "WASTEWATER SYSTEM REGULATORY REQUIREMENTS—Recent Regional Spills," "—Statutory and Regulatory Compliance," and "—Potential Impact of Climate Change and Natural Disasters to the Wastewater System." The Wastewater System must balance these needs to avoid overdeveloping its system, which could lead to inefficient operations, while still retaining the needed capacity for improbable "black swan" weather events.

The estimated costs of and projected schedule and sources of funding for the Wastewater System CIP are described above in "WASTEWATER SYSTEM CAPITAL IMPROVEMENT PROGRAM—Capital Improvement Projects." These costs, schedule and sources of funding are subject to a number of uncertainties, some of which are described above. Capital project budgets and financing plans are updated by the Department annually and have increased materially from time to time. As with each component of the Wastewater System CIP, the achievement of projected results, completion, and other expectations involves known and unknown risks, uncertainties, and other factors that may hinder the Department's ability to meet the Wastewater System CIP schedule set forth herein. No assurance can be made that the existing or future projects will not cost more than the current budget or future budgets for such projects., that funding will, in fact, be available, that the Department will not change its plan of finance described in this Official Statement, or that the anticipated sources of funding will actually be available in the amounts or at the times desired by the Department. See "WASTEWATER SYSTEM CAPITAL IMPROVEMENT PROGRAM—Capital Improvement Projects."

Rate-Setting Process Under Proposition 218

Proposition 218 (as defined under "CONSTITUTIONAL LIMITATIONS ON TAXES AND WASTEWATER RATES AND CHARGES—Articles XIII C and XIII D"), which added Articles XIII C and XIII D to the California Constitution, affects the City's ability to impose future rate increases, and no assurance can be given that future rate increases will not encounter majority protest opposition or be challenged by initiative action authorized under Proposition 218. In the event that future proposed rate increases cannot be imposed as a result of majority protest or initiative, the City might thereafter be unable to generate Net System Revenues in the amounts required by the Installment Purchase Agreement to pay 2024-1 Installment Payments. Proposition 218 also affects the Participating Agencies' ability to collect sewer service charges and impose future rate increases in amounts sufficient to make payments under the Amended and Restated Regional Wastewater Disposal Agreement and the Transportation Agreements. There can be no assurance that the Participating Agencies have complied or will comply with the provisions of Proposition 218 or that the Participating Agencies' ability to impose future rate increases will not be adversely affected by majority protests or initiatives. The Participating Agencies are required to pay the amounts due under the Amended and Restated Regional Wastewater Disposal Agreement regardless of the source of payment. However, if the Participating Agencies are unable to pay amounts due and payable for any reason, the City's ability to generate Net System Revenues in the amounts required by the Installment Purchase Agreement to pay 2024-1 Installment Payments could be adversely affected. See "CONSTITUTIONAL LIMITATIONS ON TAXES AND WASTEWATER RATES AND CHARGES—Articles XIII C and XIII D."

Notwithstanding the foregoing, the City has covenanted to fix, prescribe and collect rates and charges for Wastewater Service at a level at least sufficient to meet its debt requirements, as set forth under

“SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2024A BONDS—Rate Covenant.” The current sewer rates for customers within the City have been approved by the Mayor and the City Council and have been imposed in compliance with Proposition 218. See “CONSTITUTIONAL LIMITATIONS ON TAXES AND WASTEWATER RATES AND CHARGES—Articles XIIC and XIID.”

Statutory and Regulatory Compliance

The Wastewater System is subject to a variety of federal and State statutory and regulatory requirements. Laws and regulations governing treatment and delivery of water are enacted and promulgated by federal, State and local government agencies. The City’s failure to comply with applicable laws and regulations, including the Modified Permit, and the occurrence of SSOs, could result in significant fines and penalties. See “WASTEWATER SYSTEM REGULATORY REQUIREMENTS—Recent Regional Spills” and “—Treatment of Sewage.” Such claims are payable from assets of the Wastewater System or from other legally available sources. In addition to claims by private parties, changes in the scope and standards for public agency water systems such as that operated by the Department or failure to receive a new Modified Permit for the Point Loma Plant, may also lead to administrative orders issued by federal or State regulators. See “WASTEWATER SYSTEM REGULATORY REQUIREMENTS—Treatment of Sewage.” Future compliance with such orders can also impose substantial additional costs on the Sewer Utility Fund. Finally, because the Point Loma Plant does not meet secondary treatment standards for discharges required under the Clean Water Act, the City’s Pure Water program is a key project needed to satisfy regulatory requirements in connection with its Modified Permit and the proposed OPRA II permitting requirements. See “WASTEWATER SYSTEM REGULATORY REQUIREMENTS—Treatment of Sewage.” Failure to receive a new Modified Permit for the Point Loma Plant or the failure to implement the Pure Water Program could result in additional costs of \$2.1 billion, based on current dollar estimates, to bring the Point Loma Plant into compliance with the Clean Water Act. No assurance can be given that the cost of compliance with such laws, regulations, and orders would not adversely affect the ability of the Wastewater System to generate Net System Revenues sufficient to pay the debt service on account of any Obligation on parity with the 2024-1 Installment Payments including, without limitation, the 2024-1 Installment Payments, which could in turn adversely impact the Authority’s ability to make payments of the principal of and interest on the Series 2024A Bonds. See “WASTEWATER SYSTEM REGULATORY REQUIREMENTS.”

Risks Relating to the Water Supply

The ability of the Wastewater System to operate effectively can be affected by the water supply available to the City, which is situated in an arid and semi-desert environment that has been subject to prolonged and continuing drought conditions.

Beginning in April 2021, Governor Newsom signed a series of proclamations determining that 50 counties in the State are in a state of emergency due to drought conditions affecting such areas. On October 19, 2021 (the “October 19 Proclamation”), Governor Newsom signed a proclamation placing the remaining eight California counties in a state of emergency due to drought conditions, resulting in the entire State being under a state of emergency. The October 19 Proclamation requires local water suppliers to implement their urban water shortage contingency plans and agricultural drought plans, as applicable, at a level appropriate for local conditions that take into account the possibility of a third consecutive dry year. On July 8, 2021, Governor Newsom signed Executive Order N-10-21, which asks citizens of the State to voluntarily reduce their water use by 15% compared to 2020 levels. Subsequently, on March 28, 2022, Governor Newsom issued Executive Order N-7-22, which required the State Water Resources Board to evaluate the adoption of certain emergency water usage regulations by May 25, 2022. On March 24, 2023, Governor Newsom eased the emergency drought restrictions imposed in 2021, however, there can be no

assurance that subsequent declarations will not impose mandatory water use restrictions should dry conditions persist in future years.

The Wastewater System weathered the drought which occurred in Fiscal Year 2015 without material impacts to its customers. Wastewater flow was reduced by approximately 9% from Fiscal Year 2015 to Fiscal Year 2016. Since many of the conservation methods instituted by the City are relatively permanent in nature, such as the installation of pressure reducing valves, grey water systems, rain barrels, and turf conversion projects, the Department continues to see overall lower water usage as water conservation trends continue. It is assumed that future wastewater flows will slowly increase, reflecting only account growth. The Department anticipates that any such reduction in Net System Revenues would be offset in part by reductions in the amount of sewage collected and treated by the Department, which would reduce operational expenses.

The City does not currently believe that further reductions in water use will have a material adverse effect on the City's ability to pay the 2024-1 Installment Payments; however, if water usage decreases significantly, whether by operation of mandatory use restrictions, prohibitively high water costs or otherwise, flow within the Wastewater System will decrease and Net System Revenues available to pay the 2024-1 Installment Payments may be adversely impacted.

Acceleration; Limitations on Remedies

The Indenture provides that, upon and during the continuance of an Event of Default thereunder, the Trustee may, subject to certain conditions, declare the principal of all Bonds, including the Series 2024A Bonds, then Outstanding and the interest accrued thereon to be due and payable immediately. The SRF Loans are subject to acceleration. The foregoing notwithstanding, the remedy of acceleration is subject to the limitations on legal remedies against public entities in the State, including a limitation on enforcement obligations against funds needed to serve the public welfare and interest. Also, any remedies available to the Owners of the Series 2024A Bonds upon the occurrence of an Event of Default under the Indenture are in many respects dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time consuming to obtain.

However, so long as any Senior Bonds remain outstanding, no Owners of Subordinated Bonds, including the Series 2024A Bonds, shall have the right to declare an Event of Default, to declare any Bonds immediately due and payable, to direct the Trustee with respect to any Event of Default or to waive any Event of Default, and any reference in the Indenture to the Owners of a percentage of the principal amount of "Bonds then Outstanding" shall be deemed to refer to the Owners of such percentage of Senior Bonds then Outstanding.

Further, enforceability of the rights and remedies of the Owners of the Series 2024A Bonds, and the obligations incurred by the City, may become subject to the federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditor's rights generally, now or hereafter in effect, equity principles which may limit the specific enforcement under State law of certain remedies, the exercise by the United States of America of the powers delegated to it by the Constitution, the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose, and the limitations on remedies against counties in the State. Bankruptcy proceedings, or the exercise of powers by the federal or State government, if initiated, could subject the Owners of the Series 2024A Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise and consequently may entail risks of delay, limitation, or modification of their rights.

Change in Law and Application Thereof

The wastewater industry is heavily regulated, and there are a significant number of governmental agencies and legislative bodies that have the ability to directly or indirectly affect the Department financially and operationally.

From time to time, governmental agencies, executives and legislative bodies, have proposed, issued or enacted and may continue to propose, issue and enact legislation, rules, orders and other laws, rules and guidance that have the effect of law, particularly in with respect to clean water regulation. The proposal, issuance or enactment of such legislation, rules, orders and other laws, rules and guidance that have the effect of law may have a material effect on both the water and wastewater industries and the Department. Moreover, while enforcement of potential executive orders, laws or regulations could impose additional financial burdens upon the water and wastewater industries, the Department or the City, as of the date of this Official Statement, insufficient information is available regarding potential governmental action to estimate the magnitude, if any, of such potential impacts.

Loss of Tax Exemption

As discussed under “TAX MATTERS,” interest on the Series 2024A Bonds could fail to be excluded from the gross income of the owners thereof for purposes of federal income taxation retroactive to the date of the issuance of the Series 2024A Bonds as a result of future acts or omissions of the City in violation of its covenants to comply with requirements of the Internal Revenue Code of 1986, as amended (the “Code”). Should such an event of taxability occur, the Series 2024A Bonds are not subject to redemption or any increase in interest rate as a result of such event of taxability.

Potential Impact of Climate Change and Natural Disasters to the Wastewater System

Climate Change. Climate change is expected to, among other things, increase the frequency and severity of extreme weather events and cause rising sea levels and substantial flooding. The Wastewater System can be threatened by increased flooding risks, sinkholes, decreased flows, power outages, service disruptions, and other changes in subsurface conditions that are caused by the fluctuating climate extremes between wet and dry weather events. Though the City’s *Climate Resilient SD* plan provides a framework for future action to mitigate risks and minimize exposure to climate change-related hazards, the extent to which City buildings, utilities, equipment and other properties are exposed to climate change-related risks over the next several decades is difficult to determine, as is the potential cost of mitigation and adaptation efforts, and any additional services. See “WASTEWATER SYSTEM FINANCIAL OPERATIONS – Climate Change Assessment and Mitigation Plan.” To address these risks, the City will monitor and seek to mitigate them over time, which may materially increase the Wastewater System CIP. To the extent that these climate change risks materialize over time, Wastewater System CIP projects are likely to require measures that ensure that the Wastewater System remains resilient to climate change. In addition, climate change can cause operational disruptions which can impact the collection of Net System Revenues.

Earthquakes. The geographic area in which the City is located is subject to unpredictable seismic activity. Southern California is characterized by a number of geotechnical conditions that represent potential safety hazards, including expansive soils and areas of potential liquefaction and landslide. According to the County of San Diego Office of Emergency Services, every year approximately 500 earthquakes occur in the state of California that are large enough to be felt. Since 1984, earthquake activity in San Diego County has doubled over that of the preceding 50 years. A major earthquake could cause widespread destruction and significant loss of life in a populated area such as the City. The San Andreas, San Jacinto, Elsinore, and Rose Canyon fault zones are all capable of producing earthquakes that could

cause damage in the San Diego area. The Rose Canyon Fault Zone runs through the heart of the San Diego metropolitan area and could present a major seismic hazard to the region.

In March, 2020 the Earthquake Engineering Research Institute San Diego Chapter released a report entitled “San Diego Earthquake Planning Scenario: Magnitude 6.9 on the Rose Canyon Fault Zone.” The planning scenario examined the potential impacts and consequences of a probable 6.9 earthquake occurring on the Rose Canyon fault zone. The scenario report concluded that the San Diego Region could suffer severe damage to its buildings and lifeline infrastructure with devastating consequences to the communities and economy following a major Rose Canyon fault zone earthquake. The City did not contribute to the report nor verify the findings in the report. The report indicates that models show San Diego County facing an 18% probability of a magnitude 6.7 or larger earthquake occurring in the next 30-year period on a fault either within the County or just offshore.

Under the scenario earthquake model, major water storage infrastructure, including local dams, reservoirs, and aqueducts, are expected to remain in service because of recent seismic retrofits and their locations away from the anticipated fault rupture. The Murray and Sweetwater Main dams have the potential to experience damage from the scenario earthquake. The report considers it highly unlikely these dams will fail due to moderate peak ground acceleration anticipated at those sites, though these dams have an “extremely high” downstream hazard rating because of their potential for causing flooding and casualties. The major water supply and distribution lines that deliver water to coastal communities from La Jolla to Imperial Beach are at high risk, as they cross the surface rupture and liquefaction zones. Major supply pipeline ruptures along the fault are expected to leave the coastal communities without water for an extended period of time. Further, it is estimated that thousands of leaks and breaks will occur in smaller water distribution pipes because of ground shaking and liquefaction, not accounting for surface rupture.

In addition to the potential disruptions to the water system, the San Diego Earthquake Planning Scenario includes a section that discusses damage to the wastewater system which includes a variety of facilities. The scenario modeling a 6.9 magnitude earthquake has the potential to cause significant damage to major wastewater conveyance infrastructure like the Rose Canyon Trunk Sewer, North Metro and South Metro Interceptors which convey flows from across the San Diego region to the main wastewater treatment facility, the Point Loma Plant. Smaller treatment facilities, which are utilized to produce recycled water from wastewater flows, such as the South Bay Plant and North City Plant are also potentially at risk. Although pump stations and wastewater treatment facilities do have back-up power generating capabilities to guard against the loss of power during a disruption like the San Diego Earthquake Planning Scenario, other impacts, such as structural damage or liquefaction, may interrupt the operation of critical wastewater facilities in all areas of the region for some period after a major earthquake.

Water conveyance and distribution facilities maintained by the Department, the Department of Water Resources, the Metropolitan Water District, and the California Water Association are all subject to the risk of earthquakes and other natural disasters which could interrupt deliveries to the Water System, and subsequently Wastewater flows. Earthquakes or other natural disasters could interrupt operation of the Water and Wastewater Systems, or could cause a material increase in costs for repairs and thereby interrupt the ability of the City to realize Net System Revenues sufficient to pay the 2024A Installment Payments securing the payment of principal of and interest on the Series 2024A Bonds.

Wildfire. Facilities within the Wastewater System generally consist of pipelines and connections, flow control facilities, and pumping stations, which are not typically vulnerable to damage by wildfires. The above-ground facilities within the Wastewater System are designed to be tolerant to damage by wildfires through the use of fire-resistant material where possible, such as concrete and masonry blocks. In addition, the Department works closely with the City’s Fire Department to ensure that proper vegetative clearances are maintained in and around the properties and facilities of the Wastewater System. The

Department monitors wildfires that may threaten the facilities of the Wastewater System and dispatches operations and maintenance crews as necessary to ensure that all above-ground facilities remain safe and operational. Further, during fires, the Department works closely with the City's Fire Department and law enforcement officers to monitor and protect the facilities of the Wastewater System to ensure continuous operation.

Sewer Failure. The Wastewater System is subject to potential failures of its sewage collection and conveyance systems due the potential impact of climate change or natural disasters that can result in unexpected repair costs and other expenses.

Although the City has implemented disaster preparedness plans and made improvements to Wastewater System facilities in connection with such potential disasters, there can be no assurance that these or any additional measures will be adequate in the event that a disaster occurs, nor that costs of preparedness measures will be as currently anticipated. As discussed under "WASTEWATER SYSTEM REGULATORY REQUIREMENTS—Recent Regional Spills," on January 22, 2024, the San Diego region received a sudden influence of rain from an atmospheric river resulting in a peak wet weather rain event, with some areas of the region receiving over two inches of rain over the course of three hours. This event knocked out power to key city facilities and resulting floodwaters damaged several key pieces of equipment at the City's Pump Station No. 1 and Pump Station No. 2. Together with above average rainfall, resulted in large sewer backups and spills on January 22, 2024, and subsequent spills due to rain events through February 6, 2024. The City's spills were reported to the Regional Board along with other agencies' spills in the region. The City estimates that 11.5 million gallons of sewage may have been spilled during this period and expects to receive Notices of Violations from the Regional Board.

The alleged violations may potentially subject the City to additional enforcement by the Regional Board or the State Water Resources Control Board, including an administrative civil liability assessment of up to \$10,000 per day of violation and \$10 per gallon for each gallon discharged but not cleaned up (Water Code section 13385).

Further, damage to components of the Wastewater System could cause a material increase in costs for repairs or a corresponding material adverse impact on Net System Revenues. The City is not obligated under the Installment Purchase Agreement to procure and maintain, or cause to be procured and maintained, earthquake insurance on the Wastewater System. However, see "WASTEWATER SYSTEM FINANCIAL OPERATIONS—Insurance and Liability Claims" for information regarding the earthquake insurance currently maintained by the City.

Global Health Emergencies

A pandemic, epidemic or outbreak of an infectious disease can have significant adverse health and financial impacts on global and local economies. Future pandemics like COVID-19 and other widespread public health emergencies may arise from time-to-time and can impact broader economic conditions in the affected region. Reduced economic activity and its associated impacts, including as a result of the outbreak of infectious disease, such as job losses, income losses, business closures and housing foreclosures or vacancies, and any prolonged recession that may occur, could have a variety of adverse effects on the City and in the region. Further, moratoriums on utility shut-offs and suspensions of late payment penalties can impact the City's Sewer Revenue Fund. See "—Future Suspensions and Moratoriums on Utility Shut-Offs," and "WASTEWATER SYSTEM FINANCIAL OPERATIONS—Accounts Receivable." Economic conditions affect aggregate levels of water and wastewater use and may reduce demands in the region and System Revenues. A protracted disruption in the manufacturing or construction industry may affect supply chains or delay construction schedules for, or the implementation of, the Wastewater System CIP and projects, and may increase the costs of such projects or program or the Wastewater System's operations. A

sustained deterioration in global stock market values may impact the market value of assets held to fund the City's pension and other post-employment benefit plans, which could result in future increases in required plan contributions. The City cannot predict whether another national or localized outbreak of highly contagious or epidemic disease in the future could negatively impact the Wastewater System's operations and finances and/or the economy of the regions it serves.

Cybersecurity

The City relies on a complex technology environment to conduct its operations. As a recipient and provider of personal, private, and sensitive information, the City and its departments and offices face multiple cyber threats including, but not limited to, hacking, viruses, malware and other attacks on computers and other sensitive digital networks and systems.

The City actively manages its networks and systems to ensure that City systems are properly secured and protected, however, no assurances can be given that the City's security and operational control measures will be successful in guarding against any and each cyber threat and attack. The results of any attack on the City's computer and information technology systems could impact its operations and damage the City's digital networks and systems, and the costs of remedying any such damage could be substantial. The City, like many other large public and private entities, has been the target of cybersecurity threats. Each threat event was addressed in accordance with the City's then-applicable protocol. No assurances can be given that the City's security and operational control measures will be successful in guarding against any and each cyber threat and attack. The results of any attack on the City's computer and information technology systems, including those supporting the Water and Wastewater System, could impact its operations and damage the City's digital networks and systems, and the costs of remedying any such damage could be substantial. To date, the City has not experienced any cyberattacks that have resulted in major operational disruptions or financial consequences.

The City currently maintains insurance coverage with respect to certain information security and privacy liability claims. See "WASTEWATER SYSTEM FINANCIAL OPERATIONS—Insurance and Liability Claims." The increased severity of cybersecurity claims, driven by high ransom demands, has affected the cybersecurity insurance market and has made insurance coverage more expensive and difficult to obtain. In the event the City's current coverage limits are reduced or the City declines to obtain insurance coverage relating to cybersecurity, the City's financial burden may increase if it experiences a cyberattack.

Security of the Wastewater System

The safety of the Wastewater System within the operational areas of the Department is maintained via a combination of regular inspections by Department employees, physical security, electronic monitoring, and analysis of unusual incident reports. All above-ground facilities operated and maintained by the Wastewater Treatment and Disposal Division, including the Point Loma Plant, the Metropolitan Biosolids Center, the North City Plant and the South Bay Plant, and pumping stations within the Wastewater System, are controlled access facilities with fencing, gates, roving security patrols, and security officers at appropriate points. Critical facilities are additionally monitored by closed circuit television systems. Smaller, above-ground and subterranean pumping stations, operated and maintained by Wastewater Collection Division are locked with padlock or internal locking mechanisms. The smaller pump stations are additionally visited regularly by roving security patrols to deter theft and vandalism. Security improvements are evaluated on an ongoing basis. The Wastewater System's electronic operations and controls are continuously evaluated, and the Department seeks to reduce its risk-exposure through a series of technology systems, enhancements, and integration.

Military conflicts and terrorist activities may adversely impact the operations and finances of the Wastewater System. The Department continually plans and prepares for emergencies and immediately responds to ensure sewer services are maintained. However, there can be no assurance that any existing or additional safety and security measures will prove adequate in the event that terrorist activities are directed against the Wastewater System or that costs of security measures will not be greater than presently anticipated. [Further, the Wastewater System is controlled by programmable logic controllers, which are subject to programming errors. There can be no assurance that such programming errors will not occur in the future, resulting in fines, repairs or additional controls on the Wastewater system.]

Damage to certain components of the Wastewater System could require the City to increase expenditures for repairs to the Wastewater System significantly enough to adversely impact the City's ability to pay the 2024-1 Installment Payments. The City has established within the Sewer Revenue Fund the Emergency Operating Reserve, which is currently funded at a level equal to 70 days of operating costs and may be used under certain circumstances for repairs to the Wastewater System. See "WASTEWATER SYSTEM FINANCIAL OPERATIONS—Sewer Revenue Fund Reserves."

Future Suspensions and Moratoriums on Utility Shut-Offs

Beginning in March 2018, the City suspended water and wastewater shut-offs due to a high volume of water billing issues. Additionally, in response to the outbreak of COVID-19, and in an effort to provide temporary relief for those facing economic hardships related to the COVID-19 pandemic, the Mayor issued an executive order enacting a moratorium on utility shut-offs and suspending late payment penalties until further notice at the same time the State of California issued a moratorium on shut-offs through December 31, 2021. The suspension of water and wastewater shut-offs is expected to continue in Fiscal Year 2025. See "WASTEWATER SYSTEM FINANCIAL OPERATIONS—Accounts Receivable," herein.

The City and the State may implement additional billing suspensions and moratoriums on shut-offs or other changes to its customers and such actions may affect Net System Revenues.

No assurance can be made that Net System Revenues will not be materially adversely affected by the existence of suspensions and moratoriums on water and wastewater shut-offs, nor can there be any assurance that City and the State may not establish new moratoriums that could affect Net System Revenues in the future.

Uncertainties of Projections, Forecasts and Assumptions

Compliance with certain covenants contained in the Indenture and the Installment Purchase Agreement is based upon assumptions and projections including, but not limited to, those described under "WASTEWATER SYSTEM FINANCIAL OPERATIONS—Financial Projections." Projections and assumptions are inherently subject to significant uncertainties. Inevitably, some assumptions will not be realized, unanticipated events and circumstances may occur, and actual results are likely to differ, perhaps materially, from those projected. Accordingly, such projections are not necessarily indicative of future performance, and the City assumes no responsibility for the accuracy of such projections. See also "INTRODUCTION—Forward-Looking Statements."

Absence of Secondary Market for the Series 2024A Bonds

There can be no guarantee that there will ever be a secondary market for purchase or sale of the Series 2024A Bonds or, if a secondary market exists, that the Series 2024A Bonds can be sold for any particular price. Occasionally, because of general market conditions or because of adverse history or

economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then prevailing circumstances. Such prices could be substantially different from the original purchase price.

Economic, Political, Social, and Environmental Conditions

Prospective investors are encouraged to evaluate current and prospective economic, political, social, and environmental conditions as part of an informed investment decision. Changes in economic, political, social, or environmental conditions on a local, state, federal, and/or international level may adversely affect investment risk generally. Such conditional changes may include (but are not limited to) fluctuations in business production, consumer prices, or financial markets, unemployment rates, technological advancements, shortages or surpluses in natural resources or energy supplies, changes in law, social unrest, fluctuations in the crime rate, political conflict, acts of war or terrorism, environmental damage, and natural disasters.

CONSTITUTIONAL LIMITATIONS ON TAXES AND WASTEWATER RATES AND CHARGES

Article XIII B

Article XIII B of the California Constitution limits the annual appropriations of proceeds of taxes by State and local government entities to the amount of appropriations of the entity for the prior fiscal year, as adjusted for changes in the cost of living, changes in population and changes in services rendered by the entity. User fees and charges are considered proceeds of taxes only to the extent they exceed the reasonable costs incurred by a governmental entity in supplying the goods and services for which such fees and charges are imposed.

To the extent that assessments, fee and charges collected by the City are used to pay the costs of maintaining and operating the Wastewater System and payments due on the Series 2024A Bonds, the City believes that such moneys are not subject to the annual appropriations limit of Article XIII B.

Articles XIII C and XIII D

On November 5, 1996, the voters of the State approved Proposition 218, a constitutional initiative, entitled the “Right to Vote on Taxes Act” (“Proposition 218”). Proposition 218 added Articles XIII C and XIII D to the California Constitution and contained a number of interrelated provisions affecting the ability of local governments, including the City, to levy and collect both existing and future taxes, assessments, fees and charges.

Section 1 of Article XIII C requires majority voter approval for the imposition, extension or increase of general taxes, and Section 2 thereof requires two-thirds voter approval for the imposition, extension or increase of special taxes. These voter approval requirements of Article XIII C reduce the flexibility of the City to raise revenues by the levy of general or special taxes and, given such voter approval requirements, no assurance can be given that the City will be able to enact, impose, extend or increase any such taxes in the future to meet increased expenditure requirements. The City has not enacted, imposed, extended or increased any tax since the effective date of Proposition 218.

Section 3 of Article XIII C expressly extends the initiative power to give voters the power to reduce or repeal local taxes, assessments, fees and charges, regardless of the date such taxes, assessments, fees or charges were imposed. Section 3 expands the initiative power to include reducing or repealing assessments,

fees and charges, which had previously been considered administrative rather than legislative matters and therefore beyond the initiative power. This extension of the initiative power is not limited by the terms of Article XIIC to fees imposed after November 6, 1996, the effective date of Proposition 218, and absent other legal authority could result in the reduction in any existing taxes, assessments or fees and charges imposed prior to November 6, 1996.

“Fees” and “charges” are not expressly defined in Article XIIC or in SB 919 (herein defined), the Proposition 218 Omnibus Implementation Act enacted in 1997 to prescribe specific procedures and parameters for local jurisdictions in complying with Article XIIC and Article XIID (“SB 919”). However, on July 24, 2006, the California Supreme Court ruled in *Bighorn-Desert View Water Agency v. Virgil (Kelley)* (the “Bighorn Decision”) that charges for ongoing water delivery are property-related fees and charges within the meaning of Article XIID and are also fees or charges within the meaning of Section 3 of Article XIIC. The California Supreme Court held that such water service charges may, therefore, be reduced or repealed through a local voter initiative pursuant to Section 3 of Article XIIC.

In the Bighorn Decision, the Supreme Court did state that nothing in Section 3 of Article XIIC authorizes initiative measures that impose voter-approval requirements for future increases in fees or charges for water delivery. The Supreme Court stated that water providers may determine rates and charges upon proper action of the governing body and that the governing body may increase a charge which was not affected by a prior initiative or impose an entirely new charge.

The Supreme Court further stated in the Bighorn Decision that it was not holding that the initiative power is free of all limitations and was not determining whether the initiative power is subject to the statutory provision requiring that water and wastewater service charges be set at a level that will pay debt service on bonded debt and operating expenses. Such initiative power could be subject to the limitations imposed on the impairment of contracts under the contract clause of the United States Constitution. Additionally, SB 919 provides that the initiative power provided for in Proposition 218 “shall not be construed to mean that any owner or beneficial owner of a municipal security, purchased before or after (the effective date of Proposition 218) assumes the risk of, or in any way consents to, any action by initiative measure that constitutes an impairment of contractual rights” protected by the United States Constitution. No assurance can be given that the voters of the City will not, in the future, approve initiatives which repeal, reduce or prohibit the future imposition or increase of assessments, fees or charges, including the City’s sewer service fees and charges, which are the source of Net System Revenues pledged to the payment of Subordinated Obligations, including the 2024-1 Installment Payments, securing the Series 2024A Bonds.

Notwithstanding the fact that sewer service charges may be subject to reduction or repeal by voter initiative undertaken pursuant to Section 3 of Article XIIC, the City has covenanted to levy and charge rates which meet the requirements of the Installment Purchase Agreement in accordance with applicable law.

Article XIID defines a “fee” or “charge” as any levy other than an ad valorem tax, special tax, or assessment imposed upon a parcel or upon a person as an incident of property ownership, including a user fee or charge for a property-related service. A “property-related service” is defined as “a public service having a direct relationship to a property ownership.” In the Bighorn Decision, the California Supreme Court held that a public water agency’s charges for ongoing water delivery are fees and charges within the meaning of Article XIID. Article XIID requires that any agency imposing or increasing any property-related fee or charge must provide written notice thereof to the record owner of each identified parcel upon which such fee or charge is to be imposed and must conduct a public hearing with respect thereto. The proposed fee or charge may not be imposed or increased if a majority of owners of the identified parcels file written protests against it. As a result, the local government’s ability to increase such fee or charge may be limited by a majority protest.

In addition, Article XIID also includes a number of limitations applicable to existing fees and charges including provisions to the effect that (a) revenues derived from the fee or charge shall not exceed the funds required to provide the property-related service; (b) such revenues shall not be used for any purpose other than that for which the fee or charge was imposed; (c) the amount of a fee or charge imposed upon any parcel or person as an incident of property ownership shall not exceed the proportional cost of the service attributable to the parcel; and (d) no such fee or charge may be imposed for a service unless that service is actually used by, or immediately available to, the owner of the property in question. Property-related fees or charges based on potential or future use of a service are not permitted.

Article XIID establishes procedural requirements for the imposition of assessments, which are defined as any charge upon real property for a special benefit conferred upon the real property. Standby charges are classified as assessments. Procedural requirements for assessments under Article XIID include conducting a public hearing and mailed protest procedure, with notice to the record owner of each parcel subject to the assessment. The assessment may not be imposed if a majority of the ballots returned oppose the assessment, with each ballot weighted according to the proportional financial obligation of the affected parcel. To provide guidance to City staff regarding the conduct of Proposition 218 “property-related fee” protest proceedings, the City Council adopted Resolution R-302245 in January 2007 establishing additional procedures for submitting protests against proposed increases to sewer rates, including the provision of notice of a proposed change in sewer fees to all owners of record on each identified parcel and all wastewater customers of the City as reflected in the billing records of the City at the time the notice is given, and additional procedures for the tabulation of protests against proposed increases to sewer service charges, including guidelines for determining when a valid protest has been submitted.

The City and the City Attorney are of the opinion that current sewer fees and charges that are subject to Proposition 218 comply with the provisions thereof and that the City will continue to comply with the rate covenant set forth in the Installment Purchase Agreement in conformity with the provisions of Article XIID of the California State Constitution. Should it become necessary to increase the sewer fees and charges above current levels, the City would be required to comply with the requirements of Article XIID in connection with such proposed increase. Under existing standards, the City and the City Attorney are of the opinion that rates and charges may be established at levels which would permit deposits to a Rate Stabilization Fund or maintenance of uncommitted cash reserves. See “WASTEWATER SYSTEM FINANCIAL OPERATIONS—Financial Projections.” Additionally, the adopted sewer rate increases have been imposed in compliance with Proposition 218. See “WASTEWATER SYSTEM FINANCIAL OPERATIONS – Service and Capacity Charges.”

Implementing legislation pertaining to Proposition 218 may be introduced in the State legislature from time to time. Moreover, Proposition 218 was adopted as a measure that qualified for the ballot pursuant to California’s initiative process. From time to time other initiatives could be adopted to modify Proposition 218. No assurances can be given as to the terms of such legislation or initiatives or their potential impact on the various fees and charges that constitute System Revenues; however, there could be a material negative impact on the City’s ability to collect such System Revenues.

On November 2, 2010, voters of the State approved Proposition 26 (“Proposition 26”), which amended Article XIIC of the California State Constitution to expand the definition of “tax” so that certain fees and charges imposed by governmental entities are subject to approval by two-thirds of each house of the State Legislature or approval by local voters, as applicable. Proposition 26 lists several exceptions to such definition of “tax,” including property-related fees imposed in accordance with Article XIID, reasonable regulatory costs of performing investigations and inspections, and charges imposed as a condition of property development. The City believes that Proposition 26 does not apply to any of its sewer service fees and charges because such fees and charges are within various exceptions to Proposition 26.

Initiative, Referendum and Charter Amendments

Under the State Constitution, the voters of the State have the ability to initiate legislation and require a public vote on legislation passed by the State Legislature through the powers of initiative and referendum, respectively. For example, Article XIIB and Articles XIIC and XIID and Proposition 26 were adopted pursuant to the State's constitutional initiative process. Under the City Charter, the voters of the City can restrict or revise the powers of the City through the approval of a charter amendment. From time to time, other initiative measures could be adopted or legislative measures could be approved by the Legislature, which may place limitations on the ability of the City to increase revenues or to increase appropriations. Such measures may further affect the City's ability to collect assessments or fees and charges, which could have an effect on the Department's revenues. The City is unable to predict whether any such initiatives or charter amendments might be submitted to or approved by the voters, the nature of such initiatives or charter amendments, or their potential impact on the City or the Sewer Revenue Fund.

TAX MATTERS

Federal Income Taxes

The Internal Revenue Code of 1986, as amended (the "Code"), imposes certain requirements that must be met subsequent to the issuance and delivery of the Series 2024A Bonds for interest thereon to be and remain excluded from gross income for federal income tax purposes. Noncompliance with such requirements could cause the interest on the Series 2024A Bonds to be included in gross income for federal income tax purposes retroactive to the date of issue of the Series 2024A Bonds. Pursuant to the Indenture, the Installment Purchase Agreement, and the Tax Certificate, entered into by the Authority and the City (the "Tax Certificate"), the Authority and the City have covenanted to comply with the applicable requirements of the Code in order to maintain the exclusion of the interest on the Series 2024A Bonds from gross income for federal income tax purposes pursuant to Section 103 of the Code. In addition, the Authority and the City have made certain representations and certifications in the Indenture, the Installment Purchase Agreement, and the Tax Certificate. Bond Counsel will not independently verify the accuracy of those representations and certifications.

In the opinion of Nixon Peabody LLP, Bond Counsel, under existing law and assuming compliance with the aforementioned covenant, and the accuracy of certain representations and certifications made by the Authority and the City described above, interest on the Series 2024A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Code. Bond Counsel is also of the opinion that such interest is not treated as a preference item in calculating the alternative minimum tax imposed under the Code. Interest on the Series 2024A Bonds will be taken into account in computing the alternative minimum tax imposed on certain corporations under the Code to the extent that such interest is included in the "adjusted financial statement income" of such corporations.

State Taxes

Bond Counsel is also of the opinion that interest on the Series 2024A Bonds is exempt from personal income taxes of the State, under present State law. Bond Counsel expresses no opinion as to other State or local tax consequences arising with respect to the Series 2024A Bonds nor as to the taxability of the Series 2024A Bonds or the income therefrom under the laws of any state other than the State of California.

Original Issue Discount

Bond Counsel is further of the opinion that the excess of the principal amount of a maturity of the Series 2024A Bonds over its issue price (i.e., the first price at which price a substantial amount of such maturity of the Series 2024A Bonds was sold to the public, excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers) (each, a “Discount Bond” and collectively the “Discount Bonds”) constitutes original issue discount which is excluded from gross income for federal income tax purposes to the same extent as interest on the Series 2024A Bonds. Further, such original issue discount accrues actuarially on a constant interest rate basis over the term of each Discount Bond, and the basis of each Discount Bond acquired at such issue price by an initial purchaser thereof will be increased by the amount of such accrued original issue discount. The accrual of original issue discount may be taken into account as an increase in the amount of tax-exempt income for purposes of determining various other tax consequences of owning the Discount Bonds, even though there will not be a corresponding cash payment. Owners of the Discount Bonds are advised that they should consult with their own advisors with respect to the state and local tax consequences of owning such Discount Bonds.

Original Issue Premium

Bonds sold at prices in excess of their principal amounts are “Premium Bonds”. An initial purchaser with an initial adjusted basis in a Premium Bond in excess of its principal amount will have amortizable bond premium which offsets the amount of tax-exempt interest and is not deductible from gross income for federal income tax purposes. The amount of amortizable bond premium for a taxable year is determined actuarially on a constant interest rate basis over the term of each Premium Bond based on the purchaser’s yield to maturity (or, in the case of Premium Bonds callable prior to their maturity, over the period to the call date, based on the purchaser’s yield to the call date and giving effect to any call premium). For purposes of determining gain or loss on the sale or other disposition of a Premium Bond, an initial purchaser who acquires such obligation with an amortizable bond premium is required to decrease such purchaser’s adjusted basis in such Premium Bond annually by the amount of amortizable bond premium for the taxable year. The amortization of bond premium may be taken into account as a reduction in the amount of tax-exempt income for purposes of determining various other tax consequences of owning such Bonds. Owners of the Premium Bonds are advised that they should consult with their own advisors with respect to the state and local tax consequences of owning such Premium Bonds.

Ancillary Tax Matters

Ownership of the Series 2024A Bonds may result in other federal tax consequences to certain taxpayers, including, without limitation, certain S corporations, foreign corporations with branches in the United States, property and casualty insurance companies, individuals receiving Social Security or Railroad Retirement benefits, individuals seeking to claim the earned income credit, and taxpayers (including banks, thrift institutions and other financial institutions) who may be deemed to have incurred or continued indebtedness to purchase or to carry the Series 2024A Bonds. Prospective investors are advised to consult their own tax advisors regarding these rules.

Interest paid on tax-exempt obligations such as the Series 2024A Bonds is subject to information reporting to the Internal Revenue Service (the “IRS”) in a manner similar to interest paid on taxable obligations. In addition, interest on the Series 2024A Bonds may be subject to backup withholding if such interest is paid to a registered owner that (a) fails to provide certain identifying information (such as the registered owner’s taxpayer identification number) in the manner required by the IRS, or (b) has been identified by the IRS as being subject to backup withholding.

Bond Counsel is not rendering any opinion as to any federal tax matters other than those described in the opinions attached as Appendix B. Prospective investors, particularly those who may be subject to special rules described above, are advised to consult their own tax advisors regarding the federal tax consequences of owning and disposing of the Series 2024A Bonds, as well as any tax consequences arising under the laws of any state or other taxing jurisdiction.

Changes in Law and Post Issuance Event

Legislative or administrative actions and court decisions, at either the federal or state level, could have an adverse impact on the potential benefits of the exclusion from gross income of the interest on the Series 2024A Bonds for federal or state income tax purposes, and thus on the value or marketability of the Series 2024A Bonds. This could result from changes to federal or State income tax rates, changes in the structure of federal or state income taxes (including replacement with another type of tax), repeal of the exclusion of the interest on the Series 2024A Bonds from gross income for federal or state income tax purposes, or otherwise. It is not possible to predict whether any legislative or administrative actions or court decisions having an adverse impact on the federal or state income tax treatment of holders of the Series 2024A Bonds may occur. Prospective purchasers of the Series 2024A Bonds should consult their own tax advisors regarding the impact of any change in law on the Series 2024A Bonds.

Bond Counsel has not undertaken to advise in the future whether any events after the date of issuance and delivery of the Series 2024A Bonds may affect the tax status of interest on the Series 2024A Bonds. Bond Counsel expresses no opinion as to any federal, state or local tax law consequences with respect to the Series 2024A Bonds, or the interest thereon, if any action is taken with respect to the Series 2024A Bonds or the proceeds thereof upon the advice or approval of other counsel.

CONTINUING DISCLOSURE

[To be monitored] Pursuant to the Continuing Disclosure Certificate of the City (the “Disclosure Certificate”), the City will agree to provide, or cause to be provided, to the Municipal Securities Rulemaking Board (“MSRB”) in the manner prescribed by the Securities Exchange Commission (the “SEC”) certain annual financial information and operating data related to the City (the “Annual Report”) no later than April 10 after the end of the City’s Fiscal Year (which currently ends June 30), commencing with the Annual Report for Fiscal Year 2024 due April 10, 2025 and to provide notices of certain enumerated events (as described in the Disclosure Certificate). The form of the Disclosure Certificate is attached hereto as APPENDIX C — “FORM OF CONTINUING DISCLOSURE CERTIFICATE.” The City’s covenants in the Disclosure Certificate will be made in order to assist the Underwriters in complying with Rule 15c2-12(b)(5) adopted by the SEC under the Securities Exchange Act of 1934 (the “Rule”). The Disclosure Certificate will inure solely to the benefit of any Dissemination Agent, the Underwriters, and Owners or Beneficial Owners from time to time of the Series 2024A Bonds. A failure by the City to comply with any of the covenants therein is not an event of default under the Indenture or the Installment Purchase Agreement, and the sole remedy following a default is an action to compel specific performance by the City with the terms of the Disclosure Certificate.

The Annual Report and the notices of enumerated events will be filed by the City with the EMMA System. Neither the issuer home page nor any information on the issuer home page is made a part of this Official Statement, nor is it incorporated by reference herein and should not be relied upon in making an investment decision with respect to the Series 2024A Bonds.

LITIGATION

No Litigation Challenging the Series 2024A Bonds

[To be monitored by the City] There is no litigation pending against the City or, to the knowledge of its respective executive officers, threatened, seeking to restrain or enjoin the issuance, sale, execution or delivery of the Series 2024A Bonds or in any way contesting or affecting the validity of the Series 2024A Bonds or the authorizations or any proceedings of the City taken with respect to the issuance or sale thereof, or the pledge or application of any moneys or security provided for the payment of the Series 2024A Bonds or the use of the proceeds of the Series 2024A Bonds. There are no pending lawsuits that, in the opinion of the City Attorney, challenge the validity of the corporate existence of the Authority or the City, or the title of the executive officers to their respective offices.

Litigation and Regulatory Enforcement Actions Relating to the Wastewater System

From time to time, the City and the Department are parties to litigation and/or are subject to regulatory enforcement actions related to the Wastewater System arising out of the normal course of business of the Wastewater System. At this time, the City is of the opinion that if any lawsuits, regulatory enforcement actions and claims related to the Wastewater System, pursuant to which the City and the Department are currently named parties, are concluded adversely to the City or the Department, they will not have a material adverse effect on the Sewer Revenue Fund's financial position.

CERTAIN LEGAL MATTERS

Certain legal matters incident to the authorization, issuance and sale of the Series 2024A Bonds are subject to the legal opinion of Nixon Peabody, LLP, Bond Counsel to the City and the Authority. The signed legal opinion of Bond Counsel for the Series 2024A Bonds will be included in the Official Statement delivered to the initial purchasers of the Series 2024A Bonds at the time of original delivery of the Series 2024A Bonds. The proposed form of the legal opinion of Bond Counsel for the Series 2024A Bonds is set forth in APPENDIX B — "FORM OF BOND COUNSEL OPINION."

Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed on for the City and the Authority by Nixon Peabody, LLP, Disclosure Counsel, and by the City Attorney. Certain legal matters will be passed upon for the Underwriters by their counsel, Kutak Rock LLP. Bond Counsel and Disclosure Counsel will receive compensation contingent upon the sale and delivery of the Series 2024A Bonds.

RATINGS

Fitch Ratings and S&P Global Ratings ("S&P") have assigned the ratings of "[]" with stable outlook and "[]" with stable outlook, respectively, to the Series 2024A Bonds. Such credit ratings and outlooks reflect only the views of such organizations and any desired explanation of the significance of such credit ratings and outlooks should be obtained from the rating agency furnishing the same, at the following addresses: Fitch Ratings, One State Street Plaza, New York, New York 10004, and S&P, 55 Water Street, New York, New York 10041. A securities rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time.

The City furnished to the rating agencies certain information, including information that may not be included herein. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance such ratings will continue for any given period of time, or that a rating will not be revised downward or withdrawn entirely

by the applicable rating agency, if in the judgment of such rating agency, circumstances so warrant. The City undertakes no responsibility to oppose any such revision, suspension or withdrawal. Any such downward revision, suspension or withdrawal of the ratings obtained, or other actions by a rating agency relating to its rating, may have an adverse effect on the market price and marketability of the Series 2024A Bonds.

The City will covenant in the Disclosure Certificate to file on EMMA, notices of any rating changes on the Series 2024A Bonds. See the caption “CONTINUING DISCLOSURE” above and Appendix C hereto. Notwithstanding such covenant, information relating to ratings changes on the Series 2024A Bonds may be publicly available from the rating agencies prior to such information being provided to the City and prior to the date the City is obligated to file a notice of rating change on EMMA. Purchasers of the Series 2024A Bonds are directed to the ratings agencies and their respective websites and official media outlets for the most current ratings with respect to the Series 2024A Bonds after the initial issuance of the Series 2024A Bonds.

UNDERWRITING

The Series 2024A Bonds are being purchased by Siebert Williams Shank & Co., LLC, as representative, on behalf of itself and BofA Securities, Inc., Mischler Financial Group, Inc., Wells Fargo Bank N.A. and Cabrera Capital Markets, LLC (collectively, the “Underwriters”). The Underwriters have agreed to purchase the Series 2024A Bonds at a price of \$_____ (being \$_____ aggregate principal amount thereof, plus original issue premium of \$_____, and less Underwriters’ discount of \$_____). The purchase agreement for the Series 2024A Bonds provides that the Underwriters will purchase all of the Series 2024A Bonds if any are purchased. The obligation to make such purchase is subject to certain terms and conditions set forth in such purchase agreement, the approval of certain legal matters by counsel and certain other conditions.

The Underwriters may offer and sell the Series 2024A Bonds to certain dealers and others at prices lower than the offering prices stated on the inside cover page hereof. The offering prices may be changed from time to time by the Underwriters.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include sales and trading, commercial and investment banking, advisory, investment management, investment research, principal investment, hedging, market making, brokerage and other financial and non-financial activities and services. Under certain circumstances, the Underwriters and their affiliates may have certain creditor and/or other rights against the Authority and its affiliates in connection with such activities. In the various course of their various business activities, the Underwriters and their respective affiliates, officers, directors and employees may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers, and such investment and trading activities may involve or relate to assets, securities and/or instruments of the Authority (directly, as collateral securing other obligations or otherwise) and/or persons and entities with relationships with the Authority. The Underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

BofA Securities, Inc., an underwriter of the Series 2024A Bonds, has entered into a distribution agreement with its affiliate Merrill Lynch, Pierce, Fenner & Smith Incorporated (“MLPF&S”). As part of this arrangement, BofA Securities, Inc. may distribute securities to MLPF&S, which may in turn distribute

such securities to investors through the financial advisor network of MLPF&S. As part of this arrangement, BofA Securities, Inc. may compensate MLPF&S as a dealer for their selling efforts with respect to the Bonds.

Wells Fargo Securities is the trade name for certain securities-related capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association, which conducts its municipal securities sales, trading and underwriting operations through the Wells Fargo Bank, NA Municipal Finance Group, a separately identifiable department of Wells Fargo Bank, National Association, registered with the Securities and Exchange Commission as a municipal securities dealer pursuant to Section 15B(a) of the Securities Exchange Act of 1934.

Wells Fargo Bank, National Association, acting through its Municipal Finance Group (“WFBNA”), one of the underwriters of the Series 2024A Bonds, has entered into an agreement (the “WFA Distribution Agreement”) with its affiliate, Wells Fargo Clearing Services, LLC (which uses the trade name “Wells Fargo Advisors”) (“WFA”), for the distribution of certain municipal securities offerings, including the Series 2024A Bonds. Pursuant to the WFA Distribution Agreement, WFBNA will share a portion of its underwriting or remarketing agent compensation, as applicable, with respect to the Series 2024A Bonds with WFA. WFBNA has also entered into an agreement (the “WFSLLC Distribution Agreement”) with its affiliate Wells Fargo Securities, LLC (“WFSLLC”), for the distribution of municipal securities offerings, including the Series 2024A Bonds. Pursuant to the WFSLLC Distribution Agreement, WFBNA pays a portion of WFSLLC’s expenses based on its municipal securities transactions. WFBNA, WFSLLC, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company.

[Additional UW distribution language may be added here].

MUNICIPAL ADVISOR

PFM (the “Municipal Advisor”) has acted as Municipal Advisor to the City in conjunction with the issuance of the Series 2024A Bonds. The Municipal Advisor has assisted the City in preparation of this Official Statement and in other matters related to the planning, structuring, execution and delivery of the Series 2024A Bonds. The Municipal Advisor will receive compensation contingent upon the sale and delivery of the Series 2024A Bonds.

The Municipal Advisor has not audited, authenticated or otherwise independently verified the information set forth in the Official Statement, or any other information related to the City with respect to the accuracy or completeness of disclosure of such information. The Municipal Advisor makes no guaranty, warranty or other representation respecting the accuracy or completeness of this Official Statement or any other matter related to this Official Statement.

FINANCIAL STATEMENTS FOR FISCAL YEAR 2023

The City prepares audited financial statements annually in conformity with generally accepted accounting principles for governmental entities. The City’s most recent financial statements, for Fiscal Year ended June 30, 2023, were audited by Macias Gini & O’Connell LLP (the “Independent Auditor”), independent accountant, as stated in its report. The City’s basic financial statements contained in the City’s Annual Comprehensive Financial Report (“ACFR”) include the financial statements of the Sewer Revenue Fund.

The City’s ACFR for Fiscal Year ended June 30, 2023 (“2023 ACFR”), which includes the City’s audited basic financial statements as of and for the Fiscal Year ended June 30, 2023, is available through

the EMMA System at <https://emma.msrb.org/P21762002-P11321483-P11754673.pdf> and are incorporated by reference herein and constitute a part of this Official Statement.

The Independent Auditor has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. Macias Gini & O'Connell LLP also has not performed any procedures relating to this Official Statement. The City did not request the consent of the independent auditors to incorporate the City's financial statements to this Official Statement.

MISCELLANEOUS

This Official Statement has been duly approved, executed and delivered by the Authority and has been duly approved, executed and delivered by the City.

There are appended to this Official Statement, among other things, a summary of certain provisions of the principal legal documents, the proposed form of the opinion of Bond Counsel, a general description of the City and a description of DTC's Book-Entry Only System. The Appendices are integral parts of this Official Statement and must be read together with all other parts of this Official Statement.

This Official Statement is not to be construed as a contract or agreement between the Authority or the City and the purchasers or holders of any of the Series 2024A Bonds. Any statements made in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended merely as an opinion and not representation of fact. The information and the expression of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in financial condition, results of operations, or any other affairs of the City, including the Department or the Wastewater System or the Authority since the date hereof.

PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO

By _____
Chair

CITY OF SAN DIEGO

By _____
Chief Financial Officer

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APPENDIX A
SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

APPENDIX B

FORM OF BOND COUNSEL OPINION

[Closing Date]

Public Facilities Financing Authority of the City of San Diego
San Diego, California

City of San Diego
San Diego, California

Re: \$_____ Public Facilities Financing Authority of the City of San Diego
Subordinated Sewer Revenue Bonds, Series 2024A (Payable Solely From
Subordinated Installment Payments Secured by Wastewater System Net Revenues)

Ladies and Gentlemen:

We have acted as Bond Counsel to the Public Facilities Financing Authority of the City of San Diego (the “Authority”) in connection with the issuance of \$_____ aggregate principal amount of its Subordinated Sewer Revenue Bonds, Series 2024A (Payable Solely From Subordinated Installment Payments Secured by Wastewater System Net Revenues) (the “Series 2024A Bonds”), issued pursuant to the provisions of Article 4 of Chapter 5 of Division 7 of Title 1 of the California Government Code (the “Law”) and pursuant to an Indenture of Trust, dated as of May 1, 2009, as previously amended and supplemented (the “Original Indenture”), and as further supplemented by a Sixth Supplemental Indenture, dated as of _____ 1, 2024 (the “Sixth Supplemental Indenture” and collectively with the Original Indenture, the “Indenture”) each by and between the Authority and U.S. Bank Trust Company, National Association, as successor trustee (the “Trustee”). The Series 2024A Bonds are payable from Subordinated Revenues (as defined in the Indenture) consisting of Subordinated Installment Payments, including the 2024-1 Installment Payments (the “2024-1 Installment Payments”) to be made by the City to the Authority under a Master Installment Purchase Agreement, dated as of September 1, 1993, as previously amended and supplemented (the “Master Installment Purchase Agreement”), including as further supplemented by the 2024-1 Supplement to the Master Installment Purchase Agreement, dated as of _____ 1, 2024 (the “2024-1 Supplement” and together with the Master Installment Purchase Agreement, the “Installment Purchase Agreement”) each by and between the City and the Authority and amounts on deposit in certain funds and accounts established under the Indenture. Pursuant to the Indenture, the Subordinated Installment Payments have been assigned by the Authority to the Trustee and will be used by the Trustee to pay the principal of and interest on the Series 2024A Bonds. Capitalized terms used but not defined herein shall have the meaning ascribed to such term as set forth in the Indenture and the Installment Purchase Agreement.

As Bond Counsel, we have examined copies, certified to us as being true and complete, of the Indenture, the Installment Purchase Agreement, the Tax Certificate, dated _____, 2024 (the “Tax Certificate”), and such other certificates, documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein. We have not undertaken to verify independently the accuracy of the factual matters represented, warranted or certified therein, and we have assumed the genuineness of all signatures thereto. We have, with your approval, assumed that all items submitted to us

as originals are authentic and that all items submitted as copies conform to the originals. The Indenture and the Installment Purchase Agreement are collectively referred to herein as the “Legal Documents.”

On the basis of such examination, our reliance upon the assumptions contained herein and our consideration of such questions of law as we considered relevant, and subject to the limitations and qualifications in this opinion, we are of the opinion that:

1. The Series 2024A Bonds constitute the valid and binding limited obligations of the Authority.

2. The Indenture has been duly authorized, executed and delivered by the City and the Authority, and assuming due authorization, execution and delivery by the other party thereto, constitutes the legally valid and binding obligation of the City and the Authority, and is enforceable in accordance with its terms.

3. The Series 2024A Bonds are issued under the Indenture as Subordinated Obligations. The Indenture establishes a valid lien on and pledge of Subordinated Revenues for the benefit of all Subordinated Obligations, including the Series 2024A Bonds, as provided in the Indenture, which lien and pledge is junior and subordinate to the lien on and pledge of Net System Revenues securing Parity Obligations issued under the Indenture. All Subordinated Obligations are of equal rank with each other without preferences, priority or distinction of any Subordinated Obligations over any other Subordinated Obligations.

4. The Installment Purchase Agreement has been duly authorized, executed and delivered by the City and the Authority, constitutes the legally valid and binding obligation of the City and the Authority, and is enforceable in accordance with its terms.

5. The Internal Revenue Code of 1986 (the “Code”) sets forth certain requirements that must be met subsequent to the issuance and delivery of the Series 2024A Bonds for interest thereon to be and remain excluded from gross income for federal income tax purposes. Noncompliance with such requirements could cause the interest on the Series 2024A Bonds to be included in gross income for federal income tax purposes retroactive to the date of issue of the Series 2024A Bonds. Pursuant to the Indenture, the Installment Purchase Agreement, and the Tax Certificate, the Authority and the City, as applicable, have covenanted to comply with the applicable requirements of the Code in order to maintain the exclusion of the interest on the Series 2024A Bonds from gross income for federal income tax purposes pursuant to Section 103 of the Code. In addition, the Authority and the City, as applicable, have made certain additional covenants, representations and certifications in the Indenture, the Installment Purchase Agreement, and the Tax Certificate. We have not independently verified compliance with such covenants or the accuracy of those certifications and representations.

Under existing law, assuming compliance with the above-mentioned tax covenants and the accuracy of the above-mentioned representations and certifications, interest on the Series 2024A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Code. We are also of the opinion that such interest is not treated as a preference item in calculating the alternative minimum tax imposed under the Code. Interest on the Series 2024A Bonds will be taken into account in computing the alternative minimum tax imposed on certain corporations under the Code to the extent that such interest is included in the “adjusted financial statement income” of such corporations.

6. Interest on the Series 2024A Bonds is exempt from personal income taxes of the State of California under present state law.

The opinions set forth in paragraphs 2 and 4 above are subject to (a) applicable bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting creditors' rights generally (including, without limitation, fraudulent conveyance laws), (b) the effect of general principles of equity, including, without limitation, concepts of materiality, reasonableness, good faith and fair dealing and the possible unavailability of specific performance or injunctive relief, regardless of whether considered in a proceeding in equity or at law, and (c) the limitations on legal remedies against government entities in the State of California. We express no opinion with respect to any indemnification, contribution, choice of law, choice of forum or waiver provisions contained in the Legal Documents, and we express no opinion on the laws of any jurisdiction other than the State of California and the United States of America.

Except as stated in paragraphs 5 and 6, we express no opinion as to any other federal, state or local tax consequences of the ownership or disposition of, or the accrual or receipt of interest on, the Series 2024A Bonds. Furthermore, we express no opinion as to any federal, state or local tax law consequences with respect to the Series 2024A Bonds, or the interest thereon, if any action is taken with respect to the Series 2024A Bonds or the proceeds thereof upon the advice or approval of other counsel.

No opinion is expressed herein on the accuracy, completeness or sufficiency of any financial information or offering material relating to the Series 2024A Bonds. This opinion is expressly limited to the matters set forth above and we render no opinion, whether by implication or otherwise, as to any other matters. We assume no obligation to update or supplement this opinion to reflect any facts or circumstances which may hereafter come to our attention or any changes in laws which may hereafter occur.

We call attention to the fact that the opinions expressed herein and the exclusion of interest due on the Series 2024A Bonds from gross income for federal income tax purposes may be affected by actions taken or omitted or events occurring or failing to occur after the date hereof. We have not undertaken to determine, or inform any person, whether any such actions are taken, omitted, occur or fail to occur. Our engagement with respect to this matter has ended as of the date hereof, and we disclaim any obligation to update this letter.

Respectfully submitted,

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APPENDIX C

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate, dated as of _____, 2024 (the “Disclosure Certificate”), is executed and delivered by The City of San Diego (the “City”) in connection with the issuance by the Public Facilities Financing Authority of the City of San Diego (the “Authority”) of Subordinated Sewer Revenue Bonds, Series 2024A (Payable Solely From Subordinated Installment Payments Secured by Wastewater System Net Revenues) (the “Series 2024A Bonds”). The Series 2024A Bonds are being issued pursuant to the Indenture (as defined herein). In connection therewith, the City, as an “obligated person” with respect to the Series 2024A Bonds (within the meaning of the Rule, as defined herein), covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City on behalf of the Authority for the benefit of the Holders and Beneficial Owners of the Series 2024A Bonds and in order to assist the Participating Underwriters in complying with the Rule.

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

“Annual Report” shall mean any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“Beneficial Owner” shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or dispose of ownership of, any Series 2024A Bonds (including persons holding Series 2024A Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Series 2024A Bonds for federal income tax purposes.

“Dissemination Agent” shall mean the City and any Person designated by the City to serve as Dissemination Agent.

“Financial Obligation” shall mean a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term “Financial Obligation” shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

“Holder” shall mean the person in whose name any Bond shall be registered.

“Indenture” shall mean the Indenture, dated as of May 1, 2009, by and between the Authority and U.S. Bank Trust Company, National Association, as successor trustee, as amended and supplemented.

“MSRB” shall mean the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access system.

“Notice Event” shall mean any of the events listed in Section 5(a) or (b) of this Disclosure Certificate.

“Official Statement” shall mean the Official Statement, dated _____, 2024, prepared and distributed in connection with the initial sale of the Series 2024A Bonds.

“Participating Underwriters” shall mean any of the original purchasers of the Series 2024A Bonds required to comply with the Rule in connection with offering of the Series 2024A Bonds.

“Person” shall mean any individual, corporation, partnership, joint venture, association, joint stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time, and including any official interpretations thereof issued either before or after the effective date of this Certificate which are applicable to this Certificate.

Section 3. Provision of Annual Reports.

(a) The City shall, or upon written direction, shall cause the Dissemination Agent (if other than the City) to, not later than April 10 after the end of the City’s Fiscal Year (which currently ends June 30), or the next succeeding business day if that day is not a business day, commencing with the report for the fiscal year ending June 30, 2024 (each, a “Filing Date”), provide to the MSRB an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. As of the date of this Disclosure Certificate, the format prescribed by the MSRB is the Electronic Municipal Market Access (“EMMA”) system.

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 Filing Date for the filing of the Annual Report if not available by such Filing Date. If the City’s Fiscal Year changes, it shall give notice of such change in the same manner as for a Notice Event under Section 5(c) hereof.

(b) Not later than fifteen (15) business days prior to each Filing Date for providing the Annual Report to the MSRB, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). If the City is unable to provide to the MSRB an Annual Report by the Filing Date, the City shall, in a timely manner, send a notice to the MSRB.

(c) The Dissemination Agent (if other than the City) shall:

(i) determine each year prior to the date for providing the Annual Report the format for filing with the MSRB; and

(ii) file a report with the City certifying that the Annual Report has been provided to the MSRB pursuant to this Disclosure Certificate, and stating the date the Annual Report was so provided.

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

(a) The audited financial statements of the City for the most recently completed Fiscal Year prepared in accordance with generally accepted accounting principles as applicable to state and local governments in the United States of America. If the City’s audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) Financial information and operating data with respect to the City, as such information and data related to the City for the most recently completed Fiscal Year of the type included in the Official Statement, in the following categories (to the extent not included in the City’s audited financial statements):

(i) [An update of the information contained in the table of the Official Statement entitled “Metropolitan Sub-System City and Participating Agencies Flow and Capacity Rights”;

(ii) An update of the information substantially in the form contained in the table of the Official Statement entitled “Wastewater System Total Annual Flow” for the most recent fiscal year;

(iii) An update of the information substantially in the form contained in the table of the Official Statement entitled “Wastewater System Historical Sources of Sewer Service Charge Revenues” for the most recent fiscal year;

(iv) An update of the information substantially in the form contained in the table of the Official Statement entitled “Municipal Sub-System Ten Largest Customers” for the most recent fiscal year;

(v) An update of the information substantially in the form contained in the table of the Official Statement entitled “Wastewater System Five-Year Service Charge History for Single Family Residential, Multifamily and Commercial and Industrial Customers,” for the most recent fiscal year;

(vi) An update of the information substantially in the form contained in the table of the Official Statement entitled “Wastewater Customer Accounts Receivable and Shut-Offs” for the most recent fiscal year;

(vii) An update of the information substantially in the form contained in the table of the Official Statement entitled “Wastewater System – Municipal Sub-System Historical Equivalent Dwelling Units and Capacity Charge Revenues” for the most recent fiscal year;

(viii) An update of the information substantially in the form contained in the table of the Official Statement entitled “Sewer Revenue Fund Statements of Revenues, Expenses, and Changes in Fund Net Position” for the most recent fiscal year;

(ix) An update of the information substantially in the form contained in the table of the Official Statement entitled “Reserves and Cash and Investments in Sewer Revenue Fund” for the most recently completed fiscal year;

(x) An update of the information substantially in the form contained in the table of the Official Statement entitled “Calculation of Historical Debt Service Coverage” for the most recent fiscal year;

(xi) An update of the information substantially in the form contained in the table of the Official Statement entitled “Liability Claims Budget and Expenditures” for the most recently completed fiscal year;

(xii) An update of the information substantially in the form contained in the table of the Official Statement entitled “City of San Diego Schedule of Funding Progress” for the most recently completed fiscal year;

(xiii) An update of the information substantially in the form contained in the table of the Official Statement entitled “City of San Diego and Sewer Revenue Fund Pension Contribution” for the most recently completed fiscal year.][To be monitored]

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 have been submitted to the MSRB. The City shall clearly identify each such other document so included by reference.

The contents, presentation and format of the Annual Reports may be modified from time to time as determined in the judgment of the City to conform to changes in accounting or disclosure principles or practices and legal requirements followed by or applicable to the City or to reflect changes in the business, structure, operations, legal form of the City or any mergers, consolidations, acquisitions or dispositions made by or affecting the City; provided that any such modifications shall comply with the requirements of the Rule.

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 Series 2024A Bonds, in a timely manner not later than ten (10) business days after the occurrence of such Notice Event to the MSRB through EMMA:

- (i) Principal and interest payment delinquencies;
- (ii) Unscheduled draws on debt service reserves reflecting financial difficulties;¹
- (iii) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (iv) Substitution of credit or liquidity providers, or their failure to perform;²
- (v) Adverse tax opinions or issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB);
- (vi) Tender offers;
- (vii) Defeasances;
- (viii) Rating changes;³
- (ix) Bankruptcy, insolvency, receivership or similar event of the City (such event being 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 U.S. 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); or
- (x) Default, event of acceleration, termination event, modification of terms or other similar events under a Financial Obligation of the City, if any such event reflects financial difficulties.

(b) The City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Series 2024A Bonds, if material, not later than ten (10) business days after the occurrence of such Notice Event to the MSRB through EMMA:

¹ Without limiting its reporting obligation, the City advises that it has not established a debt service reserve fund for the Series 2024A Bonds.

² Without limiting its reporting obligation, the City advises that it has not obtained or provided any credit enhancement or credit or liquidity providers for the Series 2024A Bonds.

³ Does not include rating changes related to credit enhancement added by a Holder.

(i) Unless described in paragraph 5(a)(5), other notices or determinations with respect to the tax status of the Series 2024A Bonds or other events affecting the tax status of the Series 2024A Bonds;

(ii) Modifications to rights of holders of the Series 2024A Bonds;

(iii) Bond calls;⁴

(iv) Release, substitution, or sale of property securing repayment of the Series 2024A Bonds;

(v) Non-payment related defaults;

(vi) The consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets thereof, 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;

(vii) Appointment of a successor or additional trustee or the change of name of a trustee; or

(viii) Incurrence of a Financial Obligation of the City or agreement to covenants, events of default, remedies, priority rights or other similar terms of a Financial Obligation of the City, any of which affect security holders.

(c) If the City learns of the occurrence of a Notice Event described in Section 5(a), or determines that knowledge of a Listed Event described in Section 5(b) would be material under applicable federal securities laws, the City shall promptly file, or cause to be filed, a notice of such event with the MSRB through EMMA. Notwithstanding the foregoing, notice of the Notice Events described in subsections (a)(vii) or (b)(iii) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Series 2024A Bonds pursuant to the Indenture.

(d) As used in this Disclosure Certificate, the term “Financial Obligation” will be interpreted so as to comply with applicable federal securities laws guidance as of the date of this Disclosure Certificate, including that provided by the Securities Exchange Commission in its Release No. 34-83885, dated August 20, 2018.

Section 6. Termination of Reporting Obligation. The City’s obligations under this Disclosure Certificate with respect to the Series 2024A Bonds shall terminate upon the legal defeasance, prior redemption, or payment in full of all the Series 2024A Bonds. If such termination occurs prior to the final maturity of the Series 2024A Bonds, the City shall give notice of such in the same manner as for a Notice Event under Section 5(c).

Section 7. 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 such Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be the City. The Dissemination Agent, if other than the City, shall not be responsible in any manner for the content of any notice or report prepared by the City pursuant to this Disclosure Certificate.

Section 8. 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:

⁴ Any scheduled redemption of 2024A Bonds pursuant to mandatory sinking fund redemption requirements does not constitute a Notice Event within the meaning of the Rule.

(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 the City with respect to the Series 2024A Bonds, or the type of business conducted;

(b) the undertakings herein, as proposed to be amended or taking in account such waiver, 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 Series 2024A Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver (i) is approved by the Holders majority of outstanding principal amount of the Series 2024A Bonds, in the same manner as provided in the Indenture for amendments to the Indenture with the consent of the 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 Series 2024A Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the City shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Notice Event under subsection 5(c), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 9. 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 Notice 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 Notice 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 the occurrence of a Notice Event.

Section 10. Default. In the event of a failure of the City to comply with any provision of this Disclosure Certificate, any Holder or Beneficial Owner of the Series 2024A 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; provided that any Beneficial Owner seeking to require the City to comply with this Certificate shall first provide at least thirty (30) days' prior written notice to the City of the City's failure, giving reasonable detail of such failure, following which notice the City shall have thirty (30) days to comply. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance, and no person or entity shall be entitled to recover monetary damages under this Certificate.

Section 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate.

Section 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, and Holders and Beneficial Owners from time to time of the Series 2024A Bonds, and shall create no rights in any other person or entity.

Section 13. Governing Law. This Disclosure Certificate shall be governed by the laws of the State of California and the federal securities laws.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, The City of San Diego has executed this Continuing Disclosure Certificate as of the date first set forth herein.

THE CITY OF SAN DIEGO

By:

Matthew Vespi
Chief Financial Officer

EXHIBIT A

NOTICE TO THE MSRB OF FAILURE TO FILE ANNUAL REPORT

Name of Obligor: City of San Diego

Name of Issue: Public Facilities Financing Authority of the City of San Diego Subordinated Sewer Revenue Bonds, Series 2024A (Payable Solely From Subordinated Installment Payments Secured By Wastewater System Net Revenues) (the “Series 2024A Bonds”).

Date of Issuance: [_____] __, 2024

NOTICE IS HEREBY GIVEN that the City of San Diego has not provided an Annual Report with respect to the Series 2024A Bonds as required by the Continuing Disclosure Certificate, dated [_____] __, 2024, with respect to the Series 2024A Bonds. The City anticipates that the Annual Report will be filed by _____.

Dated: _____

CITY OF SAN DIEGO

By: _____
Title: _____

APPENDIX D

INFORMATION REGARDING THE BOOK-ENTRY ONLY SYSTEM

Introduction

Unless otherwise noted, the information contained under the caption “—General” below has been provided by DTC. Neither the Authority nor the City make any representations as to the accuracy or the completeness of such information. The Beneficial Owners of the Series 2024A Bonds should confirm the following information with DTC, the Direct Participants or the Indirect Participants.

NONE OF THE AUTHORITY, THE CITY OR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DIRECT PARTICIPANTS, TO INDIRECT PARTICIPANTS, OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (A) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT PARTICIPANT, OR ANY INDIRECT PARTICIPANT; (B) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE SERIES 2024A BONDS UNDER THE INDENTURE, (C) THE SELECTION BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE SERIES 2024A BONDS; (D) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OR INTEREST DUE TO THE OWNERS OF THE SERIES 2024A BONDS; (E) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNERS OF SERIES 2024A BONDS; OR (F) ANY OTHER MATTER REGARDING DTC.

General

DTC will act as securities depository for the Series 2024A Bonds. The Series 2024A Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered Series 2024A Bond certificate will be issued for each maturity of the Series 2024A Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

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, as amended. 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 Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of the Series 2024A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2024A Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2024A Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2024A Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2024A Bonds, except in the event that use of the book-entry system for the Series 2024A Bonds is discontinued.

To facilitate subsequent transfers, all Series 2024A Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2024A Bonds 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 Series 2024A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2024A Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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 Series 2024A Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2024A Bonds, such as redemptions, tenders, defaults and proposed amendments to the Series 2024A Bond documents. For example, Beneficial Owners of Series 2024A Bonds may wish to ascertain that the nominee holding the Series 2024A Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

While the Series 2024A Bonds are in the book-entry-only system, redemption notices will be sent to DTC. If less than all of the Series 2024A Bonds of a maturity 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.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2024A Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2024A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series 2024A Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority, the Trustee on the 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, the Trustee, the Authority or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee, 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.

DTC may discontinue providing its services as depository with respect to the Series 2024A Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, certificates representing the Series 2024A Bonds are required to be printed and delivered.

The Authority (at the direction of the City) may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, certificates representing the Series 2024A Bonds will be printed and delivered to DTC.

The information in this Appendix D concerning DTC and DTC’s book-entry system has been obtained from sources that the Authority and the City believe to be reliable, but none of the Authority, the City or the Underwriters take any responsibility for the accuracy thereof.

BENEFICIAL OWNERS WILL NOT RECEIVE PHYSICAL DELIVERY OF SERIES 2024A BONDS AND WILL NOT BE RECOGNIZED BY THE TRUSTEE AS OWNERS THEREOF, AND BENEFICIAL OWNERS WILL BE PERMITTED TO EXERCISE THE RIGHTS OF OWNERS ONLY INDIRECTLY THROUGH DTC AND THE DTC PARTICIPANTS.

PUBLIC FACILITIES FINANCING AUTHORITY
OF THE CITY OF SAN DIEGO

RESOLUTION NUMBER FA-2024-4

ADOPTED ON _____, 2024

A RESOLUTION OF THE COMMISSION OF THE PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO (I) APPROVING THE FORMS AND AUTHORIZING THE EXECUTION AND DELIVERY OF ONE OR MORE (A) PRELIMINARY OFFICIAL STATEMENTS AND (B) OFFICIAL STATEMENTS, AND (II) APPROVING CERTAIN OTHER AGREEMENTS AND ACTIONS IN CONNECTION WITH THE ISSUANCE AND SALE OF ONE OR MORE SERIES OF ITS AUTHORIZED SEWER BONDS.

WHEREAS, the Council of the City of San Diego (the “City Council”) has heretofore authorized and approved by Ordinance Number O-21804 (the “Ordinance”) dated April 29, 2024, and the Authority has also authorized and approved by Resolution No. FA-2024-2 (the “Authority Resolution”) adopted by the Authority on April 22, 2024, the agreements and conditions attendant to the issuance by the Authority of one or more series of Authorized Sewer Bonds (as defined in the Authority Resolution) in an aggregate principal amount not to exceed \$300,000,000; and

WHEREAS, in connection with the marketing and sale of the Authorized Sewer Bonds, it is necessary for the Authority to authorize and approve the distribution of the Preliminary Official Statement (the “Preliminary Official Statement”) and the execution, delivery, and distribution of the final Official Statement (the “Official Statement”) relating to the Authorized Sewer Bonds, all in accordance with the policies of this Commission of the Public Facilities Financing Authority of the City of San Diego (the “Commission”) and applicable securities laws and regulations; and

WHEREAS, there has been presented to this meeting a proposed form of Preliminary Official Statement related to the Authorized Sewer Bonds, a copy of which Preliminary Official Statement is on file in the Office of the Secretary; and

WHEREAS, the form of the Preliminary Official Statement submitted to this meeting has been reviewed and approved by the City's Disclosure Practices Working Group ("DPWG"), which among other administrative responsibilities, is required to review disclosure documents of the City and related entities; and

WHEREAS, the Authority is authorized to undertake the actions described in this Resolution pursuant to its Joint Exercise of Powers Agreement and the Constitution and applicable laws of the State of California; NOW, THEREFORE,

BE IT RESOLVED by the Commission, as follows:

Section 1. The Commission hereby finds and determines that the statements set forth above in the recitals to this Resolution are true and correct.

Section 2. The form and content of the form of the Preliminary Official Statement submitted to this meeting, a copy of which is on file in the Office of the Secretary, and the execution and delivery thereof by the Authority are hereby approved. Each of the Chair, Vice-Chair or Treasurer of the Authority (each, an "Authorized Officer") is hereby authorized, and any one of the Authorized Officers is hereby directed, for and in the name and on behalf of the Authority, to execute and deliver any requested certificate or instrument evidencing the Authority's approval of the Preliminary Official Statement and each such Preliminary Official Statement in conjunction with one or more issuances of the Authorized Sewer Bonds, in one or more series and on one or more sale dates, in substantially the form presented to this meeting and

the Secretary is authorized to attest thereto, with such additions, changes, supplements and amendments therein as any Authorized Officer shall determine are necessary or desirable and approve as being in the best interests of the Authority, and as approved as to form by the San Diego City Attorney as General Counsel to the Authority or specified designee (“General Counsel”), and DPWG, and with such other changes as may be required or requested by Nixon Peabody LLP, as Bond and Disclosure Counsel (“Bond and Disclosure Counsel”), such approval to be conclusively evidenced by the execution and delivery thereof by the Authorized Officer. Upon approval of the Preliminary Official Statement for use in marketing the Authorized Sewer Bonds by the Authorized Officers and in accordance with applicable policies and procedures of the Authority, including approval by DPWG, the Preliminary Official Statement shall be “deemed final” as of its date, except for the omission of certain information as permitted in and pursuant to Rule 15c2-12 (the “Rule”), promulgated by the Securities and Exchange Commission pursuant to the provisions of the Securities Act of 1934, as amended, and the Authorized Officers are hereby authorized, and any one of the Authorized Officers is hereby directed, for and in the name and on behalf of the Authority, to execute a certificate to that effect.

Section 3. Following the pricing and sale of the Authorized Sewer Bonds, the Authorized Officers are authorized and directed to cause a form of the Official Statement to be prepared in accordance with the disclosure policies of the Authority, the requirements of the Rule and with the assistance of DPWG together with such changes as are determined to be necessary or desirable by the Authorized Officer executing the Official Statement to make such Official Statement complete and accurate as of its date, such approval to be conclusively evidenced by the execution and delivery of the Official Statement to the initial purchasers of the Authorized Sewer Bonds. The Official Statement shall be executed by any of the Authorized

Officers upon satisfaction of applicable DPWG requirements and the recommendation of Bond and Disclosure Counsel.

Section 4. All actions heretofore taken by any officers, employees, or agents of the Authority with respect to the issuance, delivery, or sale of the Authorized Sewer Bonds are hereby approved, confirmed and ratified; and any officers, employees, or agents of the Authority as may be authorized by the Authorized Officers are hereby authorized and directed, for and in the name of and on behalf of the Authority, to do any and all things and take any and all actions, including, without limitation, pay necessary and appropriate fees and expenses, and execute and deliver any and all certificates, agreements and other documents which they, or any of them, may deem necessary or desirable to consummate the transactions authorized by the Ordinance and the Authority Resolution in accordance with this Resolution.

[The rest of this page intentionally left blank]

Section 5. This Resolution shall take effect immediately upon its adoption.

ADOPTED, SIGNED AND APPROVED this ____ day of _____ 2024, by the following vote:

AYES: _____

NAYS: _____

ABSENT: _____

VACANT: _____

ABSTAIN: _____

PUBLIC FACILITIES FINANCING
AUTHORITY OF THE CITY OF SAN
DIEGO

Chair, Board of Commissioners

Attest:

Secretary to Board of Commissioners

PRELIMINARY OFFICIAL STATEMENT DATED ~~_____~~ JULY 17, 2024

NEW ISSUE—BOOK-ENTRY ONLY

RATINGS:

Fitch: “[]” ([])
S&P: “[]” ([])
(See “RATINGS” herein.)

In the opinion of Nixon Peabody LLP, Bond Counsel, under existing law and assuming compliance with the tax covenants described herein, and the accuracy of certain representations and certifications made by the Authority and the City described herein, interest on the Series 2024A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”). Bond Counsel is also of the opinion that interest on the Series 2024A Bonds is not treated as a preference item in calculating the alternative minimum tax imposed under the Code. Bond Counsel is further of the opinion that interest on the Series 2024A Bonds is exempt from personal income taxes of the State of California (the “State”) under present State law. For a more complete description, see “TAX MATTERS” herein.

~~\$~~ ~~_____~~ ~~270,690,000~~*
PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO
SUBORDINATED SEWER REVENUE BONDS, SERIES 2024A
(Payable Solely From Subordinated Installment Payments
Secured by Wastewater System Net Revenues)

Dated: Date of Delivery

Due: May 15, as shown on the inside cover page

The ~~\$~~ ~~_____~~ ~~270,690,000~~* Public Facilities Financing Authority of the City of San Diego Subordinated Sewer Revenue Bonds, Series 2024A (Payable Solely From Subordinated Installment Payments Secured by Wastewater System Net Revenues) (the “Series 2024A Bonds”), are being issued by the Public Facilities Financing Authority of the City of San Diego (the “Authority”) pursuant to the provisions of the Joint Exercise of Powers Act (commencing with Section 6500) of the Government Code of the State of California (the “State”) and an Indenture, dated as of May 1, 2009 (the “Original Indenture”), as amended and supplemented by a First Supplemental Indenture, dated as of June 1, 2009, a Second Supplemental Indenture, dated as of April 1, 2010, a Third Supplemental Indenture, dated as of September 1, 2015, a Fourth Supplemental Indenture, dated as of March 1, 2016, a Fifth Supplemental Indenture, dated as of May 1, 2022, and a Sixth Supplemental Indenture, to be dated as of ~~_____~~ August 1, 2024 (the Original Indenture, as so amended and supplemented, is referred to herein as the “Indenture”), each by and between the Authority and U.S. Bank Trust Company, National Association, as successor trustee (the “Trustee”).

The Series 2024A Bonds are being issued to: (i) finance the costs of the design, acquisition, construction and installation of improvements to the City of San Diego’s (the “City”) wastewater system (the “Wastewater System”) and (ii) pay costs of issuance with respect to the Series 2024A Bonds.

THE SERIES 2024A BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY AND ARE PAYABLE SOLELY FROM THE SUBORDINATED REVENUES OF THE AUTHORITY PLEDGED FOR SUCH PURPOSE, AND AMOUNTS ON DEPOSIT IN CERTAIN FUNDS AND ACCOUNTS ESTABLISHED, UNDER THE INDENTURE. EXCEPT AS AFORESAID, THE SERIES 2024A BONDS DO NOT CONSTITUTE A DEBT OR LIABILITY OF THE AUTHORITY, THE CITY OR THE STATE, AND NEITHER THE FAITH NOR CREDIT OF THE AUTHORITY, THE CITY OR THE STATE ARE PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE SERIES 2024A BONDS. THE AUTHORITY HAS NO TAXING POWER.

The Series 2024A Bonds are limited obligations of the Authority primarily secured by Subordinated Revenues of the Authority, which consist primarily of Subordinated Installment Payments, including the 2024-1 Installment Payments, to be made by the City to the Authority, pursuant to the Master Installment Purchase Agreement, dated as of September 1, 1993, as amended and supplemented (the “Master Installment Purchase Agreement”), including as supplemented by the 2024-1 Supplement to the Master Installment Purchase Agreement, dated as of ~~_____~~ August 1, 2024 (the “2024-1 Supplement” and, together with the Master Installment Purchase Agreement, the “Installment Purchase Agreement”), each by and between the City and the Authority, and amounts on deposit in certain funds and accounts established under the Indenture (other than amounts on deposit in the Rebate Fund). The City has pledged Net System Revenues of the Wastewater System pursuant to the Installment Purchase Agreement to the payment of the Subordinated Installment Payments, including the 2024-1 Installment Payments. The City’s pledge and assignment of and lien on the Net System Revenues securing the Subordinated Installment Payments, including the 2024-1 Installment Payments, will be subordinate to the payment by the City of its Senior Obligations and on parity with the City’s pledge and assignment of and lien on the Net System Revenues securing the other Subordinated Obligations.

The principal of and interest on the Series 2024A Bonds are not a debt of the City nor a legal or equitable pledge, charge, lien or encumbrance upon any of its property or upon any of its income, receipts or revenues but are secured by and payable solely from the Subordinated Revenues of the Authority and amounts on deposit in certain funds and accounts established under the Indenture (other than amounts on deposit in the Rebate Fund).

Pursuant to the Installment Purchase Agreement, the City may incur additional Obligations, payments with respect to which will be senior to the City’s Subordinated Obligations, and additionally, the City may incur additional Obligations on parity with the Subordinated Obligations, in each such case, subject to satisfaction of the conditions specified in the Installment Purchase Agreement.

The Series 2024A Bonds will not be secured by any debt service reserve fund.

The Series 2024A Bonds will accrue interest from their date of delivery, and interest thereon will be payable on May 15 and November 15 of each year, commencing on November 15, 2024. The Series 2024A Bonds will bear interest at the respective rates per annum set forth on the inside cover page hereof. See “DESCRIPTION OF THE SERIES 2024A BONDS—General” herein and “APPENDIX A—SUMMARY OF PRINCIPAL LEGAL DOCUMENTS” attached hereto.

The Series 2024A Bonds will be issued only in fully-registered form in denominations of \$5,000 and any integral multiple thereof, and when issued, will be registered in the name of Cede & Co., as the nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository for the Series 2024A Bonds. Ownership interests in the Series 2024A Bonds may be purchased in book-entry form only. So

* Preliminary, subject to change.

long as DTC or its nominee is the Owner of the Series 2024A Bonds, principal of and interest on the Series 2024A Bonds will be made as described in “APPENDIX D—INFORMATION REGARDING THE BOOK-ENTRY ONLY SYSTEM” attached hereto.

The Series 2024A Bonds are subject to optional and mandatory sinking fund redemption prior to maturity as described herein. * See “DESCRIPTION OF THE SERIES 2024A BONDS—Redemption” herein.

This cover page contains information for general reference only. Potential purchasers are advised to read the entire Official Statement to obtain information essential to making an informed investment decision. Capitalized terms used on this cover page and not otherwise defined have the meanings set forth herein.

The Series 2024A Bonds are offered when, as and if issued, subject to the legal opinion of Nixon Peabody LLP, Bond Counsel. Certain legal matters will be passed upon for the Authority by Nixon Peabody LLP, acting as Disclosure Counsel to the Authority for the Series 2024A Bonds, for the City by Mara W. Elliott, City Attorney, and for the Underwriters by their counsel, Norton Rose Fulbright US, LLP. It is anticipated that the Series 2024A Bonds will be available for delivery through the facilities of DTC in New York, New York, on or about ~~August 14~~ July 14, 2024.

Date of Official Statement: ~~August 14~~ July 14, 2024

Siebert Williams Shank & Co., LLC

Mischler Financial Group, Inc.

Cabrera Capital Markets, LLC

BofA Securities

Wells Fargo Securities

\$~~1270,690,000~~^{*}
PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO
SUBORDINATED SEWER REVENUE BONDS, SERIES 2024A
(Payable Solely From Subordinated Installment Payments
Secured by Wastewater System Net Revenues)

MATURITY SCHEDULE^{*}

Base CUSIP[†]:

~~{add principal amount and maturity date}~~

Maturity Date (May 15) [*]	Principal Amount [*]	Interest Rate	Yield	Price	CUSIP [†]
<u>2025</u>	<u>\$4,065,000</u>				
<u>2026</u>	<u>4,280,000</u>				
<u>2027</u>	<u>4,490,000</u>				
<u>2028</u>	<u>4,715,000</u>				
<u>2029</u>	<u>4,955,000</u>				
<u>2030</u>	<u>5,200,000</u>				
<u>2031</u>	<u>5,460,000</u>				
<u>2032</u>	<u>5,735,000</u>				
<u>2033</u>	<u>6,020,000</u>				
<u>2034</u>	<u>6,320,000</u>				
<u>2035</u>	<u>6,635,000</u>				
<u>2036</u>	<u>6,970,000</u>				
<u>2037</u>	<u>7,315,000</u>				
<u>2038</u>	<u>7,685,000</u>				
<u>2039</u>	<u>8,065,000</u>				
<u>2040</u>	<u>8,470,000</u>				
<u>2041</u>	<u>8,895,000</u>				
<u>2042</u>	<u>9,340,000</u>				
<u>2043</u>	<u>9,805,000</u>				
<u>2044</u>	<u>10,295,000</u>				

\$~~59,735,000~~^{*} ___% 2024A Term Bonds due May 15, ~~20~~2049^{*} - Yield: ___ CUSIP[†] No. _____

\$~~76,240,000~~^{*} ___% 2024A Term Bonds due May 15, ~~20~~2054^{*} - Yield: ___ CUSIP[†] No. _____

^{*} Preliminary, subject to change.

[†] CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services (CGS), which is managed on behalf of The American Bankers Association by FactSet Research Systems Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CGS database. CUSIP numbers have been assigned by an independent company not affiliated with the Authority or the City and are included solely for the convenience of the registered owners of the applicable Series 2024A Bonds. Neither the Authority, the City nor the Underwriters are responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the applicable Series 2024A Bonds or as included herein. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Series 2024A Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Series 2024A Bonds.

OFFICIAL STATEMENT

\$~~1~~270,690,000*

PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO SUBORDINATED SEWER REVENUE BONDS, SERIES 2024A

(Payable Solely From Subordinated Installment Payments
Secured by Wastewater System Net Revenues)

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, including the cover page, inside cover page and appendices hereto, and the documents described herein. All statements contained in this introduction are qualified in their entirety by reference to the entire Official Statement. References to and summaries of the laws of the State of California and any documents referred to herein do not purport to be complete, and such references are qualified in their entirety by reference to the complete provisions of such laws and documents. All capitalized terms used in this Official Statement and not otherwise defined herein have the meanings given to such terms in the Indenture and the Installment Purchase Agreement. See “APPENDIX A—SUMMARY OF PRINCIPAL LEGAL DOCUMENTS.”

General

The \$~~1~~270,690,00* Public Facilities Financing Authority of the City of San Diego Subordinated Sewer Revenue Bonds, Series 2024A (Payable Solely From Subordinated Installment Payments Secured by Wastewater System Net Revenues) (the “Series 2024A Bonds”), are being issued by the Public Facilities Financing Authority of the City of San Diego (the “Authority”) pursuant to the provisions of the Joint Exercise of Powers Act (commencing with Section 6500) of the Government Code of the State of California (the “State”) and an Indenture, dated as of May 1, 2009 (the “Original Indenture”), as amended and supplemented by a First Supplemental Indenture, dated as of June 1, 2009 (the “First Supplemental Indenture”), a Second Supplemental Indenture, dated as of April 1, 2010 (the “Second Supplemental Indenture”), a Third Supplemental Indenture, dated as of September 1, 2015 (the “Third Supplemental Indenture”), a Fourth Supplemental Indenture, dated as of March 1, 2016 (the “Fourth Supplemental Indenture”), a Fifth Supplemental Indenture, dated as of May 1, 2022 (the “Fifth Supplemental Indenture”), and a Sixth Supplemental Indenture, to be dated as of ~~1~~August 1, 2024 (the “Sixth Supplemental Indenture”) each by and between the Authority and U.S. Bank Trust Company, National Association, as successor trustee thereunder (the “Trustee”). The Original Indenture, as so amended and supplemented, is referred to herein as the “Indenture.”

The proceeds of the Series 2024A Bonds will be used to: (i) finance the costs of the design, acquisition, construction and installation of improvements to the City of San Diego’s (the “City”) wastewater system (the “Wastewater System”) and (ii) pay costs of issuance with respect to the Series 2024A Bonds. See “PLAN OF FINANCE.”

The Series 2024A Bonds

The Series 2024A Bonds will accrue interest from their date of delivery, and interest thereon will be payable on May 15 and November 15 of each year, commencing on November 15, 2024 (each, an “Interest Payment Date”). The Series 2024A Bonds will bear interest at the respective rates per annum

* Preliminary, subject to change.

set forth on the inside cover page hereof. See “DESCRIPTION OF THE SERIES 2024A BONDS—General.”

The Series 2024A Bonds will be issued only in fully-registered form in denominations of \$5,000 and any integral multiple thereof, and when issued, will be registered in the name of Cede & Co., as the nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository for the Series 2024A Bonds. Ownership interests in the Series 2024A Bonds may be purchased in book-entry form only. So long as DTC or its nominee is the Owner of the Series 2024A Bonds, the principal of and interest on the Series 2024A Bonds will be made as described in “APPENDIX D—INFORMATION REGARDING THE BOOK-ENTRY ONLY SYSTEM.”

Security and Sources of Payment for the Series 2024A Bonds

The City owns the Wastewater System and operates the Wastewater System through its Public Utilities Department (the “Department”). The City has expanded the Wastewater System from time to time to satisfy its mission statement, which is to provide wastewater collection, treatment, discharge and disposal. See “THE WASTEWATER SYSTEM.”

The Series 2024A Bonds are limited obligations of the Authority primarily secured by Subordinated Revenues (defined herein) of the Authority, which consist primarily of Subordinated Installment Payments, including the 2024-1 Installment Payments (defined herein), to be made by the City to the Authority, pursuant to the Master Installment Purchase Agreement, dated as of September 1, 1993, as amended and supplemented (the “Master Installment Purchase Agreement”), including as supplemented by the 2024-1 Supplement to the Master Installment Purchase Agreement, dated as of ~~August~~ August 1, 2024 (the “2024-1 Supplement” and, together with the Master Installment Purchase Agreement, the “Installment Purchase Agreement”), each by and between the City and the Authority, and amounts on deposit in certain funds and accounts established under the Indenture (other than amounts on deposit in the Rebate Fund). The City has pledged Net System Revenues of the Wastewater System pursuant to the Installment Purchase Agreement to the payment of the Subordinated Installment Payments, including the 2024-1 Installment Payments. The City’s pledge and assignment of and lien on the Net System Revenues securing the Subordinated Installment Payments, including the 2024-1 Installment Payments, will be subordinate to the payment of Senior Obligations* by the City and on parity with the City’s pledge and assignment of and lien on the Net System Revenues securing the other Subordinated Obligations. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2024A BONDS.”

THE SERIES 2024A BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY AND ARE PAYABLE SOLELY FROM THE SUBORDINATED REVENUES OF THE AUTHORITY PLEDGED FOR SUCH PURPOSE, AND AMOUNTS ON DEPOSIT IN CERTAIN FUNDS AND ACCOUNTS ESTABLISHED, UNDER THE INDENTURE. EXCEPT AS AFORESAID, THE SERIES 2024A BONDS DO NOT CONSTITUTE A DEBT OR LIABILITY OF THE AUTHORITY, THE CITY OR THE STATE, AND NEITHER THE FAITH NOR CREDIT OF THE AUTHORITY, THE CITY OR THE STATE ARE PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE SERIES 2024A BONDS. THE AUTHORITY HAS NO TAXING POWER.

* The Installment Purchase Agreement uses the term “Parity” in connection with certain senior obligations. For purposes of the forepart of this Official Statement, the term “Senior” will be used in place of “Parity” to clarify that the related obligations have a senior priority lien on Net System Revenues to the Subordinated Obligations, including the 2024-1 Installment Payments.

Redemption of the Series 2024A Bonds

The Series 2024A Bonds are subject to optional and mandatory sinking fund redemption prior to maturity as described herein.* See “DESCRIPTION OF THE SERIES 2024A BONDS—Redemption.”

Rate Covenant

The City has covenanted in the Installment Purchase Agreement to fix, prescribe and collect rates and charges for the Wastewater Service (defined in Appendix A under the caption “INSTALLMENT PURCHASE AGREEMENT—Selected Definitions”) which will be at least sufficient to yield the greater of (a) Net System Revenues sufficient to pay during each Fiscal Year all Obligations payable in such Fiscal Year or (b) Net System Revenues during each Fiscal Year equal to 120% of the Senior Obligations payable for such Fiscal Year.

The Wastewater Service rendered by the City includes services relating to the Metropolitan Sub-System (herein defined), of which the Participating Agencies (herein defined) are a part. See “THE WASTEWATER SYSTEM—~~Participating Agencies~~[Customers of the Metropolitan Sub-System](#)” for a description of the rates and charges paid and to be paid by the Participating Agencies.

In addition, pursuant to the agreements executed by the City in connection with certain of the SRF Loans (as defined herein), the City has covenanted to ensure that net revenues are equal to at least 1.1 times maximum annual debt service on all Obligations in each Fiscal Year. The covenants in the agreements for the SRF Loans are not made for the benefit of the Owners of the Series 2024A Bonds, and Owners of Series 2024A Bonds do not have a right to enforce such covenants. See also “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2024A BONDS—Rate Covenant,” “WASTEWATER SYSTEM FINANCIAL OPERATIONS—Sewer Revenue Fund Reserves,” “RISK FACTORS—Rate-Setting Process Under Proposition 218” and “CONSTITUTIONAL LIMITATIONS ON TAXES AND WASTEWATER RATES AND CHARGES—Articles XIIIIC and XIIID.”

Outstanding Senior Obligations and Subordinated Obligations

The 2024-1 Installment Payments securing payment of the Series 2024A Bonds are payable from Net System Revenues on a basis that is subordinate to the right of payment by the City of Senior Obligations incurred and to be incurred under the Installment Purchase Agreement.

As of July 1, 2024, \$638,117,265 aggregate principal amount of Senior Obligations are outstanding, consisting of obligations related to the Authority’s Senior Sewer Revenue Refunding Bonds, Series 2015 (the “Series 2015 Bonds”), the Authority’s Senior Sewer Revenue Refunding Bonds, Series 2016A (the “Series 2016 Bonds”) and the Existing Senior SRF Loans (herein defined) (collectively, the “Outstanding Senior Obligations”).

As of July 1, 2024, not including the 2024-1 Installment Payments, \$164,354,323 aggregate principal amount of Subordinated Obligations are outstanding, consisting of obligations related to the Authority’s Subordinated Sewer Revenue Bonds, Series 2022A (Payable Solely From Subordinated Installment Payments Secured by Wastewater System Net Revenues) (the “Series 2022 Bonds”) and the Existing Subordinated SRF Loans (herein defined) (collectively, the “Outstanding Subordinated Obligations”). See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2024A BONDS—Outstanding Senior Obligations and Subordinated Obligations.”

* Preliminary, subject to change.

or terminated in whole or in part, and such 2024-1 Installment Payments will not be subject to reduction whether by offset or otherwise and will not be conditioned upon the performance or nonperformance by any party of any agreement for any cause whatsoever.

Under the Installment Purchase Agreement, the City has retained the right to transfer ownership of substantially all of the Metropolitan Sub-System, including amounts in the Sewer Revenue Fund attributable to the Metropolitan Sub-System and any amounts in the Rate Stabilization Fund agreed upon by the City and the transferee as being attributable to the Metropolitan Sub-System, to the District or any other governmental agency whose primary purpose is to provide wastewater treatment and disposal services upon the satisfaction of certain conditions. See “THE WASTEWATER SYSTEM—General” and “APPENDIX A—SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—INSTALLMENT PURCHASE AGREEMENT—Selected Covenants of the City—*Transfer of Metropolitan System Components.*”

Rate Covenant

The City has covenanted in the Installment Purchase Agreement to fix, prescribe and collect rates and charges for the Wastewater Service, which will be at least sufficient to yield the greater of (a) Net System Revenues sufficient to pay during each Fiscal Year all Obligations payable in such Fiscal Year or (b) Net System Revenues during each Fiscal Year equal to 120% of the Senior Obligations payable for such Fiscal Year (the “Rate Covenant”). The Wastewater Service rendered by the City includes services relating to the Metropolitan Sub-System, of which the Participating Agencies (herein defined) are a part. See “THE WASTEWATER SYSTEM—~~Participating—Agencies~~Customers of the Metropolitan Sub-System” for a description of the rates and charges paid and to be paid by the Participating Agencies. Obligations include Senior Obligations and Subordinated Obligations. The City may make adjustments from time to time in such rates and charges and may make such classification thereof as it deems necessary to the fullest extent permitted by law, but the City will not reduce the rates and charges then in effect unless the Net System Revenues from such reduced rates and charges will at all times be sufficient to meet the requirements of the Installment Purchase Agreement. Pursuant to the Installment Purchase Agreement, from time to time, the City may deposit into the Rate Stabilization Fund, from current System Revenues, such amounts as the City determines, and the amount of available current System Revenues will be reduced by the amount so transferred. Amounts may be transferred from the Rate Stabilization Fund solely and exclusively to pay Maintenance and Operation Costs of the Wastewater System, and any amounts so transferred will be deemed System Revenues when so transferred. All interest or other earnings upon amounts in the Rate Stabilization Fund may be withdrawn therefrom and accounted for as System Revenues. However, funds in the Rate Stabilization Fund are not pledged to the payment of Installment Payments. See “WASTEWATER SYSTEM FINANCIAL OPERATIONS—Sewer Revenue Fund Reserves.” See also “RISK FACTORS—Rate-Setting Process Under Proposition 218” and “CONSTITUTIONAL LIMITATIONS ON TAXES AND WASTEWATER RATES AND CHARGES—Articles XIIC and XIID” for a description of State Constitutional limits upon the City’s rate-setting process.

In addition, pursuant to the agreements executed by the City in connection with certain of the SRF Loans (as defined herein), the City has covenanted to ensure that net revenues are equal to at least 1.1 times maximum annual debt service on all Obligations in each Fiscal Year. The covenants in the agreements for the SRF Loans are not made for the benefit of the Owners of the Series 2024A Bonds, and Owners of Series 2024A Bonds do not have a right to enforce such covenants.

No Debt Service Reserve Fund for Series 2024A Bonds

The Series 2024A Bonds will not be secured by a debt service reserve fund.

Outstanding Senior Obligations and Subordinated Obligations

The 2024-1 Installment Payments securing payment of the Series 2024A Bonds are payable from Net System Revenues on a basis that is subordinate to the right of payment by the City of the Senior Obligations incurred and to be incurred under the Installment Purchase Agreement.

As of July 1, 2024, there is \$638,117,265 aggregate principal amount of Outstanding Senior Obligations, consisting of obligations related to the Series 2015 Bonds, the Series 2016 Bonds, and the amounts drawn on fourteen State Revolving Fund (“SRF”) Program loans made by the California State Water Resources Control Board (the “State Water Resources Board”) to the City from the State’s Clean Water State Revolving Fund (the “CWSRF”) (the “Existing Senior SRF Loans”).

As of July 1, 2024, not including the 2024-1 Installment Payments, there is \$164,354,323 aggregate principal amount of Subordinated Obligations outstanding, consisting of the Series 2022 Bonds and the three loans made by the State Water Resources Board to the City from the State’s CWSRF (the “Existing Subordinated SRF Loans”) and the Series 2022 Bonds.

As of July 1, 2024, the City had \$33,400,000 in aggregate principal amount of 2022 Subordinated Revolving Loans outstanding. The City expects to borrow additional amounts under the Revolving Credit Agreement in the future. On December 23, 2022, the City posted a Material Event Notice – Incurrence of Financial Obligation on the EMMA System that sets forth the terms and conditions under which the 2022 Subordinated Revolving Loans may be incurred and the terms thereof.

The following table sets forth certain terms of the Revolving Credit Agreement.

Revolving Credit Agreement	
Revolving Credit Bank	Wells Fargo Bank, N.A.
Principal Amount	\$150,000,000
Expiration/Maturity Date	December 11, 2025 ¹

¹ May be converted to a Term Loan payable in equal installments beginning on or after the ninetieth (90th) calendar day following December 11, 2025, or if such day is not a Business Day the next preceding Business Day, and the first Business Day of each third (3rd) calendar month occurring thereafter prior to the Amortization End Date (as defined in the Revolving Credit Agreement), and the related Amortization End Date, if specified conditions are satisfied.

The City anticipates issuing additional Obligations in Fiscal Years 2025 through 2029 to finance the costs of certain projects in the Wastewater System CIP in the approximate amount of \$~~1.32~~1.275 billion through a combination of SRF Loans of approximately \$~~558~~470 million and revenue bonds of approximately \$~~764~~720 million and, as economic conditions allow, to refund outstanding Obligations. The lien status of all of the anticipated Obligations is yet to be determined.

Table 1 below sets forth the Outstanding Senior Obligations (which includes the Installment Payments relating the outstanding Series 2015 Bonds, the Series 2016 Bonds and the Existing Senior SRF Loans), the Series 2022 Bonds, the Existing Subordinated SRF Loans and the 2022 Subordinated

Revolving Loans, as of July 1, 2024. ~~[to be updated by July 8 with any additional SRF outstanding obligations due to disbursements that occurred in June]~~

TABLE 1
OUTSTANDING SENIOR AND SUBORDINATED OBLIGATIONS
SECURED BY NET SYSTEM REVENUES OF THE WASTEWATER SYSTEM
(as of July 1, 2024)
(Unaudited)

Name of Issue	Original Issue Size	Principal Outstanding ³	Scheduled Final Maturity Date
<u>Senior Obligations</u>			
Series 2015 Bonds	\$ 313,620,000	\$113,595,000	May 15, 2027
Series 2016 Bonds	403,280,000	270,130,000	May 15, 2039
Existing Senior SRF Loans ^{1, 2}	288,075,106 <u>389,786,443</u>	254,392,265 <u>356,103,602</u>	October 31, 2055
Total Senior Obligations	\$1,004,975,106 <u>\$1,066,686,443</u>	\$638,117,265 <u>\$9,828,602</u>	
<u>Subordinated Obligations</u>			
Series 2022 Bonds	\$ 168,250,000	\$162,995,000	May 15, 2052
Existing Subordinated SRF	98,991,020	1,359,323	March 30, 2026
2022 Subordinated Revolving Loans	N/A	33,400,000	December 11, 2025
Total Subordinated Obligations	\$ 267,241,020	\$197,754,323	
Total Senior and Subordinated Obligations	\$1,272,216,126 <u>\$1,373,927,463</u>	\$835,871,588 <u>\$937,582,925</u>	

Source: Public Utilities Department

¹ See Note 6 “—BUSINESS-TYPE ACTIVITIES LONG-TERM LIABILITIES” contained in the 2023 ACFR for a schedule of the Existing Senior and Subordinate SRF Loans.

² The Existing Senior SRF Loans reflects the principal outstanding attributable to the amount drawn on a respective SRF Loan if the project related to the respective SRF loan is still in its construction phase.

³ Does not reflect the issuance of the Series 2024A Bonds. See —“PLAN OF FINANCE.”

Incurrence of Additional Obligations

General. The City may at any time issue or incur additional Senior Obligations or Subordinated Obligations, in each such case subject to satisfaction of the conditions specified in the Installment Purchase Agreement, including the requirement that there shall not have occurred and be continuing (i) an Event of Default under the Installment Purchase Agreement or any Issuing Instrument, or (ii) an Event of Default or Termination Event (as defined in any Qualified Swap Agreement) under any Qualified Swap Agreement.

No Pledges Senior to, and No Rights to Payment Prior to, Senior Obligations. The City may not create any Obligations the payments of which are senior or prior to the pledge and right of payment from Net System Revenues securing the Senior Obligations.

Incurrence of Additional Senior Obligations and Additional Subordinated Obligations. In connection with the issuance or occurrence of additional Senior Obligations or additional Subordinated

Obligations, the City shall obtain or provide a certificate or certificates, prepared by the City or at the City's option by a Consultant, showing that:

<u>Additional Senior Obligations</u>	<u>Additional Subordinated Obligations</u>
<p>(a) the Net System Revenues as shown by the books of the City for any 12 consecutive month period out of the 18 consecutive months ending immediately prior to the incurring of such additional other Senior Obligations shall have amounted to at least 1.20 times the Maximum Annual Debt Service on all Senior Obligations Outstanding during such period; and</p> <p>(b) the estimated Net System Revenues for the next 12 months following the date of issuance of such other Senior Obligations will be at least equal to 1.20 times the Maximum Annual Debt Service for all Senior Obligations which will be Outstanding immediately after the issuance of the proposed Senior Obligations.</p>	<p>(a) the Net System Revenues as shown by the books of the City for any 12 consecutive month period within the 18 consecutive months ending immediately prior to the incurring of such additional Subordinated Obligations shall have amounted to at least 1.00 times the Maximum Annual Debt Service on all Obligations to be Outstanding immediately after the issuance of the proposed Subordinated Obligations; or</p> <p>(b) the estimated Net System Revenues for the five Fiscal Years following the earlier of (i) the end of the period during which interest on those Subordinated Obligations is to be capitalized or, if no interest is to be capitalized, the Fiscal Year in which the Subordinated Obligations are issued; or (ii) the date on which substantially all new facilities financed with such Subordinated Obligations are expected to commence operations, will be at least equal to 1.00 times the Maximum Annual Debt Service for all Obligations to be Outstanding immediately after the issuance of the proposed Subordinated Obligations.</p>

Factors Taken Into Account in Computations Made Under Each Clause (b) Above. For purposes of the computations to be made as described in each clause (b) above, the determination of Net System Revenues:

(A) may take into account any increases in rates and charges which relate to the Wastewater System and which have been approved by the City Council and shall take into account any reduction in such rates and charges which have been approved by the City Council, which will, for purposes of the test described in (b) above, be effective during any Fiscal Year ending within the 12-month period for which such estimate is made; and

(B) may take into account an allowance for any estimated increase in such Net System Revenues from any revenue-producing additions or improvements to or extensions of the Wastewater System to be made with the proceeds of such additional indebtedness, with the proceeds of Obligations previously issued or with cash contributions made or to be made by the City, all in an amount equal to the estimated additional average annual Net System Revenues to be derived from such additions, improvements and extensions during the first 36-month period contemplated by clause (b) above, all as shown by such certificate of the City or its Consultant, as applicable; and

(C) for the period contemplated by (b) above, shall initially include Maintenance and Operation Costs of the Wastewater System in an amount equal to such costs for the 12 consecutive months immediately prior to incurring such ~~Senior~~ Obligations, but adjusted if deemed necessary by the City or its Consultant, as applicable, for any increased Maintenance and Operations Costs of the Wastewater System which are, in the judgment of the City or its Consultant, as applicable, essential to

ensure that Net System Revenues to pay the obligations required by the Existing Subordinated SRF Loans are at least 1.10 times the current year's debt service on the Existing Subordinated SRF Loans.

The covenants in the agreements for the SRF Loans are not made for the benefit of the Owners of the Series 2024A Bonds, and Owners of Series 2024A Bonds do not have a right to enforce such covenants.

Annual Debt Service Requirements on Senior and Subordinated Obligations

Table 2 below sets forth the amounts required in each Fiscal Year for the payment of principal of and interest on the Series 2024A Bonds, the Outstanding Senior Obligations (which include the outstanding Series 2015 Bonds, Series 2016 Bonds, and Existing Senior SRF Loans), the Series 2022 Bonds and the Existing Subordinated SRF Loans. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2024A BONDS." ~~[to be updated by July 8 with any additional SRF debt service due to disbursements that occurred in June]~~

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TABLE 2
DEBT SERVICE ON ALL OUTSTANDING OBLIGATIONS
(as of July 1, 2024)

Fiscal Year Ending June 30	Total Senior Obligations Debt Service ¹	Existing Subordinated Obligations Debt Service ²	Series 2024A Bonds		Total Principal and Interest	Total Debt Service on Subordinated Obligations	Total Debt Service ⁴
			Principal	Interest			
2025	\$ 86,042,994 <u>86,061,711</u>	\$ 11,638,778				\$ 11,638,778	\$ 97,681,772 <u>97,700,489</u>
2026	66,949,499 <u>68,257,504</u>	11,639,278				11,639,278	78,588,777 <u>79,896,782</u>
2027	68,967,791 <u>72,855,443</u>	10,943,750				10,943,750	79,911,541 <u>83,799,193</u>
2028	52,132,831 <u>56,020,483</u>	10,939,750				10,939,750	63,072,581 <u>66,960,233</u>
2029	52,215,498 <u>56,103,149</u>	10,943,250				10,943,250	63,158,748 <u>67,046,399</u>
2030	37,142,087 <u>41,029,739</u>	10,938,500				10,938,500	48,080,587 <u>51,968,239</u>
2031	37,227,147 <u>41,114,798</u>	10,940,500				10,940,500	48,167,647 <u>52,055,298</u>
2032	37,312,226 <u>41,199,877</u>	10,938,500				10,938,500	48,250,726 <u>52,138,377</u>
2033	37,395,624 <u>41,283,275</u>	10,942,250				10,942,250	48,337,874 <u>52,225,525</u>

2034	36,483,081 <u>40,370,733</u>	10,941,000	10,941,000	47,424,081 <u>51,311,733</u>
2035	35,901,170 <u>39,788,822</u>	10,939,500	10,939,500	46,840,670 <u>50,728,322</u>
2036	35,105,255 <u>38,992,907</u>	10,942,250	10,942,250	46,047,505 <u>49,935,157</u>
2037	32,967,978 <u>36,855,630</u>	10,938,500	10,938,500	43,906,478 <u>47,794,130</u>
2038	32,654,390 <u>36,542,042</u>	10,943,000	10,943,000	43,597,390 <u>47,485,042</u>
2039	32,744,685 <u>36,632,336</u>	10,939,750	10,939,750	43,684,435 <u>47,572,086</u>
2040	7,899,669 <u>11,787,320</u>	10,938,500	10,938,500	18,838,169 <u>22,725,820</u>
2041	7,899,669 <u>11,787,320</u>	10,938,500	10,938,500	18,838,169 <u>22,725,820</u>
2042	7,899,669 <u>11,787,320</u>	10,939,000	10,939,000	18,838,669 <u>22,726,320</u>
2043	7,899,669 <u>11,787,320</u>	10,939,250	10,939,250	18,838,919 <u>22,726,570</u>
2044	7,899,669 <u>11,787,320</u>	10,943,500	10,943,500	18,843,169 <u>22,730,820</u>
2045	7,899,669 <u>11,787,320</u>	10,940,750	10,940,750	18,840,419 <u>22,728,070</u>
2046	7,899,669 <u>11,787,320</u>	10,940,500	10,940,500	18,840,169 <u>22,727,820</u>
2047	7,899,669 <u>11,787,320</u>	10,941,750	10,941,750	18,841,419 <u>22,729,070</u>
2048	7,899,669 <u>11,787,320</u>	10,943,500	10,943,500	18,843,169 <u>22,730,820</u>
2049	7,899,669 <u>11,787,320</u>	10,939,750	10,939,750	18,839,419 <u>22,727,070</u>
2050	7,899,669 <u>11,787,320</u>	10,939,750	10,939,750	18,839,419 <u>22,727,070</u>
2051	7,899,669 <u>11,787,320</u>	10,942,250	10,942,250	18,841,919 <u>22,729,570</u>
2052	7,899,669 <u>11,787,320</u>	10,941,000	10,941,000	18,840,669 <u>22,728,320</u>
2053	7,899,669 <u>11,787,320</u>	-	-	7,899,669 <u>11,787,320</u>

2054	-	-	7,899,669	11,787
			<u>7,321</u>	<u>,321</u>
2055	-	-	4,929,116	8,798
			<u>050</u>	<u>050</u>
2056	-	-	2,752,283	5,331
			<u>929</u>	<u>929</u>
Total ³	\$307,736,556	\$307,736,556	<u>\$1,115,155,246</u>	<u>1,231,784,791</u>
			<u>4,048,235</u>	

Source: Department of Debt Management, City of San Diego

¹ Debt service on the Series 2015 Bonds, the Series 2016 Bonds and the Existing Senior SRF Loans as of July 1, 2024. The Existing Senior SRF Loans reflects the debt service attributable to the amount drawn on a respective SRF loan if the project related to the respective SRF loan is still in its construction phase.

² Debt service on the Series 2022 Bonds and the Existing Subordinated SRF Loans as of July 1, 2024. Does not include the 2022 Subordinated Revolving Loans.

³ Amounts may not total due to rounding.

⁴ Debt service does not include the interest costs of the \$33,400,000 million of principal amount of 2022 Subordinated Revolving Loans outstanding as of July 1, 2024, on the Revolving Credit Agreement. The interest to be paid on the principal outstanding is 80% of Secured Overnight Financing Rate (SOFR) plus 0.31%. The rate is reset weekly.

the San Diego County Water Authority. IROC serves as an official advisory body to the Mayor and the City Council on policy issues relating to the oversight of Department operations; their recommendations are taken into consideration but are not binding on the Department.

Mayor and City Council. The Mayor proposes and the nine-member City Council has the authority to approve annual budgets, to set rates and charges of the City’s utilities, including the Wastewater System, and to approve execution of certain contracts. The City Council and the City Council’s Independent Budget Analyst review quarterly financial monitoring reports and also perform reviews of specific programs, capital projects, and contracts.

Metro JPA. The Metropolitan Joint Powers Authority (“Metro JPA”) is a coalition of municipalities and special districts that share in the use of the City’s regional wastewater facilities. The mission of the Metro JPA is to create an equitable partnership with the City Council and Mayor on regional wastewater issues. Through stakeholder collaboration, open dialogue, and data analysis, the partnership seeks to ensure fair rates for Participating Agencies, concern for the environment, and regionally balanced decisions. The Metro JPA member agencies are the cities of Chula Vista, Coronado, Del Mar, El Cajon, Imperial Beach, La Mesa, National City and Poway; the Lemon Grove Sanitation District; the Padre Dam Municipal and Otay Water Districts; and the County of San Diego (on behalf of the Winter Gardens Sewer Maintenance District, and the Alpine, Lakeside and Spring Valley Sanitation Districts). Although, the City has the right to make all decisions with respect to the planning, design, construction, operation and maintenance of the Metropolitan Sub-System, decisions on issues that impact the Participating Agencies are made with the advice of the Metro JPA.

Metropolitan Sub-System Facilities ~~[Bracketed items in this section to be updated after June 30, 2024 with FY24 final numbers]~~

General. The current Metropolitan Sub-System infrastructure, with the exception of the South Metropolitan Interceptor Pipeline, is located within the jurisdictional boundaries of the City. The map that follows the Table of Contents of this Official Statement shows the geographic concentration of the Metropolitan Sub-System’s infrastructure and identifies the major trunk lines that service the Participating Agencies. The Metropolitan Sub-System’s infrastructure currently consists of three wastewater treatment plants, two ocean outfalls, a biosolids center, four large pump stations (Pump Station No. 1 and Pump Station No. 2, that began operation in 1963; the Grove Avenue Pump Station, that began operations in 2002 and the Otay River Pump Station, added to the Metropolitan Sub-System in 2003), force mains and gravity flow interceptors. The Metropolitan Sub-System infrastructure also includes two interceptors, which collect and route wastewater to the City’s Point Loma Wastewater Treatment Plant (the “Point Loma Plant”) from the Municipal Sub-System and the Participating Agencies. Additionally, the Metropolitan Sub-System includes 98 permanent flow monitoring stations that are utilized for multiple purposes, including strength-based billing, facility planning, sewer modeling, criticality evaluation, infiltration/inflow analysis and spill detection. The City is required to maintain certain permits and waivers with respect to the Wastewater System under federal and State law. If existing permits and waivers are not maintained, the City could incur costs in addition to those currently included in the Department’s budgets and projections. See “WASTEWATER SYSTEM REGULATORY REQUIREMENTS—Treatment of Sewage.”

The City has the right to make all decisions with respect to the planning, design, construction, operation and maintenance of the Metropolitan Sub-System. Decisions on issues that impact the Participating Agencies are made with the advice of the Metro JPA. Although the Metro JPA may make recommendations to the City, the City retains ownership and decision-making authority over all elements of the Metropolitan Sub-System, including the capital improvements for the Metropolitan Sub-System.

The following is a summary description of the Metropolitan Sub-System's current facilities and their respective primary functions.

Point Loma Plant. The Point Loma Plant began operation in 1963. The site is part of the Fort Rosecrans military reservation and was acquired by the City from the U.S. Department of the Interior, Bureau of Land Management. The Point Loma Plant currently operates under a National Pollutant Discharge Elimination System ("NPDES") Permit Order Number CA0107409 (the "Point Loma Discharge Permit"). The Point Loma Plant is the principal treatment facility in the Metropolitan Sub-System, with a permitted treatment capacity of 240 mgd flow with 432 mgd peak wet weather flow. During Fiscal Year 2024, the Point Loma Plant had an average daily flow rate of ~~149.6~~151.5 mgd, including return flows from the North City Water Reclamation Plant (the "North City Plant"), centrate from the Metropolitan Biosolids Center, and sludge from the South Bay Plant. The average daily flow rate at the Point Loma Plant accounted for approximately ~~88~~89% of the wastewater flow generated within the Metropolitan Sub-System. Almost all the inflow to the Point Loma Plant is conveyed through the Metropolitan Sub-System's Pump Station No. 2, which is the terminus for the North Metropolitan Interceptor Pipeline and South Metropolitan Interceptor Pipeline. Flow from the North City Plant which is not distributed to recycled water users is returned to the sewage conveyance system and is treated at the Point Loma Plant. In addition, the Point Loma Plant serves as a standby facility for the North City Plant and the South Bay Plant in the event one or both of these facilities are taken off-line for maintenance purposes. Treated wastewater from the Point Loma Plant is discharged into the ocean through the Point Loma Ocean Outfall.

The Point Loma Plant is currently permitted to discharge up to 240 mgd of chlorinated advanced primary treated wastewater to the ocean via the Point Loma Outfall in accordance with a waiver for modified secondary treatment standards of the Clean Water Act, which was originally received by the City in 1995. See "WASTEWATER SYSTEM REGULATORY REQUIREMENTS—Treatment of Sewage—~~Treatment Waivers for Point Loma Plant.~~"

Operations at the Point Loma Plant are monitored and controlled from a distributed, computer-based control system located in the Point Loma Plant's control center. Local control stations are also strategically located around the Point Loma Plant and can be used to access the entire plant control system.

Presently, the Point Loma Plant is capable of removing 85% to 92% of total suspended solids ("TSS"). The Point Loma Plant has increased its TSS removal rates through operational improvements of its chemical treatment processes. The wastewater treatment process currently employed at the Point Loma Plant consists of advanced chemical primary treatment and a digester gas utilization facility. Dewatering of sludge is provided at the Metropolitan Biosolids Center. Methane gas produced during the digestion is fed to a City-owned cogeneration plant where it is converted to electricity and used to provide power to operate the Point Loma Plant. Excess gas not converted to energy is directed to a third party, under the terms of an agreement to polish the gas and sell the gas to the local utility via an existing utility pipeline. See "*Metropolitan Biosolids Center*" below.

North City Plant. The North City Plant is a sewage treatment facility that is capable of processing sewage to both secondary and tertiary treatment levels. The North City Plant commenced operations in 1997 and is located adjacent to Interstate 805 and Miramar Road in the northwestern quadrant of the City. The North City Plant operates pursuant to "Waste Discharge and Water Recycling Requirements for the Production and Purveyance of Recycled Water," Order No. 97-03, Addendum No. 1, which was adopted by the Regional Water Quality Control Board on June 11, 2003 (the "North

City Plant Permit”). The North City Plant Permit, as amended, is effective until it is revoked or further modified. See “WASTEWATER SYSTEM REGULATORY REQUIREMENTS.”

The North City Plant receives influent through the North City Tunnel Connector and from the Peñasquitos Pump Station. The North City Plant process includes screening, grit removal, settling, flow equalization, activated sludge processing, tertiary filtration and effluent disinfection. The Metropolitan Biosolids Center (described below) digests and dewateres the sludge that is produced at the North City Plant. Support facilities of the North City Plant include an administration building that houses the operation and maintenance functions and a chemical building. The North City Plant has a permitted capacity of 30 mgd average daily flow. Per the requirements of a grant the City received from the Environmental Protection Agency (the “EPA”) for construction of the North City Plant, flows into the North City Plant must constitute a minimum of 75% of the plant’s design capacity (at least 22.5 mgd). In Fiscal Year 2011, the Department notified the EPA that it would be temporarily reducing total flows from 22.5 mgd to 15 mgd to meet the actual demand for recycled water. The EPA has acknowledged this reduction and the City’s good faith effort to maximize recycling and beneficial reuse. In Fiscal Year 2024, the North City Plant operated at an average flow rate of approximately ~~14.8~~13.5 mgd and produced approximately ~~5.8~~ mgd of recycled water (up to 13 mgd during high seasonal demand) for distribution to users through the Northern Water Distribution System. The North City Plant also uses approximately ~~1~~ mgd of recycled water for plant processes. The City still maintains its commitment to maximize recycling and beneficial reuse, and is expanding the North City Plant’s total wastewater treatment capacity up to ~~52~~ mgd with the implementation of the Pure Water Program. The North City Plant also is capable of providing treatment beyond the tertiary level through the demineralization of a portion of the effluent, to reduce total dissolved solids (“TDS”) to meet recycled water customers’ needs. The North City Plant limits its production of recycled water to meet demand. Excess treated effluent is returned to the wastewater system for conveyance to the Point Loma Plant and ocean outfall. In Fiscal Year 2024, approximately ~~4.8~~ mgd was returned to the wastewater system. See “*Point Loma Outfall*” below. The solids that are removed during the sewage treatment process, either by sedimentation or biological oxidization, are pumped to the Metropolitan Biosolids Center for further treatment. See “*Metropolitan Biosolids Center*” below.

As of June 30, 2024, the North City Plant produced recycled water that served ~~804~~ retail and four wholesale meters. Three of the wholesale meters serve the Olivenhain Municipal Water District, and the remaining wholesale meter serves the City of Poway. Recycled water also is used for industrial processing, cooling towers, construction site dust suppression and soil compaction, decorative fountains and toilet and urinal flushing. Revenues from the sale of recycled water are collected by the Department for deposit in the Water Revenue Fund and used to pay for the cost of the recycled water distribution system, then operations and maintenance cost for tertiary treatment for reclaimed water (non-potable) with any remaining revenue being transferred to the Sewer Revenue Fund. See “WASTEWATER SYSTEM CAPITAL IMPROVEMENT PROGRAM— Capital Improvement Projects—*Pure Water Program*” for additional information on the Wastewater System’s production of recycled water.

South Bay Plant. The South Bay Plant commenced operations in 2002. This plant, located on Dairy Mart Road north of the International Border with Tijuana, Mexico, is a sewage treatment facility that is capable of processing sewage to both secondary and tertiary treatment levels. The South Bay Plant currently operates under a NPDES Permit Order Number R9-2021-0011, as amended by Order Number R9-2014-0071 (the “South Bay Plant Discharge Permit”), for the treatment and disposal of wastewater through the shared South Bay Ocean Outfall (the “South Bay Outfall”). Additionally, the South Bay Plant has been issued Recycled Water Permit No. 2000-203 (the “South Bay Recycled Water Permit”), which authorizes water recycling at the South Bay Plant. The South Bay Recycled Water

Permit is effective until it is revoked. See “WASTEWATER SYSTEM REGULATORY REQUIREMENTS.”

The South Bay Plant has a permitted capacity of 15 mgd average daily flow. For Fiscal Year 2024 the South Bay Plant operated at an average flow rate of approximately ~~16.5~~6.2 mgd. The South Bay Plant produced an average of ~~11~~2.0 mgd of recycled water (up to 5 mgd during high seasonal demand) that was distributed to one wholesale and six retail meters. The wholesale connection is to the Otay Water District, and, contracted at the retail rate, is pursuant to a take or pay recycled water service agreement for up to ~~11~~6 mgd. Revenues from the sale of recycled water are collected by the Department for deposit in the Water Revenue Fund and then transferred into the Sewer Revenue Fund.

The South Bay Plant limits its production of recycled water to meet demand. The South Bay Plant uses a phased tertiary process that allows the tertiary process to be bypassed when recycled water is not being produced, which increases efficiency and reduces plant operations and maintenance cost. Excess treated effluent is discharged to the South Bay Outfall for disposal. See “*South Bay Outfall*” below. However, during warmer periods of the year, almost the entire amount of wastewater treated at the South Bay Plant is reused. The South Bay Plant does not treat its own solids and cannot discharge its solids to the Metropolitan Biosolids Center directly. Primary sludge is pumped to the South Metropolitan Interceptor Pipeline and conveyed to the Point Loma Plant for further treatment and from there to the Metropolitan Biosolids Center for processing. See “*Point Loma Plant*” above and “*Metropolitan Biosolids Center*” below.

Point Loma Outfall. The Point Loma Outfall was constructed in 1963 to provide a method for disposal of all Point Loma Plant effluent. The original capacity of the 2.5 mile long, 108-inch diameter outfall has been estimated at 390 mgd under the original design configuration. The Point Loma Outfall Extension, a 2.0 mile extension of the original outfall, was completed in 1993, resulting in a 4.5-mile long outfall discharging treated sewage effluent at an approximate depth of 320 feet of water at the discharge point and a capacity of 432 mgd.

South Bay Outfall. The South Bay Outfall discharges flow from the South Bay Plant and the International Boundary and Water Commission’s South Bay International Treatment Plant (a treatment plant located in San Diego County that treats sewage originating in Tijuana, Mexico). The South Bay Outfall consists of a land portion running 3.3 miles and an ocean portion discharging 3.5 miles off the coast at a depth of 95 feet. The outfall is jointly owned by the City and the International Boundary and Water Commission. The City has a 40% ownership interest in the South Bay Outfall, or approximately 133 mgd of the peak flow capacity of 333 mgd.

Metropolitan Biosolids Center. The Metropolitan Biosolids Center is the City’s regional biosolids processing facility that receives raw biosolids from the North City Plant and digested biosolids from the Point Loma Plant. The principal unit processes at the Metropolitan Biosolids Center are grit removal, centrifuge thickening, anaerobic digestion, and centrifuge dewatering. The facility produces Class-B dewatered biosolids, which are disposed of in a landfill and off-site by land application. Centrate, the liquids removed by thickening and dewatering centrifuges, is pumped north to the North City Plant where it is discharged to the sewer for treatment at the Point Loma Plant. Biogas from the Metropolitan Biosolids Center anaerobic digesters is collected by the City and conveyed to a cogeneration building (the “Cogeneration Building”) where it fuels generators that produce electricity. The Cogeneration Building is owned and operated by wholly-owned affiliates of a private firm, OPAL Fuels. Those affiliates, Minnesota Methane San Diego LLC (“MMSD”) and Miramar Energy LLC, run 6.4 megawatt and 3.2 megawatt generators, respectively. The generators run by MMSD produce electricity for both the Metropolitan Biosolids Center and the adjacent landfill (the “Miramar Landfill”), with the remainder being sold to San Diego Gas & Electric Company (“SDG&E”). Miramar Energy

Disposal Agreement address how this project will impact future wastewater flows, including how these changes in flows affect the allocations of Pure Water Phase 1 capital costs, and future negotiations will address changes in billing methodology to fairly allocate the largely fixed costs of the Metropolitan Sub-System across all Participating Agencies. Absent any change in the current agreement, the reductions in flow to the Metropolitan Sub-System resulting from the ECAWP will shift cost to the other nine Participating Agencies and the City in proportion to the relative flows, chemical oxygen demand and suspended solids of the remaining wastewater and the Department expects that revenue from the Participating Agencies will remain above approximately \$80 million a year through Fiscal Year 2027. The projections described in “WASTEWATER SYSTEM FINANCIAL OPERATIONS—Financial Projections” herein account for the reduction in flow to the Metropolitan Sub-System as a result of the scheduled completion of the ECAWP and expects up to \$10 million in expenses will be supported by City customers that were previously supported by ECAWP members due to reduced flows. The exact impact will be determined based on the actual flows observed in each fiscal year as well as any changes currently being negotiated by the City and the Participating Agencies. See “RISK FACTORS—Wastewater System Demand, [Expenses, Collections, and Future Rates](#).”

Additionally, the Amended and Restated Regional Wastewater Disposal Agreement provides that the City and the Participating Agencies negotiate in good faith regarding the disposal, treatment, and/or wastewater treatment residuals (solids, brine, and centrate) produced at any new non-Metropolitan Sub-System wastewater treatment facilities upstream of any City Pure Water Program facilities. To mitigate residual flows, the City sold the East Mission Gorge Pump Station to the ECAWP program and will construct a brine line to divert brine and centrate away from City Pure Water Program facilities. The City and the ECAWP executed an agreement regarding residuals management which allocated preliminary planning and environmental compliance costs, as well as addressing any outstanding issues related to capital infrastructure cost allocation. The East Mission Gorge Pump Station is a critical component of the ECAWP which will be retrofitted to divert 15 mgd of untreated wastewater from the member agencies to the ECAWP treatment facility, as well as continue to convey peak wet weather flows to the City’s Metropolitan Sub-System. The City expects additional costs will be identified as the ECAWP and the City continue to refine the final design and formally coordinate operations of both the ECAWP and Pure Water Facilities.

Municipal Sub-System Facilities

The Municipal Sub-System consists of approximately 3,000 miles of trunk sewers and collector mains, 74 small sewer pump stations, and three large pump stations, including Sewage Pump Station No. 64, that began operation in 1986, Sewage Pump Station No. 65, that began operation in 1997, and the Peñasquitos Pump Station, that began operation in 1997, serving approximately 275,000 accounts with connections to the sanitary wastewater system. In addition, several participating agencies utilize the City’s Municipal Sub-System to transport waste generated in their jurisdiction for treatment in the Metropolitan Sub-System see “—*Disputes Regarding The Participating Agencies*.” Approximately 84% of these connections are from accounts relating to single family dwellings, 10% are from accounts relating to multi-family dwellings, and the remaining 6% are from accounts relating to commercial and industrial customers (these percentages include multiple accounts at some locations). On average, these accounts generate 99 mgd of wastewater which is conveyed by the Municipal Sub-System to the Metropolitan Sub-System for treatment and disposal. The Municipal Sub-System also includes 64 permanent flow monitoring stations which are utilized for multiple purposes, including strength-based billing, facility planning, sewer modeling, criticality evaluation, infiltration/inflow analysis and spill detection.

Additional Contractual Capacity to the Escondido Plant and the San Elijo Plant

Pursuant to a sewage disposal agreement with the City of Escondido entered into in 1972, up to 5 mgd of sewage emanating from the Rancho Bernardo sewer service area of the City may be treated at Escondido's Hale Avenue Resource Recovery Facility (the "Escondido Plant"). The Escondido Plant is not owned by the City and is not part of the Municipal Sub-System. This agreement was scheduled to terminate in 2022, fifty years from the date on which sewage flow commenced through the Escondido Plant, and the City expects to execute its option for an unlimited number of 10-year extensions. The Escondido Plant, which can process up to 18 mgd of sewage, currently is treating approximately 3 mgd of flow from the City. The City of Escondido is considering options to increase its treatment capacity to accommodate expected population growth. ~~[-To be confirmed by 6/30]~~

Pursuant to a sewage disposal agreement (the "Solana Beach Agreement") with the Solana Beach Sanitation District originally entered into in 1974, the City has the right to connect to sewer lines within the Solana Beach Sanitation District. Pursuant to the Solana Beach Agreement, the City may permit the connection to the sewage system of the Solana Beach Sanitation District of up to 300 equivalent dwelling units (one equivalent dwelling unit or "EDU" is equal to 280 gallons per day of wastewater flow for a single family residence), or 84,000 gallons per day, of sewage emanating from the portion of the City contiguous to Del Mar and Solana Beach to be treated at the San Elijo Water Reclamation Plant (the "San Elijo Plant"). The Solana Beach Sanitation District has agreed to allow the City to connect EDUs in excess of the 300 EDUs provided for in the Solana Beach Agreement to the District's system and the City currently connects approximately 337 EDUs. Sewage treated at the San Elijo Plant is disposed of through the San Elijo Ocean Outfall, which is owned by the City of Solana Beach and the Cardiff Sanitation District and operated by the Solana Beach Sanitation District, the Cardiff Sanitation District and the City of Escondido. The San Elijo Plant and the San Elijo Ocean Outfall are not owned by the City and they are not part of the Municipal Sub-System. The Solana Beach Agreement expires in 2033 and may be extended by mutual agreement by the parties.

WASTEWATER SYSTEM REGULATORY REQUIREMENTS

General

Wastewater System operations are subject to federal, State, and local environmental regulations that primarily address the quality of effluent that may be discharged from the Wastewater System, the disposal of sludge generated by the Wastewater System, and the nature of waste material (particularly industrial waste) discharged into the collection system. The federal regulations that have the most significant effect on the Wastewater System are the Clean Water Act (which is administered by the EPA, the State Water Resources Board and the Regional Water Quality Control Board), the federal Clean Air Act, and the federal Resource Conservation and Recovery Act. The Wastewater System is in compliance with the major elements of each of the foregoing regulations and other programs managed by the federal government and the State.

Collection of Sewage

The Clean Water Act and the NPDES permit system, including the Point Loma Discharge Permit and the South Bay Discharge Permit issued thereunder, set effluent limitations on the discharge of pollutants at treatment plants and generally prohibit the discharge of pollutants into navigable waterways. Such prohibited discharges from the collection system are also subject to injunctive or penalty proceedings by the Regional Water Quality Control Board.

will be reduced, thereby improving the discharge to the ocean over the discharge that has consistently qualified for past Modified Permits. See “~~—~~Cooperative Agreement and OPRA II” below.

In the event the Modified Permit is not approved for renewal, the Department would reevaluate the projected costs of bringing the Point Loma Plant into compliance with the secondary treatment requirements given the reduced flows that are expected to result from the implementation of Phase 1 of the Pure Water Program. See “RISK FACTORS—Statutory and Regulatory Compliance.”

Cooperative Agreement and OPRA II. The Mayor and City Council approved a Cooperative Agreement (the “Cooperative Agreement”), between the City and local environmental groups to work together to implement the Pure Water Program. The Cooperative Agreement requires the parties to jointly pursue the passage of the Ocean Pollution Reduction Act II (H.R. 587) (“OPRA II”) in Congress. The environmental groups also will reach out to other environmental groups to convince them to support, or at least not object, to OPRA II.

OPRA II would amend the Clean Water Act to allow the Point Loma Plant to remain at advanced primary treatment in return for reducing flows from the Point Loma Plant and implementing a total of 83 mgd of potable reuse by the end of calendar year 2035. Building the facilities necessary to implement potable reuse will offload wastewater from the Point Loma Plant such that the effluent levels will be equivalent to converting the Point Loma Plant to secondary treatment. OPRA II would also change the permitting process for the Point Loma Plant to treat it like every other secondary wastewater treatment plant.

On, March 22, 2023, the Ocean Pollution Reduction Act II (H.R. 1720), which proposes modifying the permitting requirements for discharge of pollutants from the Point Loma Plant was introduced into the 118th U.S. Congress. The bill contains required milestones in line with projected reductions in both the treated discharges from the Point Loma Plant and the production of potable water expected with Phase 1 and Phase 2 of the Pure Water Program. No timeline for consideration by Congress is available at this time.

Discharge and Disposal of Sewage

The Clean Water Act is a comprehensive revision of prior federal water pollution control legislation requiring operators of wastewater treatment plants to operate such facilities in accordance with NPDES permits which set forth discharge limitations and reporting requirements applicable to the treatment and discharge of wastewater. The NPDES permit sets effluent limitations (waste discharge requirements) on what is discharged into any public waters and prohibits any non-authorized discharges such as wastewater system overflows.

The Point Loma Plant and the South Bay Plant must obtain separate NPDES permits authorizing them to discharge treated wastewater to the Pacific Ocean via the Point Loma Outfall and the South Bay Outfall, respectively. The Point Loma Plant is currently permitted to discharge up to 240 mgd of chlorinated advanced primary treated wastewater to the ocean via the Point Loma Outfall in accordance with a waiver for modified secondary treatment standards of the Clean Water Act, which was originally received by the City in 1995. See “—Treatment of Sewage—~~Treatment Waivers for Point Loma Plant~~” above for additional information with respect to the Modified Permit. The South Bay Plant is currently permitted to discharge up to 15 mgd of secondary treated wastewater to the Pacific Ocean via the South Bay Outfall in accordance with the requirements specified in Order No. R9-2021-0011. Order R9-2021-0011 was adopted by the Regional Water Quality Control Board on May 12, 2021, became effective on July 1, 2021, and will expire on June 30, 2026.

The City also must comply with effluent water-quality based State requirements. The California Water Code Article 4 (commencing with Section 13160) of Chapter 3 of Division 7 requires the State Water Resources Board to formulate and adopt a water quality control plan for the ocean waters of the State known as the California Ocean Plan (the “Ocean Plan”). The Ocean Plan sets forth waste discharge limitations and monitoring and enforcement guidelines to ensure that water quality objectives are met. Section 303(c)(1) of the Clean Water Act and Section 13170.2(b) of the State Water Code require that ocean water quality standards be reviewed at least once every three years.

Recent Regional Spills

The City reported a sanitary sewer overflow (“SSO”) that occurred on January 16, 2023, which resulted in the estimated discharge of about ~~11.39.9~~ million gallons of untreated sewage mixed with stormwater, with about ~~11.19.7~~ million gallons of sewage mixed with stormwater reaching San Diego Bay and possibly other surface waters. The SSO was believed to be caused by a programmable logic controller programming error at the City’s Pump Station No. 2 which caused pumps to shut down resulting in releases of sewage from several manholes and buildings located in the downtown and midway areas of the City during a wet weather rain event. On February 22, 2023 the Regional Board issued a Notice of Violation.

On January 22, 2024, the San Diego region received a sudden influence of rain from an atmospheric river resulting in a peak wet weather rain event, with some areas of the region receiving two inches of rain over the course of three hours. This event knocked out power to key city facilities and resulting floodwaters damaged several key pieces of equipment at the City’s Pump Station No. 1 and Pump Station No. 2. Together with above average rainfall, resulted in large sewer backups and spills on January 22, 2024, and subsequent spills due to rain events through February 6, 2024. The City’s spills were reported to the Regional Board along with other agencies’ spills in the region. The City estimates that ~~11.5~~up to 11.4 million gallons of sewage mixed with infiltrated flood waters may have been spilled during this period and expects to receive Notices of Violations from the Regional Board.

Pursuant to California Water Code Section 13385(c), the Regional Board has the authority to impose fines on wastewater agencies of up to \$10 per gallon of sewage spilled plus up to \$10,000 per day that a spill continued. The Department estimates that the maximum possible fine the Regional Board could impose on the Department for these sewer spills would be approximately \$110 million each for the two large spills, excluding any additional factor multipliers. Based upon its past experiences with the Regional Board, however, the Department believes any such fine would be an order of magnitude less than the maximum. When assessing past fines, which were significantly less than the statutory maximums, the Regional Board took into consideration (among other factors) extenuating circumstances outside of the Department’s control that contributed to the spills, as well as the responsiveness and comprehensiveness of the Department’s mitigation efforts regarding the duration of and damage caused by the spills. The Department does believe that climate change may result in more extreme wet weather events that have contributed to past spills, and it is working to minimize those impacts on the wastewater system in the future, to reduce the chances of or size of future spills.

The Department has entered into negotiations with the Regional Board on the January 16, 2023 spill and expects to enter into negotiations on the 2024 spills within a year of receiving the notice of violation. The Department will negotiate to minimize the fine as much as possible, while ensuring any underlying deficiencies in the Wastewater System are addressed. Historically, this process has taken 2 to 3 years from the date of the initial spill. In the unlikely event the Department were fined the maximum of penalties, such a fine would likely be payable at one time and, such a payment could affect the Department’s cash reserves that it expects to use to pay for projects in the Wastewater System CIP. The impact to Net System Revenues would be incurred when a loss resulting from the fine is probable and

(e) SDG&E Relocation Advance – the City and SDG&E are currently in dispute over the costs of utility relocations in connection with the Pure Water Program and other projects. Absent and until a resolution is reached, to avoid project delays, the City has included projected costs to advance funding to SDG&E to relocate energy facilities.

(f) Other – these projects include, among other things, the Environmental Monitoring and Technical Services boat dock; the Alvarado and Naval Training Center Laboratory Remodels, and the Solar Implementation at the Employee Training and Development Center.

Municipal Sub-System Projects. The following is a summary description of certain projects identified in the Wastewater System CIP to be constructed for the Municipal Sub-System, including annual allocation projects in all of these categories, through Fiscal Year 2029.

(a) Pipelines – these projects include replacement or rehabilitation of various sewer mains located throughout the City due to deterioration or insufficient capacity.

(b) Muni Pump Stations – these projects include upgrades, renovations, restoration and replacement of major equipment at the Municipal Sub-System’s pump stations.

(c) Trunk Sewers – these projects include replacement or rehabilitation of existing trunk sewers (larger than 15 inches in diameter) due to deterioration, or to increase capacity.

(d) Other – these projects include, among others, the Advanced Metering Infrastructure (“AMI”) Program, the Alvarado Laboratory Remodel, and the Solar Implementation at Department Facilities.

Pure Water Program. The City is engaged in a phased multi-year water reuse program titled the “Pure Water Program” to develop treatment, storage, and conveyance facilities in order to provide a safe, secure, and sustainable local drinking water supply for the City. Advanced water purification technology will be used to produce potable water from recycled water already treated to Title 22 specifications under the California Code. The Pure Water Program represents a significant capital improvement program of the City’s Water System and Wastewater System that is expected, upon full implementation by the end of calendar year 2035, to produce at least 83 mgd capacity of water. The program is contemplated to occur in multiple phases. The Pure Water Program is also expected to reduce flows into the Point Loma Plant, which would reduce TSS discharged and recycle a valuable and limited resource that is currently discharged to the Pacific Ocean. The Point Loma Plant continues to operate under a Modified Permit to provide enhanced primary treatment. See “—Treatment of Sewage—~~Treatment Waivers for Point Loma Plant~~” above for additional information with respect to the Modified Permit.

Pure Water Program –Phase 1. The Phase 1 projects are being constructed in the North City area of the City and are expected to produce up to 30 mgd of purified drinking water. Projects include: (1) the North City Plant expansion and influent conveyance; (2) the new North City Advanced Water Purification Facility which will treat the tertiary-treated water to purified water standards; (3) a new 30-mgd North City Pure Water Program Pump Station, which will convey the purified water to the Miramar Reservoir; (4) a new 8-mile North City Pure Water Program Pipeline at the end of which the purified water will be blended with the City’s other water supplies and be treated at the adjacent Miramar Water Treatment Plant and distributed to customers; (5) the North City Morena Boulevard Pump Station and Pipeline, that will convey wastewater from the pump station to the North City Plant for treatment; and (6) certain Miramar Water Treatment Plant and Miramar Reservoir Pump Station Improvements, which will continuously pump the raw water from the Miramar Reservoir to the Miramar Water

Treatment Plant. California Environmental Quality Act and National Environmental Policy Act reviews are complete for the North City Phase 1 Project, and the Environmental Impact Report (“EIR”) was certified by the San Diego City Council on April 10, 2018. The U.S. Bureau of Reclamation issued the Record of Decision on the Final Environmental Impact Statement on November 1, 2018, and in May 2020, the Miramar Reservoir NPDES Permit, which allows purified water to be released to Miramar Reservoir, was formally adopted by the Regional Water Quality Control Board. That master permit established a schedule for several conditions that must be satisfied before water can be released to Miramar Reservoir. In 2021, work continued on the Pure Water Facility Operations Plan, as well as a program to establish any additional limits on discharges to the collection system to protect the Pure Water Program facilities and reservoir water quality. The plan outline for the operational start up and release to Miramar Reservoir was reviewed with the regulators and preparation of the plan is underway. Additionally, as of May 1, 2024, the Pure Water Phase 1 project is past the 50% complete milestone. The Phase 1 projects are expected to be substantially completed by June 2027 and, following a mandated ramp-up schedule, to produce 30 mgd of water by December 2027.

The total cost for the Pure Water Program Phase 1 included in the capital projections used in this Official Statement is \$1.6 billion. The Department has determined that costs for the program will be allocated between the Water Utility and Sewer Revenue Funds of the Water System and Wastewater System, respectively, in the following way: all capital and operational costs related to facilities for the conveyance of wastewater and the treatment of the wastewater through secondary treatment would be borne by the Sewer Revenue Fund (including its customers and regional partners); all capital and operational costs related to treatment and conveyance of reused water treated beyond the secondary standards will be borne by the Water Utility Fund. Based on the cost allocation between the Water and Wastewater Systems, approximately \$930.4 million is allocated to the Water Utility Fund, and approximately \$692.2 million is allocated to the Sewer Revenue Fund (including its customers and Participating Agencies, which are required to pay their respective share of the Metropolitan Sub-System maintenance and operation and capital improvement program costs (including financing costs), currently approximately 33% of these total costs). These costs include contractual services for program management, treatment process optimization, environmental reports, and design and construction support services. The Pure Water Program Phase 1 project has included a 10% construction contingency of \$110 million and has allocated \$86.9 million to date, of which \$52.8 million is allocable to the Wastewater System. The Department expects that it may need to increase the contingency to 20% or \$220 million (the net \$110 million increase is not included in the \$1.6 billion Phase 1 projection described herein) if additional change orders are identified. The City has not finalized a financing plan for these increased costs but would likely initially rely on system cash followed by additional borrowing and State/federal dollars. Final cost allocation of the Phase 1 projects will begin after substantial completion is reached. Of the \$692.2 million allocation to Wastewater System for Phase 1, approximately \$248 million has been expended through Fiscal Year 2023, \$132.1 million is projected for Fiscal Year 2024 and the remaining \$312 million is projected for Fiscal Years 2025 through 2029. The Phase 1 projects are expected to be funded with \$653.6 million in SRF Loans out of the \$664 million in secured loans and \$38.6 million in grant funding. See “—Capital Improvement Financing Plan—SRF Loans.” See also TABLE 5 “WASTEWATER SYSTEM PROJECTED CAPITAL IMPROVEMENT PROGRAM EXPENDITURE SUMMARY” and TABLE 6 “SOURCES AND USES OF FUNDS FOR CAPITAL EXPENDITURES OF THE WASTEWATER SYSTEM CAPITAL IMPROVEMENT PROGRAM” below. See “WASTEWATER SYSTEM FINANCIAL OPERATIONS—Financial Projections.”

Pure Water Program Phases. The City has taken a phased approach to the Pure Water Program’s implementation, with full implementation expected by 2035. The implementation of Phase 1 is not dependent on implementation of the future Pure Water Program phases. Because the wastewater supplying the Phase 2 facilities is being generated from a sewer shed different than that supplying Phase 1, the regulating agencies require a new demonstration facility to be constructed and operated to prove

Other ²	1,306	3,377	8,605	20,251	18,848	11,659	64,046
Subtotal Municipal Sub-System Projects⁴	\$90,785	\$177,663	\$122,655	\$149,244	\$145,169	\$95,448	\$780,964
Metropolitan Sub-System Projects							
Treatment Plants	\$33,889	\$31,238	\$17,749	\$18,463	\$15,225	\$7,177	\$123,741
Pure Water Program	135,496	261,105	43,553	20,016	16,863	17,217	494,249
Large Pump Stations	4,011	2,823	7,600	16,849	16,440	23,729	71,452
Trunk Sewers	230	1,423	—	4,695	22,305	3,208	31,859
Recycled Water	—	—	—	—	—	—	—
SDGE Relocation	542	(542)	—	—	—	—	—
Other ³	1,739	2,155	5,286	11,368	16,973	2,356	39,878
Subtotal Metropolitan Sub-System Projects⁴	\$175,908	\$298,203	\$74,188	\$71,390	\$87,805	\$53,686	\$761,179
TOTAL⁴	\$266,693	\$475,865	\$196,843	\$220,635	\$232,973	\$149,134	\$1,542,143

Source: Public Utilities Department, City of San Diego.

¹ Includes an assumed 3.1% annual increase in Wastewater System CIP project costs for Fiscal Years 2026 through 2029.

² The \$494.3 million for the Pure Water Program includes \$451.6 million for the Pure Water Program Phase 1, and \$42.8 million for the Pure Water Program Phase 2, for the Pure Water Program Central Facility. See “WASTEWATER SYSTEM CAPITAL IMPROVEMENT PROGRAM—Capital Improvement Projects—Pure Water Program.”

³ Includes the AMI Program, the Alvarado and Naval Training Center Laboratory Remodels; and Solar Implementation at Department’s Facilities in Fiscal Years 2024 through 2029.

⁴ Amounts may not total due to rounding.

⁵ Amounts for Fiscal Year 2024 are based on assumptions and estimates and do not reflect actual expenditures for the Fiscal Year.

Capital Improvement Financing Plan

The ~~Department’s share of the costs of the projects in the~~ Wastewater ~~System~~System’s CIP for Fiscal Years 2024 through 2029 is ~~expected~~projected to be approximately \$1.54 billion in the aggregate.

Overall, the Wastewater System CIP for Fiscal Years 2024 through 2029 is expected to be financed with a combination of additional Obligations (revenue bonds and proceeds from SRF Loans) and funded by grants, cash and Capacity Charge revenues. Pursuant to the Master Installment Purchase Agreement, the City may incur additional Obligations, payments with respect to which will be senior to or on parity with the City’s obligation to make 2024-1 Installments Payments, subject to the satisfaction of the conditions specified in the Master Installment Purchase Agreement. Some, but not all, of the funding sources for certain projects of the Wastewater System CIP have already been secured. The estimated costs of, and the projected schedule for, the Wastewater System CIP are subject to various uncertainties. In addition, it is possible that the City will pursue projects not incorporated in the Wastewater System CIP. The City may ultimately decide not to proceed with certain Wastewater System CIP projects or may proceed with them on a different schedule, resulting in different results than those described in this Official Statement. See “RISK FACTORS—Wastewater System CIP Projects.”

SRF Loans. The City anticipates financing a total of \$677 million of Wastewater System CIP with SRF Loans during Fiscal Years 2024 through 2029. Of the total \$677 million in anticipated SRF Loan reimbursements from the State, the City has four existing loan agreements for Pure Water Phase 1 projects with an estimated ~~[\$204.3~~204.2 million] ~~[to be updated 6/30]~~ reimbursed in Fiscal Year 2024 and \$434.9 million projected to be reimbursed in Fiscal Year 2025-2029. The City has one loan application requesting a \$50 million loan for Alvarado Trunk Sewer and projects to be reimbursed for a portion of the total loan amount by Fiscal Year 2029. The issuance of such SRF Loans is reflected in the projected senior debt service in Table 16 below. See TABLE 16 “PROJECTED NET SYSTEM REVENUES AND DEBT SERVICE COVERAGE.”

Additional Obligations. The City anticipates issuing approximately ~~\$560~~720 million in additional Obligations (including the Series 2024A Bonds) during Fiscal Years 2025 through 2029 to finance the costs of certain projects in the Wastewater System. Similar to the Series 2024A Bonds, the

WASTEWATER SYSTEM FINANCIAL OPERATIONS

General

The Department manages and operates the Wastewater System with funds derived primarily from service charges which are deposited in the Sewer Revenue Fund. The Sewer Revenue Fund was established in 1956 pursuant to the City Municipal Code. Funds in the Sewer Revenue Fund are used for the operation, maintenance and capital improvement of the Metropolitan Sub-System and the Municipal Sub-System. See “—Establishment, Calculation and Collection of Sewer Service Charge Revenue and Treatment Plant Services Revenue” below.

The primary sources of monies deposited in the Sewer Revenue Fund are derived from revenues generated by sewer service charges collected from City residents and commercial enterprises, capacity charges on new, additional or larger connections to the Wastewater System within the City, revenues from the Participating Agencies pursuant to the Amended and Restated Regional Wastewater Disposal Agreement and the Transportation Agreements, and interest income on fund balances. See “THE WASTEWATER SYSTEM—~~Participating Agencies~~[Customers of the Metropolitan Sub-System.](#)”

Budgetary Process

In November of each year, the Department submits a Five-Year Financial Outlook to guide long-range planning and serve as the framework for the development of the Wastewater System budget for the following Fiscal Year. The Five-Year Financial Outlook focuses on the overall fiscal condition of the Sewer Revenue Fund, assesses impacts to revenues and expenditures, and explores funding strategies to finance major capital investments. The following April, the Mayor submits the Department’s budget for the following Fiscal Year to the City Council for approval. The City budgets revenues and expenditures to support the costs the Department incurs to operate and maintain the Wastewater System.

Budget estimates for the Wastewater System CIP are prepared based upon the capital needs of the Metropolitan Sub-System and the Municipal Sub-System. Cost information and schedules provided by the design and operations staff are used to prepare the capital budget for the Wastewater System. The Department prepares a five-year Wastewater System CIP each year as part of its internal budget process. See “WASTEWATER SYSTEM CAPITAL IMPROVEMENT PROGRAM—Background.” The Wastewater System CIP consists of anticipated costs and a schedule for projects planned for completion and is based on planning information from prior years, progress toward stated goals and objectives, future and long-term needs and planning information developed during the Wastewater System CIP planning cycle. The Wastewater System CIP provides the basis for review of the annual budget for the Wastewater System CIP and near-term projects and is divided into projects for each of the Municipal Sub-System and the Metropolitan Sub-System to address their respective requirements.

Additionally, the Department periodically commissions a wastewater cost of service, rate design and capacity fee study to help develop recommendations for the establishment of fair and equitable sewer rates for the users of the Wastewater System and a revenue program that ~~will be acceptable to the State Water Resources Board~~[complies with California law applicable to water rates and sewer systems.](#) See “—Service and Capacity Charges,” and “—Establishment, Calculation and Collection of Sewer Service Charge Revenue and Treatment Plant Services Revenue.”

Service and Capacity Charges

Sewer Rate Charges

Historical and Current Sewer Rate Charges. Prior to Fiscal Year 2022, the City did not impose any rate increases for its Wastewater System for ten years, from Fiscal Year 2012 through 2021, as the system had sufficient cash flow and cash on hand to meet needs through 2021. In September 2021, the City approved the most recent increases in wastewater rates, of 5% in January 2022, 4% in January 2023, 4% in January 2024, and the City further has the authority to increase wastewater rates by up to 3% in January 2025. The wastewater rate increases took into consideration a wastewater cost of service, rate design and capacity fee study completed in Fiscal Year 2021 (the “2021 Costs of Service Study”). The 2021 Costs of Service Study and the resulting sewer rate increases were necessary to support the additional debt service and other operational costs of the City’s Pure Water Program. See “WASTEWATER SYSTEM CAPITAL IMPROVEMENT PROGRAM—Capital Improvement Projects—*Pure Water Program*” and “—Capital Improvement Financing Plan.” The Department periodically commissions a wastewater costs of service study, in order to develop recommendations for the establishment of fair and equitable sewer rates for the users of the Wastewater System and a revenue program that ~~will be acceptable to the State Water Resources Board~~complies with California law applicable to water rates and sewer systems. Each study includes a review of the City’s financial plan or rate case, usage characteristics, and rate structure. The proposed wastewater rate increase for Fiscal Year 2025 represents the maximum amount approved by City Council in line with the 2021 Costs of Service Study, which increase is assumed in the Wastewater System financial projections included herein. See “—Financial Projections.”

In considering the increased rates, the City also included a commitment to more regularly review and evaluate rate increases moving forward to ensure more smooth and predictable rates for the City’s varying customer classes. The City expects to release costs of service studies in three to five-year time horizons to ensure that rates are taking into account updated information in a timely manner. The rate increases for sewer services will help the City continue to upgrade core infrastructure by replacing aging pipes and sewer mains and fund future investments like the second phase of the Pure Water Program.

Future Sewer Rate Charge Increases. The City is in the process of preparing a costs of service study to be considered by City Council in Fiscal Year 2025 (the “New Costs of Service Study”), in connection with new rates to be effective on January 1, 2026, January 1, 2027, January 1, 2028 and January 1, 2029. The Department expects that the information used in the New Costs of Service Study will closely match the information used to prepare the projections used in this Official Statement, but will include actual financial results from Fiscal Year 2024 and will incorporate adjustments to the cost and scale of the Wastewater System CIP. The projected rate increases used in this Official Statement are consistent with the City’s Five-Year Financial Outlook, which was presented to City Council in December 2023. See “—Budgetary Process,” and “—Financial Projections.” However, the proposed rate increases of 7% in Fiscal Year 2026 and 6% in each of Fiscal Years 2027 through 2029 included as part of the projections used in this Official Statement require City Council action and may be subject to change under the processes dictated under the State Constitution. There can be no assurance that any proposed rate increases will be approved by City Council and/or implemented upon such approval. Failure of the City Council to approve increased rates or of the City to implement any approved rate increases as described above may have a material adverse effect on the City’s financial projections and projected debt service coverage ratios described herein and may impact the City’s ability to finance ~~the remainder of the Pure Water Program which may have a material adverse effect on the City’s finances~~necessary components of the Wastewater System’s capital improvement program. See “—Service and Capacity Charges—*Projected Service and Capacity Charges*,” “—Financial Projections,” “RISK FACTORS—Statutory and Regulatory Compliance,” “RISK FACTORS—Rate-Setting Process Under Proposition 218,” and “CONSTITUTIONAL LIMITATIONS ON TAXES AND WASTEWATER RATES AND CHARGES.”

Table 8 below sets forth the Wastewater System’s EDUs and Capacity Charge Revenues for Fiscal Years 2019 through 2023.

TABLE 8
WASTEWATER SYSTEM - MUNICIPAL SUB-SYSTEM
CAPACITY CHARGE REVENUES
Fiscal Years Ended June 30, 2019 through June 30, 2023
(\$ Amounts in Thousands)

Fiscal Year	New Equivalent Dwelling Units	Capacity Charge Revenues¹
2019	2,955	\$13,292
2020	3,712	15,319
2021	4,676	19,284
2022	6,141	25,338
2023	5,667	26,137

¹ Amounts are not available to pay for operations and maintenance costs.

Sources: Public Utilities Department; and Department of Finance, City of San Diego.

The City Council reviews capacity charges on a periodic basis. Pursuant to ~~State Water Resources Board guidelines and City policy~~ [California law applicable to water rates and sewer systems](#), the City must use a fair and equitable apportioning of costs based on each user class’s contributions of flow and strength of wastewater pollutants discharged. The current sewer capacity charge was adopted by City Council on September 21, 2021. Beginning on January 1, 2022 the rate increased to \$5,154 per EDU from \$4,124 in prior years.

Projected Service and Capacity Charges

Table 9 below sets forth the projected service and capacity charges and revenues for Fiscal Years 2024 through 2029, as of late 2023. Single Family Monthly Service Charges in Fiscal Year 2024 includes the 4% increase effective as of January 1, 2024; Fiscal Year 2025 represents the maximum rate increase authorized by City Council of 3%; and Fiscal Years 2026 through 2029 assume proposed additional rate increases of 7% in Fiscal Year 2026 and 6% in each of Fiscal Years 2027 through 2029. The proposed rate increases in Fiscal Years 2026 through 2029 require City Council action and may be subject to change under the processes dictated under the State Constitution. There can be no assurance that any proposed rate increases will be approved by City Council and/or implemented upon such approval. Failure of the City Council to approve increased rates or of the City to implement any approved rate increases as reflected in Table 9 below, may have a material adverse effect on the City’s financial projections and projected debt service coverage ratios described herein and may impact the City’s ability to finance ~~the remainder of the Pure Water Program which may have a material adverse effect on the City’s finances~~ [necessary components of the System’s capital improvement program](#). See “—Service and Capacity Charges—*Projected Service and Capacity Charges*,” “—Financial Projections,” “RISK FACTORS—Statutory and Regulatory Compliance,” “RISK FACTORS—Rate-Setting Process Under Proposition 218,” and “CONSTITUTIONAL LIMITATIONS ON TAXES AND WASTEWATER RATES AND CHARGES.” The projected capacity charges for Fiscal Years 2024 through 2029 are steady at \$5,154 per EDU. See “—~~Calculation and Collection of~~ [Service and Capacity Charges—Capacity Charges](#)” for a schedule of historical capacity charge revenues. New system hook-ups (measured in EDUs) are projected based on population growth and building permits, assuming historical trends.

pursuant to the Clean Water Act and loans granted pursuant to the State Water Resources Board's SRF Loan program. Under this rate structure, revenues derived from sewer fees and charges are used solely for the purpose of defraying costs incurred to provide sewer collection and transportation, treatment and disposal services; facilities and equipment maintenance, and capital projects.

Each single-family residential customer's individualized flat sewer rate is based upon the amount of water used during the previous winter, and includes a usage cap of 20 hundred cubic feet and an assumed return factor of 95%. See "RISK FACTORS—Risks Relating to the Water Supply." Every winter, primarily during the months of December through March, the City monitors the amount of water each customer uses. The winter months are when the measuring takes place because that is when the highest percentage of water used is returned to the wastewater system. The City monitors water usage during two billing cycles and uses the total from the cycle with the least amount of usage to calculate the sewer rate. Once the monitoring period is finished, an individualized flat rate is determined for each customer, and that rate goes into effect beginning with the bill that includes July 1 of the following year. The rate is in effect for one year and will be updated with new data every July 1. Multifamily residential rates are based on 95% of actual water use. Chemical Oxygen Demand ("COD") and TSS loadings components of the charge are the same for both single family residential and multifamily accounts and do not vary from month-to-month. These fixed strength loadings are incorporated into the class-specific fixed charges for commercial and industrial accounts and based on actual monthly water use and the percentage return COD loading and TSS loading, which varies between industries. See "—Accounts Receivable" below for additional information on the Department's enforcement of rates and collection of bills.

Treatment Plant Services Revenue. Pursuant to the terms of the Amended and Restated Regional Wastewater Disposal Agreement, the City bills each Participating Agency based on its use of the Wastewater System and its capacity rights. See "THE WASTEWATER SYSTEM—~~Participating Agencies~~Customers of the Metropolitan Sub-System." The City bills the Participating Agencies quarterly based on the budget for the corresponding Fiscal Year. An audit is performed at the end of each Fiscal Year to confirm the amount of Metropolitan Sub-System expenditures. Actual expenditures are compared to the budget used to bill each Participating Agency, and each Participating Agency is then issued either a refund or invoiced for any underpayment. The adjustments, which have ranged from \$1 million to \$20 million (and on average \$5 million), reflect a reconciliation of the estimated amounts charged by the Department to the actual expenditures of the Department. The adjustments have historically been revenue-neutral to the Wastewater System. The Participating Agencies set the sewer service and capacity charges that are used to bill their respective customers in order to meet their own wastewater needs and their share of the Metropolitan Sub-System costs. The sewer service charges currently in effect for the various Participating Agencies are varied and are not controlled by the City. Any failure by a Participating Agency to generate sufficient sewer revenues does not affect the obligation of such Participating Agency to pay amounts owed to the City under the Amended and Restated Regional Wastewater Disposal Agreement.

Table 10 below sets forth the sources of sewer service charge revenues of the Sewer Revenue Fund for the Fiscal Years 2019 through 2023.

¹ Does not include Participating Agencies or customers served by Participating Agencies.

² Reflects percentage of fiscal year 2023 total operating revenues of \$382,225,820 for the Wastewater System; includes revenues from Participating Agencies. See the line item entitled "Total Operating Revenues" in TABLE 13—"SEWER REVENUE FUND ~~STATEMENTS~~STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION."

³ Excludes the United States Navy.

⁴ May not add up due to rounding.

Sources: Public Utilities Department (billings); and Department of Finance (total operating revenue), City of San Diego.

Accounts Receivable

Typically, the City seeks to collect unpaid bills by: (a) issuing a payment reminder notice 25 days after a bill is issued; (b) issuing a shut-off notice 38 days after a bill is issued; and (c) shutting off the customer's water service 48-54 days after a bill is issued. This procedure results in almost all past due bills being paid. If necessary, the City establishes a payment plan for customers who are unable to pay a past due amount. Open accounts closed with an amount due and unpaid are referred to the City Treasurer for collection activities 75 days after the bill is issued but unpaid. Bills on closed accounts are referred to the City Treasurer for collection activities 91 days after the bill is issued as unpaid. An allowance is taken each Fiscal Year for accounts receivable that are not expected to be paid. The City suspended shut-offs beginning in March 2018 due to a high volume of water billing issues, and the suspension is expected to continue in Fiscal Year 2025. The City has put an enhanced focus on outreach to its top 100 non-residential customers with delinquencies, who represent 23% of the total outstanding amount due. The City's customer service team members ensure these customers understand their accounts are delinquent and offer to set up payment plans to recover past due amounts.

Under the State of California's Water and Wastewater Arrearage Payment Program, the City submitted a \$9.6 million claim for wastewater customers on April 1, 2022. The claim was paid by the end of Fiscal Year 2022. The City submitted a second claim and received \$47 million in Fiscal Year 2024 to apply to wastewater and water accounts. The City estimates that 32% or \$15.2 million will be applied to wastewater accounts, but the final number is expected to be known by the middle of Fiscal Year 2025.

Table 12 below sets forth information related to accounts receivable and number of shut-offs.

TABLE 12
WASTEWATER CUSTOMER ACCOUNTS RECEIVABLE AND SHUT-OFFS
For Fiscal Years Ended June 30, 2019 through June 30, 2023
(\$ Amounts in Thousands)

	2019	2020	2021	2022	2023
Sewer Service Charge Revenue	\$355,654	\$350,339	\$349,992	\$376,255	\$370,413
Accounts Receivable ^{1,2}	\$49,799	\$56,843 ⁵	\$63,605 ⁵	\$73,379 ⁵	\$82,014 ⁵
Accounts Receivable Over 120 Days ^{1,3}	\$7,349	\$12,184 ⁵	\$18,462 ⁵	\$23,153 ⁵	\$26,945 ⁵
Number of Shut-Offs ⁴	—	—	—	—	—

¹ Excludes amounts payable by Participating Agencies.

² Accounts Receivable are as of June 30, Fiscal Year-end; includes the receivable portion of the billed customer accounts and sewer services delivered but not billed in between billing cycles.

³ The suspensions of shut-offs, as described in Footnote 4 below, contributes to the increase from the prior years for Fiscal Years 2019 through 2023.

⁴ Shut-offs are directly related to water service. The Public Utilities billing system includes both Water and Wastewater, so the Wastewater system is indirectly impacted by Water shut-offs. Shut-offs for non-payment may include multiple shut-offs associated with the same account throughout the Fiscal Year. The City suspended shut-offs beginning in March 2018 due to a high volume of water billing issues, and the suspension continued in Fiscal Years 2019 through 2023.

⁵ Accounts receivable during the last quarter of Fiscal Year 2020 through Fiscal Year 2023 may reflect the financial impact of the COVID-19 pandemic on some Wastewater customers. In June 2022, the City received a payment of approximately \$9.6 million under the California Water Arrearage Payment Program administered by the State Water Resources Control Board (the "SWRCB") to cover customer debt accrued between March 4, 2020 and June 15, 2021 resulting during the COVID-19 pandemic emergency. \$8.1 million was credited to eligible residential and commercial customer accounts in Fiscal Year 2023.

Sources: Fiscal Years 2019-2023 Annual Comprehensive Financial Report, City of San Diego with respect to "Sewer Service Charge Revenue." Public Utilities Department, City of San Diego, for all other line items and footnotes.

Historical Revenues and Expenses

Table 13 below sets forth the Statements of Revenues, Expenses and Changes in Fund Net Position for the Sewer Revenue Fund for Fiscal Years 2019 through 2023. For purposes of calculating the Net System Revenues available to pay the City's Obligations under the Installment Purchase Agreement, including the 2024-1 Installment Payments securing the Series 2024A Bonds, the following are not taken into account: amounts set forth in the line item "Depreciation," non-cash amounts set forth in the line item "Gain (Loss) on Sale/Retirement of Capital Assets," amounts set forth in the line item "Interest Expenses" and amounts relating to assets contributed by developers (which constitute a portion of the amount set forth in the line item "Capital Contributions"). For Net System Revenues available to pay the City's Obligations under the Installment Purchase Agreement for Fiscal Years 2019 through 2023, see TABLE 15 "CALCULATION OF HISTORICAL ~~SENIOR AND AGGREGATE~~ DEBT SERVICE COVERAGE."

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TABLE 13
SEWER REVENUE FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION¹
Fiscal Years Ended June 30, 2019 through June 30, 2023
(\$ Amounts in Thousands, Except Footnotes)

	2019	2020	2021	2022	2023
OPERATING REVENUES					
Sewer Service Charges					
Inside City:					
Domestic ²	\$189,239	\$179,743	\$187,551	\$200,180	\$204,790
Commercial and Industrial ²	88,104	82,041	77,636	77,128	74,565
Outside City:	—	—	—	—	—
Treatment Plant Service for Others ²	78,311	88,555	84,805	98,947	91,058
Subtotal: Sewer Service Charges ²	\$355,654	\$350,339	\$349,992	\$376,255	\$370,413
Services provided to City departments ²	3,265	2,874	2,428	2,494	3,581
Total Charges for Services	\$358,919	\$353,213	\$352,420	\$378,749	\$373,994
Other Operating Revenues	9,060	7,610	8,914	8,310	8,231
TOTAL OPERATING REVENUES	\$367,979	\$360,823	\$361,334	\$387,059	\$382,225

OPERATING EXPENSES

TABLE 16
PROJECTED NET SYSTEM REVENUES AND DEBT SERVICE COVERAGE
Fiscal Years Ending June 30, 2024 through June 30, 2029
(\$ in thousands)¹

Description	2024 ⁶	2025	2026	2027	2028	2029
System Revenues						
Operating Revenue	\$429,351	\$447,063	\$459,751	\$474,516	\$497,040	\$521,308
		12,006 12	12,447 12	14,251 14	13,260 13	11,720 11
Interest Income	11,438	003	439	237	240	694
Capacity Charge Revenue	32,000	25,000	25,000	25,000	25,000	25,000
Transfers (to)/from Reserves	(10,608)	23,599	(3,762)	25,946	12,167	17,926
		507,668 5	493,436 4	539,713 5	547,467 5	575,954
Total System Revenues	\$462,181	07,665	93,428	39,699	47,447	575,927
Maintenance and Operation Costs	\$326,888	\$349,835	\$364,236	\$374,945	\$384,501	\$395,317
		157,833 1	129,200 1	164,769 1	162,966 1	180,637
Net System Revenues ²	\$135,293	57,831	29,192	64,755	62,946	180,611
		85,929 86	64,658 64	74,977 75	72,542 72	72,625 7
Projected Senior Debt Service ³	\$82,931	.062	.791	.110	.675	2.758
Senior Debt Service Coverage	1.63	1.84	2.00	2.20	2.25	2.49 2.48
Projected Subordinated Debt Service ⁴	\$14,736	\$29,274	\$30,877	\$46,662	\$46,658	\$59,021
Aggregate Senior and Subordinated Debt Service ⁵	\$97,667	115,202 1	95,536 95	121,639 1	119,200 1	131,646
		15,335	.669	21,772	19,333	131,779
Aggregate Senior and Subordinated Debt Service Coverage	1.39	1.37	1.35	1.35	1.37	1.37

Source: Public Utilities Department and Department of Debt Management, City of San Diego

¹ Amounts may not total due to rounding.

² Net System Revenues consists of Total System Revenues less Maintenance and Operation Costs.

³ Reflects actual debt service on the Series 2015 Bonds, the Series 2016 Bonds and the Existing Senior SRF Loans, and projected debt service on additional loans the City expects to receive from the State Water Resources Board to finance the Pure Water Program and other Wastewater System CIP projects. For Fiscal Year 2023, the Projected Senior Debt Service takes into account the SRF Loans to be finalized prior to the end of Fiscal Year 2023.

⁴ Includes Existing Subordinated SRF Loans, which will be fully paid in Fiscal Year 2026, projected Series 2024A Bonds, and projected future bonds in Fiscal Years 2027 and 2029, as reflected in Table 6 and assumes 30-year amortization structure on a level debt service basis at an interest rate of 4.7% for debt issued in Fiscal Years 2024 through 2025, 5.0% for debt issued in Fiscal Years 2026 through 2027, and 5.3% for debt issued in Fiscal Years 2028 through 2029. "SOURCES AND USES OF FUNDS FOR CAPITAL EXPENDITURES OF THE WASTEWATER SYSTEM CAPITAL IMPROVEMENT PROGRAM."

⁵ Includes Senior Obligations and the Existing Subordinated SRF Loans.

⁶ Amounts for Fiscal Year 2024 are based on assumptions and estimates and do not reflect actual expenditures for the Fiscal Year.

Labor Relations

As provided in the Fiscal Year 2024 Adopted Budget, there are approximately 952 full time equivalent employees of the Department (Wastewater Branch) of which approximately 533 are represented by the San Diego Municipal Employees' Association ("MEA"), and approximately 356 are

City and Wastewater System Pension Contributions. The following table sets forth the City’s historical ADC and pension contributions, and the Wastewater System’s share of payments for Fiscal Years 2019 through 2023. The City does not pay any portion of employee pension contributions.

TABLE 21
CITY OF SAN DIEGO AND SEWER REVENUE FUND
PENSION CONTRIBUTION
Fiscal Years Ended June 30, 2019 through June 30, 2023
(\$ Amounts in Thousands, Except Footnotes)

Fiscal Year	Pension Plan ADC (A)	Preservation of Benefits (“POB”) Plan Contribution* (B)	Total City Pension Contribution ¹ (A+B)	Wastewater System Contribution Pension Plan ADC ² (C)	Wastewater System Operating Expenses ³ (D)	Wastewater System Contribution as a Percentage of Operating Expenses (C/D)
2019 ⁴	\$322,900	\$1,403	\$324,303	\$17,996	\$316,838	5.7%
2020 ⁴	350,500	1,482	351,982	18,590	322,358	5.8
2021	365,600	1,562	367,162	18,894	328,029	5.9
2022	414,900	1,442	416,342	21,164	327,866	6.5
2023 ⁵	384,326	976	422,776	19,482	362,600	5.4

¹ Comprised of the pension plan contribution and the POB Plan contribution; may not sum due to rounding.

² In addition to the annual Wastewater System contribution to the Pension Plan ADC, the Wastewater System contributed \$0.4 million to the Pension Payment Stabilization Reserve in Fiscal Year 2019.

³ Wastewater System Operating Expenses include maintenance and operations, administration, and depreciation and does not include annual debt service.

⁴ For Fiscal Year 2019 Wastewater System Contribution to ADC, a revised metric was identified to provide an updated allocation between Water Utility Fund and Sewer Revenue Fund contributions. This resulted in a correcting adjustment in Fiscal Year 2020. Also, see Footnote 3 in Table 13—“Sewer Revenue Fund Statement of Revenues, Expenses, and Changes in Fund Net Position.”

⁵ As part of the Proposition B unwinding, the City made a one-time additional normal cost contribution of \$37.5 million for unpaid normal costs associated with Fiscal Year 2022 and Fiscal Year 2023 for Proposition B-affected employees, which brought the total City-wide contribution to the ADC in Fiscal Year 2023 to \$421.8 million.

* Contributions to the POB Plan are funded annually on a pay-go basis by the City and the payments are calculated by Cheiron.

Sources for table: SDCERS Fiscal Year 2019-2023 Annual Comprehensive Financial Reports for “Pension Plan ADC” and “Pension Plan Contribution”; the City’s Annual Comprehensive Financial Reports for Fiscal Year 2019-2023 for “POB Plan Contribution” and “Wastewater System Operating Expenses”; and Department of Finance for “Wastewater System Contribution to Pension Plan ADC”.

Sources for footnotes: City of San Diego.

The City’s Fiscal Year 2024 Pension Plan ADC is \$448.1 million (which the City has paid), of which \$23.2 million is budgeted to be the Sewer Utility Fund’s contribution to the Pension Plan ADC. The City’s Fiscal Year 2025 Pension Plan ADC is \$486.3 million (~~which the City has paid~~), of which ~~\$24.7~~\$24.8 million is budgeted to be the Sewer Utility Fund’s contribution to the Pension Plan ADC.

Postemployment Healthcare Benefits – Sewer Utility Fund Contribution

The City provides retiree healthcare benefits, also known as other post-employment benefits (“OPEB”), to certain health-eligible retirees and employees who were initially hired prior to July 1, 2005. As a result of a 15-year memorandum of understanding from Fiscal Year 2012 regarding post-employment healthcare benefits (“PEHB MOU”) with the City’s recognized employee organizations, there are two retiree healthcare plans: a defined benefit OPEB plan (“DB OPEB Plan”) and a defined contribution plan (“DC Plan”). See Note 13, “OTHER POSTEMPLOYMENT BENEFITS” in the City’s ACFR for Fiscal Year 2022 for information regarding the City’s OPEB plans.

Citywide and Sewer Utility Fund OPEB Contributions. Pursuant to the PEHB MOU, the City’s total retiree healthcare annual contribution (“MOU Contribution”) was \$63.3 million for Fiscal Year 2023 (and is budgeted as \$65.4 million in Fiscal Year 2024), distributed among the City’s pay-go contribution to the DB OPEB Plan (“DB OPEB Pay-go”) and its contribution to the DC Plan. The PEHB MOU also requires that certain employees contribute towards the DB OPEB Plan to fund a portion of the

The Series 2024A Bonds are limited obligations of the Authority payable solely from and secured solely by the Revenues pledged therefor and amounts on deposit in certain funds and accounts established under the Indenture (other than amounts on deposit in the Rebate Fund). Funds for the payment of the principal of and the interest on the Series 2024A Bonds are derived solely from the 2024-1 Installment Payments. The Authority has no other source of revenues from which to pay debt service on the Series 2024A Bonds. The Authority has no taxing power.

Subordinated Obligations

The Series 2024A Bonds are limited obligations of the Authority payable solely from and secured by Subordinated Installment Payments to be received by the Authority and form the amounts on deposit in certain funds held under the Indenture. The 2024-1 Installment Payments are payable from Net System Revenues on a basis that is subordinate to the right of payment by the City of its Outstanding Senior Obligations under the Installment Purchase Agreement. In the event of a default under the Indenture, the owners of the Senior Obligations have, in certain circumstance, the right to accelerate the entire principal amount of the Senior Obligations. In such circumstances, owners of the Series 2024A Bonds may not receive scheduled payments of principal of or interest on the Series 2024A Bonds until all holders of the Senior Obligations have been paid.

Wastewater System Demand, Expenses, Collections, and Future Rates

The City expects that in the future, demands on the Wastewater System will increase [slightly or stay at current levels](#) due to population growth, regulatory requirements, [water use trends](#) and utility costs. Increases in expenses could adversely affect the Wastewater System's financial condition and require a significant increase in rates or charges in order to pay for maintenance, operation and capital expenditures related to the Wastewater System, including those anticipated under the Pure Water Program, and to pay the debt service on account of any Obligation including, without limitation, the 2024-1 Installment Payments securing the Series 2024A Bonds.

However, there can be no assurance that the local demand for the services provided by the Wastewater System will be maintained at levels described in this Official Statement. Because of circumstances including changes in demographics or land use within the boundaries of the City, and new water purification programs which may reduce Participating Agencies' need for wastewater services, it is possible that the demand for wastewater services may decline over the term of the Series 2024A Bonds. Additionally, Water System rate increases could reduce water use, which in turn could reduce flows (and revenues) to the Wastewater System. A significant decline in demand might create a situation in which the City could not increase rates sufficiently to offset the decrease in subscribers or usage. This would reduce the City's ability to make the 2024-1 Installment Payments, which could in turn adversely impact the Authority's ability to make payments of the principal of and interest on the Series 2024A Bonds as and when due.

Wastewater System CIP

The Wastewater System CIP is a significant component of the costs of the Wastewater System. The components of the Wastewater System CIP described in this Official Statement are based on preliminary estimates by the Department, including projected schedules for the completion of project components, plans and designs, construction costs, and funding sources. The Wastewater System is highly regulated and requires coordination between different functions (transportation, treatment, and disposal) across various asset types (pump stations, treatment plants, distribution systems, etc.). With the implementation of the City's Pure Water program, the City's wastewater stream will be under enhanced

scrutiny as wastewater is treated by the City's water system for human consumption, while offloading wastewater flows from the City's aging Point Loma Plant.

The ability of the Department to complete and finance capital projects may be adversely affected by various factors including: estimating variations; design and engineering variations; changes to the scope, scheduling or phasing of the projects; delays in contract awards and/or as a result of the acts or omissions of third-parties; material and/or labor shortages; unforeseen site conditions; adverse weather conditions, earthquakes or other casualty events; contractor or other counterparty defaults; labor disputes; unanticipated levels of inflation; inability of vendors or contractors to obtain or maintain financing; environmental issues; bidding conditions through the Department's procurement process, litigation and capital markets conditions. Additionally, conditions to State and federal grants could also cause estimated costs to increase. For example, current pending legislation could require that taxpayer-funded infrastructure and public works projects use materials produced in the United States above levels currently required, which could increase costs.

The City has seen supply chain disruptions and higher than historical inflation levels, that were at least partially due to the COVID-19 pandemic, which have affected the schedule of capital projects and the estimated cost for several of the City's capital projects, including the Pure Water Program projects. These changes have increased the variability of project costs and timing of expenditures, which impacts the estimates used in this Official Statement. If these supply chain and inflationary pressures continue over the medium to long term, the City will have to adjust its assumptions moving forward. Although any such increases have not materially changed the City's capital allocations to date, they are expected to be factors for consideration moving forward. The City expects to re-evaluate the assumptions used in preparing the estimates for the Wastewater System CIP included in this Official Statement in its upcoming cost of service study and adjust rates or project expectations accordingly. See "WASTEWATER SYSTEM CAPITAL IMPROVEMENT PROGRAM—Capital Improvement Projects" and Table 5 under that heading.

In addition, certain funding sources are assumed to be available for the Department's projects, including the Wastewater System CIP. The Department's financing plan for the Wastewater System CIP contains assumptions as to the projected amount of additional Obligations, SRF Loans and other funding sources for the Wastewater System CIP. The relative amount of these funding sources directly affects the projected debt service and debt service coverage set forth in this Official Statement. If such funding sources are not available or the Department changes its plan of finance, the Department may need to expend additional Department funds, eliminate or scale down projects, divert financial and other resources to such projects or incur additional indebtedness, possibly including issuing additional Obligations, to finance such projects. Such changes could result in actual results, including but not limited to debt service coverage, differing materially from the forecasts in this Official Statement.

The Department's ability to finance the Wastewater System CIP also depends upon the orderly function of the capital markets which have in the past experienced substantial disruptions. Future market disruptions may negatively impact the timing and ability of issuers of municipal debt, such as the Department, to access short-term or long-term funding, as well as the cost thereof.

The largest portion of the Wastewater System CIP, in terms of cost and scope, is the Pure Water Program. Completion of the Pure Water Program includes certain assumptions (which the Department considers to be reasonable) and Department goals to pursue all options in order to obtain regulatory certainty that the Pure Water Program will suffice to offset the approximately \$2.1 billion requirement to be in full compliance with the Clean Water Act at the Point Loma Plant. In the event the costs of the Pure Water Program exceed the Department's original estimates, and/or if delays or unforeseen obstacles are encountered as described above, additional capital contributions may be necessary in order to pay for

the Water and Wastewater Systems, or could cause a material increase in costs for repairs and thereby interrupt the ability of the City to realize Net System Revenues sufficient to pay the 2024A Installment Payments securing the payment of principal of and interest on the Series 2024A Bonds.

Wildfire. Facilities within the Wastewater System generally consist of pipelines and connections, flow control facilities, and pumping stations, ~~which are not typically vulnerable to damage by wildfires~~. The above-ground facilities within the Wastewater System are designed to be tolerant to damage by wildfires through the use of fire-resistant material where possible, such as concrete and masonry blocks. In addition, the Department works closely with the City's Fire Department to ensure that proper vegetative clearances are maintained in and around the properties and facilities of the Wastewater System. The Department monitors wildfires that may threaten the facilities of the Wastewater System and dispatches operations and maintenance crews as necessary to ensure that all above-ground facilities remain safe and operational. Further, during fires, the Department works closely with the City's Fire Department and law enforcement officers to monitor and protect the facilities of the Wastewater System to ensure continuous operation.

Sewer Failure. The Wastewater System is subject to potential failures of its sewage collection and conveyance systems due the potential impact of climate change or natural disasters that can result in unexpected repair costs and other expenses.

Although the City has implemented disaster preparedness plans and made improvements to Wastewater System facilities in connection with such potential disasters, there can be no assurance that these or any additional measures will be adequate in the event that a disaster occurs, nor that costs of preparedness measures will be as currently anticipated. As discussed under "WASTEWATER SYSTEM REGULATORY REQUIREMENTS—Recent Regional Spills," on January 22, 2024, the San Diego region received a sudden influence of rain from an atmospheric river resulting in a peak wet weather rain event, with some areas of the region receiving over two inches of rain over the course of three hours. This event knocked out power to key city facilities and resulting floodwaters damaged several key pieces of equipment at the City's Pump Station No. 1 and Pump Station No. 2. Together with above average rainfall, resulted in large sewer backups and spills on January 22, 2024, and subsequent spills due to rain events through February 6, 2024. The City's spills were reported to the Regional Board along with other agencies' spills in the region. The City estimates that 11.5 million gallons of sewage may have been spilled during this period and expects to receive Notices of Violations from the Regional Board.

The alleged violations may potentially subject the City to additional enforcement by the Regional Board or the State Water Resources Control Board, including an administrative civil liability assessment of up to \$10,000 per day of violation and \$10 per gallon for each gallon discharged but not cleaned up (Water Code section 13385).

Further, damage to components of the Wastewater System could cause a material increase in costs for repairs or a corresponding material adverse impact on Net System Revenues. The City is not obligated under the Installment Purchase Agreement to procure and maintain, or cause to be procured and maintained, earthquake insurance on the Wastewater System. However, see "WASTEWATER SYSTEM FINANCIAL OPERATIONS—Insurance and Liability Claims" for information regarding the earthquake insurance currently maintained by the City.

Global Health Emergencies

A pandemic, epidemic or outbreak of an infectious disease can have significant adverse health and financial impacts on global and local economies. Future pandemics like COVID-19 and other widespread public health emergencies may arise from time-to-time and can impact broader economic

maintained by the Wastewater Treatment and Disposal Division, including the Point Loma Plant, the Metropolitan Biosolids Center, the North City Plant and the South Bay Plant, and pumping stations within the Wastewater System, are controlled access facilities with fencing, gates, roving security patrols, and security officers at appropriate points. Critical facilities are additionally monitored by closed circuit television systems. Smaller, above-ground and subterranean pumping stations, operated and maintained by Wastewater Collection Division are locked with padlock or internal locking mechanisms. The smaller pump stations are additionally visited regularly by roving security patrols to deter theft and vandalism. Security improvements are evaluated on an ongoing basis. The Wastewater System's electronic operations and controls are continuously evaluated, and the Department seeks to reduce its risk-exposure through a series of technology systems, enhancements, and integration.

Military conflicts and terrorist activities may adversely impact the operations and finances of the Wastewater System. The Department continually plans and prepares for emergencies and immediately responds to ensure sewer services are maintained. However, there can be no assurance that any existing or additional safety and security measures will prove adequate in the event that terrorist activities are directed against the Wastewater System or that costs of security measures will not be greater than presently anticipated. Further, the Wastewater System is controlled by programmable logic controllers, which are subject to programming errors. There can be no assurance that such programming errors will not occur in the future, resulting in fines, repairs or additional controls on the Wastewater system.

Damage to certain components of the Wastewater System could require the City to increase expenditures for repairs to the Wastewater System significantly enough to adversely impact the City's ability to pay the 2024-1 Installment Payments. The City has established within the Sewer Revenue Fund the Emergency Operating Reserve, which is currently funded at a level equal to 70 days of operating costs and may be used under certain circumstances for repairs to the Wastewater System. See "WASTEWATER SYSTEM FINANCIAL OPERATIONS—Sewer Revenue Fund Reserves."

Future Suspensions and Moratoriums on Utility Shut-Offs

Beginning in March 2018, the City suspended water and wastewater shut-offs due to a high volume of water billing issues. Additionally, in response to the outbreak of COVID-19, and in an effort to provide temporary relief for those facing economic hardships related to the COVID-19 pandemic, the Mayor issued an executive order enacting a moratorium on utility shut-offs and suspending late payment penalties until further notice at the same time the State of California issued a moratorium on shut-offs through December 31, 2021. The suspension of water and wastewater shut-offs is expected to continue in Fiscal Year 2025. See "WASTEWATER SYSTEM FINANCIAL OPERATIONS—Accounts Receivable," herein.

The City and the State may implement additional billing suspensions and moratoriums on shut-offs or other changes to its customers and such actions may affect Net System Revenues.

No assurance can be made that Net System Revenues will not be materially adversely affected by the existence of suspensions and moratoriums on water and wastewater shut-offs, nor can there be any assurance that City and the State may not establish new moratoriums that could affect Net System Revenues in the future.

Uncertainties of Projections, Forecasts and Assumptions

Compliance with certain covenants contained in the Indenture and the Installment Purchase Agreement is based upon assumptions and projections including, but not limited to, those described under "WASTEWATER SYSTEM FINANCIAL OPERATIONS—Financial Projections." Projections

Ancillary Tax Matters

Ownership of the Series 2024A Bonds may result in other federal tax consequences to certain taxpayers, including, without limitation, certain S corporations, foreign corporations with branches in the United States, property and casualty insurance companies, individuals receiving Social Security or Railroad Retirement benefits, individuals seeking to claim the earned income credit, and taxpayers (including banks, thrift institutions and other financial institutions) who may be deemed to have incurred or continued indebtedness to purchase or to carry the Series 2024A Bonds. Prospective investors are advised to consult their own tax advisors regarding these rules.

Interest paid on tax-exempt obligations such as the Series 2024A Bonds is subject to information reporting to the Internal Revenue Service (the “IRS”) in a manner similar to interest paid on taxable obligations. In addition, interest on the Series 2024A Bonds may be subject to backup withholding if such interest is paid to a registered owner that (a) fails to provide certain identifying information (such as the registered owner’s taxpayer identification number) in the manner required by the IRS, or (b) has been identified by the IRS as being subject to backup withholding.

Bond Counsel is not rendering any opinion as to any federal tax matters other than those described in the opinions attached as Appendix B. Prospective investors, particularly those who may be subject to special rules described above, are advised to consult their own tax advisors regarding the federal tax consequences of owning and disposing of the Series 2024A Bonds, as well as any tax consequences arising under the laws of any state or other taxing jurisdiction.

Changes in Law and Post Issuance Event

Legislative or administrative actions and court decisions, at either the federal or state level, could have an adverse impact on the potential benefits of the exclusion from gross income of the interest on the Series 2024A Bonds for federal or state income tax purposes, and thus on the value or marketability of the Series 2024A Bonds. This could result from changes to federal or State income tax rates, changes in the structure of federal or state income taxes (including replacement with another type of tax), repeal of the exclusion of the interest on the Series 2024A Bonds from gross income for federal or state income tax purposes, or otherwise. It is not possible to predict whether any legislative or administrative actions or court decisions having an adverse impact on the federal or state income tax treatment of holders of the Series 2024A Bonds may occur. Prospective purchasers of the Series 2024A Bonds should consult their own tax advisors regarding the impact of any change in law on the Series 2024A Bonds.

Bond Counsel has not undertaken to advise in the future whether any events after the date of issuance and delivery of the Series 2024A Bonds may affect the tax status of interest on the Series 2024A Bonds. Bond Counsel expresses no opinion as to any federal, state or local tax law consequences with respect to the Series 2024A Bonds, or the interest thereon, if any action is taken with respect to the Series 2024A Bonds or the proceeds thereof upon the advice or approval of other counsel.

CONTINUING DISCLOSURE

~~[To be monitored]~~ Pursuant to the Continuing Disclosure Certificate of the City (the “Disclosure Certificate”), the City will agree to provide, or cause to be provided, to the Municipal Securities Rulemaking Board (“MSRB”) in the manner prescribed by the Securities Exchange Commission (the “SEC”) certain annual financial information and operating data related to the City (the “Annual Report”) no later than April 10 after the end of the City’s Fiscal Year (which currently ends June 30), commencing with the Annual Report for Fiscal Year 2024 due April 10, 2025 and to provide notices of certain enumerated events (as described in the Disclosure Certificate). The form of the Disclosure Certificate is

attached hereto as APPENDIX C — “FORM OF CONTINUING DISCLOSURE CERTIFICATE.” The City’s covenants in the Disclosure Certificate will be made in order to assist the Underwriters in complying with Rule 15c2-12(b)(5) adopted by the SEC under the Securities Exchange Act of 1934 (the “Rule”). The Disclosure Certificate will inure solely to the benefit of any Dissemination Agent, the Underwriters, and Owners or Beneficial Owners from time to time of the Series 2024A Bonds. A failure by the City to comply with any of the covenants therein is not an event of default under the Indenture or the Installment Purchase Agreement, and the sole remedy following a default is an action to compel specific performance by the City with the terms of the Disclosure Certificate.

The Annual Report and the notices of enumerated events will be filed by the City with the EMMA System. Neither the issuer home page nor any information on the issuer home page is made a part of this Official Statement, nor is it incorporated by reference herein and should not be relied upon in making an investment decision with respect to the Series 2024A Bonds.

As noted in official statements related to the Public Facilities Financing Authority of the City of San Diego’s Lease Revenue Bonds and Lease Revenue Refunding Bonds (collectively, the “Lease Revenue Bonds”), certain property owned by the San Diego Metropolitan Transit System that was previously leased to the City in connection with the Lease Revenue Bonds (the “MTS Property”) was scheduled to be released, and was released, on October 15, 2022. The City filed the notice of the release of the MTS Property on EMMA two days after the date required under its continuing disclosure undertakings entered in accordance with the Rule.

LITIGATION

No Litigation Challenging the Series 2024A Bonds

~~{To be monitored by the City}~~ There is no litigation pending against the City or, to the knowledge of its respective executive officers, threatened, seeking to restrain or enjoin the issuance, sale, execution or delivery of the Series 2024A Bonds or in any way contesting or affecting the validity of the Series 2024A Bonds or the authorizations or any proceedings of the City taken with respect to the issuance or sale thereof, or the pledge or application of any moneys or security provided for the payment of the Series 2024A Bonds or the use of the proceeds of the Series 2024A Bonds. There are no pending lawsuits that, in the opinion of the City Attorney, challenge the validity of the corporate existence of the Authority or the City, or the title of the executive officers to their respective offices.

Litigation and Regulatory Enforcement Actions Relating to the Wastewater System

From time to time, the City and the Department are parties to litigation and/or are subject to regulatory enforcement actions related to the Wastewater System arising out of the normal course of business of the Wastewater System. At this time, the City is of the opinion that if any lawsuits, regulatory enforcement actions and claims related to the Wastewater System, pursuant to which the City and the Department are currently named parties, are concluded adversely to the City or the Department, they will not have a material adverse effect on the Sewer Revenue Fund’s financial position.

CERTAIN LEGAL MATTERS

Certain legal matters incident to the authorization, issuance and sale of the Series 2024A Bonds are subject to the legal opinion of Nixon Peabody, LLP, Bond Counsel to the City and the Authority. The signed legal opinion of Bond Counsel for the Series 2024A Bonds will be included in the Official Statement delivered to the initial purchasers of the Series 2024A Bonds at the time of original delivery of

the Series 2024A Bonds. The proposed form of the legal opinion of Bond Counsel for the Series 2024A Bonds is set forth in APPENDIX B — “FORM OF BOND COUNSEL OPINION.”

Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed on for the City and the Authority by Nixon Peabody, LLP, Disclosure Counsel, and by the City Attorney. Certain legal matters will be passed upon for the Underwriters by their counsel, ~~Kutak Rock~~ [Norton Rose Fulbright US](#) LLP. Bond Counsel and Disclosure Counsel will receive compensation contingent upon the sale and delivery of the Series 2024A Bonds.

RATINGS

Fitch Ratings and S&P Global Ratings (“S&P”) have assigned the ratings of “[]” with stable outlook and “[]” with stable outlook, respectively, to the Series 2024A Bonds. Such credit ratings and outlooks reflect only the views of such organizations and any desired explanation of the significance of such credit ratings and outlooks should be obtained from the rating agency furnishing the same, at the following addresses: Fitch Ratings, One State Street Plaza, New York, New York 10004, and S&P, 55 Water Street, New York, New York 10041. A securities rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time.

The City furnished to the rating agencies certain information, including information that may not be included herein. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance such ratings will continue for any given period of time, or that a rating will not be revised downward or withdrawn entirely by the applicable rating agency, if in the judgment of such rating agency, circumstances so warrant. The City undertakes no responsibility to oppose any such revision, suspension or withdrawal. Any such downward revision, suspension or withdrawal of the ratings obtained, or other actions by a rating agency relating to its rating, may have an adverse effect on the market price and marketability of the Series 2024A Bonds.

The City will covenant in the Disclosure Certificate to file on EMMA, notices of any rating changes on the Series 2024A Bonds. See the caption “CONTINUING DISCLOSURE” above and Appendix C hereto. Notwithstanding such covenant, information relating to ratings changes on the Series 2024A Bonds may be publicly available from the rating agencies prior to such information being provided to the City and prior to the date the City is obligated to file a notice of rating change on EMMA. Purchasers of the Series 2024A Bonds are directed to the ratings agencies and their respective websites and official media outlets for the most current ratings with respect to the Series 2024A Bonds after the initial issuance of the Series 2024A Bonds.

UNDERWRITING

The Series 2024A Bonds are being purchased by Siebert Williams Shank & Co., LLC, as representative, on behalf of itself and BofA Securities, Inc., Mischler Financial Group, Inc., Wells Fargo Bank N.A. and Cabrera Capital Markets, LLC (collectively, the “Underwriters”). The Underwriters have agreed to purchase the Series 2024A Bonds at a price of \$_____ (being \$_____ aggregate principal amount thereof, [\[plus/less net original issue premium/discount\]](#) of \$_____, and less Underwriters’ discount of \$_____). The purchase agreement for the Series 2024A Bonds provides that the Underwriters will purchase all of the Series 2024A Bonds if any are purchased. The obligation to make such purchase is subject to certain terms and conditions set forth in such purchase agreement, the approval of certain legal matters by counsel and certain other conditions.

The Underwriters may offer and sell the Series 2024A Bonds to certain dealers and others at prices lower than the offering prices stated on the inside cover page hereof. The offering prices may be changed from time to time by the Underwriters.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include sales and trading, commercial and investment banking, advisory, investment management, investment research, principal investment, hedging, market making, brokerage and other financial and non-financial activities and services. Under certain circumstances, the Underwriters and their affiliates may have certain creditor and/or other rights against the Authority and its affiliates in connection with such activities. In the various course of their various business activities, the Underwriters and their respective affiliates, officers, directors and employees may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers, and such investment and trading activities may involve or relate to assets, securities and/or instruments of the Authority (directly, as collateral securing other obligations or otherwise) and/or persons and entities with relationships with the Authority. The Underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

BofA Securities, Inc., an underwriter of the Series 2024A Bonds, has entered into a distribution agreement with its affiliate Merrill Lynch, Pierce, Fenner & Smith Incorporated (“MLPF&S”). As part of this arrangement, BofA Securities, Inc. may distribute securities to MLPF&S, which may in turn distribute such securities to investors through the financial advisor network of MLPF&S. As part of this arrangement, BofA Securities, Inc. may compensate MLPF&S as a dealer for their selling efforts with respect to the Bonds.

Wells Fargo Securities is the trade name for certain securities-related capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association, which conducts its municipal securities sales, trading and underwriting operations through the Wells Fargo Bank, NA Municipal Finance Group, a separately identifiable department of Wells Fargo Bank, National Association, registered with the Securities and Exchange Commission as a municipal securities dealer pursuant to Section 15B(a) of the Securities Exchange Act of 1934.

Wells Fargo Bank, National Association, acting through its Municipal Finance Group (“WFBNA”), one of the underwriters of the Series 2024A Bonds, has entered into an agreement (the “WFA Distribution Agreement”) with its affiliate, Wells Fargo Clearing Services, LLC (which uses the trade name “Wells Fargo Advisors”) (“WFA”), for the distribution of certain municipal securities offerings, including the Series 2024A Bonds. Pursuant to the WFA Distribution Agreement, WFBNA will share a portion of its underwriting or remarketing agent compensation, as applicable, with respect to the Series 2024A Bonds with WFA. WFBNA has also entered into an agreement (the “WFSLLC Distribution Agreement”) with its affiliate Wells Fargo Securities, LLC (“WFSLLC”), for the distribution of municipal securities offerings, including the Series 2024A Bonds. Pursuant to the WFSLLC Distribution Agreement, WFBNA pays a portion of WFSLLC’s expenses based on its municipal securities transactions. WFBNA, WFSLLC, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company.

~~[Additional UW distribution language may be added here].~~

APPENDIX B

FORM OF BOND COUNSEL OPINION

[Closing Date]

Public Facilities Financing Authority of the City of San Diego
San Diego, California

City of San Diego
San Diego, California

Re: \$_____ Public Facilities Financing Authority of the City of San Diego
Subordinated Sewer Revenue Bonds, Series 2024A (Payable Solely From
Subordinated Installment Payments Secured by Wastewater System Net Revenues)

Ladies and Gentlemen:

We have acted as Bond Counsel to the Public Facilities Financing Authority of the City of San Diego (the “Authority”) in connection with the issuance of \$_____ aggregate principal amount of its Subordinated Sewer Revenue Bonds, Series 2024A (Payable Solely From Subordinated Installment Payments Secured by Wastewater System Net Revenues) (the “Series 2024A Bonds”), issued pursuant to the provisions of Article 4 of Chapter 5 of Division 7 of Title 1 of the California Government Code (the “Law”) and pursuant to an Indenture of Trust, dated as of May 1, 2009, as previously amended and supplemented (the “Original Indenture”), and as further supplemented by a Sixth Supplemental Indenture, dated as of August 1, 2024 (the “Sixth Supplemental Indenture” and collectively with the Original Indenture, the “Indenture”) each by and between the Authority and U.S. Bank Trust Company, National Association, as successor trustee (the “Trustee”). The Series 2024A Bonds are payable from Subordinated Revenues (as defined in the Indenture) consisting of Subordinated Installment Payments, including the 2024-1 Installment Payments (the “2024-1 Installment Payments”) to be made by the City to the Authority under a Master Installment Purchase Agreement, dated as of September 1, 1993, as previously amended and supplemented (the “Master Installment Purchase Agreement”), including as further supplemented by the 2024-1 Supplement to the Master Installment Purchase Agreement, dated as of August 1, 2024 (the “2024-1 Supplement” and together with the Master Installment Purchase Agreement, the “Installment Purchase Agreement”) each by and between the City and the Authority and amounts on deposit in certain funds and accounts established under the Indenture. Pursuant to the Indenture, the Subordinated Installment Payments have been assigned by the Authority to the Trustee and will be used by the Trustee to pay the principal of and interest on the Series 2024A Bonds. Capitalized terms used but not defined herein shall have the meaning ascribed to such term as set forth in the Indenture and the Installment Purchase Agreement.

As Bond Counsel, we have examined copies, certified to us as being true and complete, of the Indenture, the Installment Purchase Agreement, the Tax Certificate, dated _____, 2024 (the “Tax Certificate”), and such other certificates, documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein. We have not undertaken to verify independently the accuracy of the factual matters represented, warranted or certified therein, and we have assumed the genuineness of all signatures thereto. We have, with your approval, assumed that all items submitted to us as originals are authentic and that all items submitted as copies conform to the originals. The

APPENDIX C

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate, dated as of _____, 2024 (the “Disclosure Certificate”), is executed and delivered by The City of San Diego (the “City”) in connection with the issuance by the Public Facilities Financing Authority of the City of San Diego (the “Authority”) of Subordinated Sewer Revenue Bonds, Series 2024A (Payable Solely From Subordinated Installment Payments Secured by Wastewater System Net Revenues) (the “Series 2024A Bonds”). The Series 2024A Bonds are being issued pursuant to the Indenture (as defined herein). In connection therewith, the City, as an “obligated person” with respect to the Series 2024A Bonds (within the meaning of the Rule, as defined herein), covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City on behalf of the Authority for the benefit of the Holders and Beneficial Owners of the Series 2024A Bonds and in order to assist the Participating Underwriters in complying with the Rule.

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

“Annual Report” shall mean any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“Beneficial Owner” shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or dispose of ownership of, any Series 2024A Bonds (including persons holding Series 2024A Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Series 2024A Bonds for federal income tax purposes.

“Dissemination Agent” shall mean the City and any Person designated by the City to serve as Dissemination Agent.

“Financial Obligation” shall mean a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term “Financial Obligation” shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

“Holder” shall mean the person in whose name any Bond shall be registered.

“Indenture” shall mean the Indenture, dated as of May 1, 2009, by and between the Authority and U.S. Bank Trust Company, National Association, as successor trustee, as amended and supplemented.

“MSRB” shall mean the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access system.

“Notice Event” shall mean any of the events listed in Section 5(a) or (b) of this Disclosure Certificate.

“Official Statement” shall mean the Official Statement, dated _____, 2024, prepared and distributed in connection with the initial sale of the Series 2024A Bonds.

“Participating Underwriters” shall mean any of the original purchasers of the Series 2024A Bonds required to comply with the Rule in connection with offering of the Series 2024A Bonds.

(i) ~~f~~An update of the information contained in the table of the Official Statement entitled “~~Metropolitan Sub-System~~ City and Participating Agencies Flow and Capacity Rights”;

(ii) An update of the information substantially in the form contained in the table of the Official Statement entitled “Wastewater System Total Annual Flow” for the most recent fiscal year;

(iii) An update of the information substantially in the form contained in the table of the Official Statement entitled “Wastewater System ~~Historical Sources of Sewer~~Five-Year Service Charge ~~Revenues~~History for Single-Family Residential, Multi-family, and Commercial and Industrial Customers,” for the most recent fiscal year;

(iv) An update of the information substantially in the form contained in the table of the Official Statement entitled “Wastewater System – Municipal Sub-System ~~Ten-Largest Customers~~Historical Equivalent Dwelling Units and Capacity Charge Revenues” for the most recent fiscal year;

(v) An update of the information substantially in the form contained in the table of the Official Statement entitled “Wastewater System ~~Five-Year~~Historical Sources of Sewer Service Charge ~~History for Single Family Residential, Multifamily and Commercial and Industrial Customers,~~Revenues” for the most recent fiscal year;

(vi) An update of the information substantially in the form contained in the table of the Official Statement entitled “~~Wastewater Customer Accounts Receivable and Shut-Offs~~Municipal Sub-System Ten Largest Customers” for the most recent fiscal year;

(vii) An update of the information substantially in the form contained in the table of the Official Statement entitled “Wastewater ~~System – Municipal Sub-System~~ ~~Historical Equivalent Dwelling Units and Capacity Charge Revenues~~Customer Accounts Receivable and Shut-Offs” for the most recent fiscal year;

(viii) An update of the information substantially in the form contained in the table of the Official Statement entitled “Sewer Revenue Fund ~~Statements~~Statement of Revenues, Expenses, and Changes in Fund Net Position” for the most recent fiscal year;

(ix) An update of the information substantially in the form contained in the table of the Official Statement entitled “Reserves and Cash and Investments in Sewer Revenue Fund” for the most recently completed fiscal year;

(x) An update of the information substantially in the form contained in the table of the Official Statement entitled “Calculation of Historical Debt Service Coverage” for the most recent fiscal year;

(xi) An update of the information substantially in the form contained in the table of the Official Statement entitled “Liability Claims Budget and Expenditures” for the most recently completed fiscal year;

(xii) An update of the information substantially in the form contained in the table of the Official Statement entitled “City of San Diego Schedule of Funding Progress” for the most recently completed fiscal year;

(xiii) An update of the information substantially in the form contained in the table of the Official Statement entitled “City of San Diego and Sewer Revenue Fund Pension Contribution” for the most recently completed fiscal year.~~}{To be monitored}~~

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 have been submitted to the MSRB. The City shall clearly identify each such other document so included by reference.

The contents, presentation and format of the Annual Reports may be modified from time to time as determined in the judgment of the City to conform to changes in accounting or disclosure principles or practices and legal requirements followed by or applicable to the City or to reflect changes in the business, structure, operations, legal form of the City or any mergers, consolidations, acquisitions or dispositions made by or affecting the City; provided that any such modifications shall comply with the requirements of the Rule.

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 Series 2024A Bonds, in a timely manner not later than ten (10) business days after the occurrence of such Notice Event to the MSRB through EMMA:

- (i) Principal and interest payment delinquencies;
- (ii) Unscheduled draws on debt service reserves reflecting financial difficulties;*
- (iii) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (iv) Substitution of credit or liquidity providers, or their failure to perform;†
- (v) Adverse tax opinions or issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB);
- (vi) Tender offers;
- (vii) Defeasances;
- (viii) Rating changes;‡
- (ix) Bankruptcy, insolvency, receivership or similar event of the City (such event being 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 U.S. 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

* Without limiting its reporting obligation, the City advises that it has not established a debt service reserve fund for the Series 2024A Bonds.

† Without limiting its reporting obligation, the City advises that it has not obtained or provided any credit enhancement or credit or liquidity providers for the Series 2024A Bonds.

‡ Does not include rating changes related to credit enhancement added by a Holder.

EXHIBIT A

NOTICE TO THE MSRB OF FAILURE TO FILE ANNUAL REPORT

Name of Obligor: City of San Diego

Name of Issue: Public Facilities Financing Authority of the City of San Diego Subordinated Sewer Revenue Bonds, Series 2024A (Payable Solely From Subordinated Installment Payments Secured By Wastewater System Net Revenues) (the "Series 2024A Bonds").

Date of Issuance: ~~August~~ August __, 2024

NOTICE IS HEREBY GIVEN that the City of San Diego has not provided an Annual Report with respect to the Series 2024A Bonds as required by the Continuing Disclosure Certificate, dated ~~August~~ August __, 2024, with respect to the Series 2024A Bonds. The City anticipates that the Annual Report will be filed by _____.

Dated: _____

CITY OF SAN DIEGO

By: _____

Title: _____



The City of San Diego
Item Approvals

Item Subject: Resolution approving the form and authorizing the execution and delivery of one or more Preliminary Official Statements and Official Statements in connection with the Public Facilities Financing Authority of the City of San Diego Subordinated Sewer Revenue Bonds, Series 2024A, and approving other related actions.

Approving Authority	Approver	Approval Date
OFFICE OF THE CITY ATTORNEY DEPARTMENT APPROVER	JORDAN, JEAN	06/21/2024