



The City of San Diego

Staff Report

DATE ISSUED: April 10, 2018

TO: City Council

FROM: Debt Management Department

SUBJECT: Authorization for the City of San Diego Public Facilities Financing Authority Lease Revenue Refunding Bonds, Series 2018A Preliminary Official Statement (POS)

Primary Contact: Lakshmi Kommi Phone: (619) 236-6928

Secondary Contact: Elizabeth Kelly Phone: (619) 236-6932

Council District(s): Citywide

OVERVIEW:

The POS is a document that provides information about the City and the City of San Diego Public Facilities Financing Authority Lease Revenue Refunding Bonds, Series 2018A (the 2018A Bonds) that potential investors would require for the bond sale. This action will authorize the form and distribution of the POS for the 2018A Bonds, and the execution, delivery, and distribution of the Official Statement (OS).

PROPOSED ACTIONS:

A resolution authorizing the form and distribution of the POS for the 2018A Bonds, and the execution, delivery, and distribution of the OS.

DISCUSSION OF ITEM:

Staff Recommendation

Approve the requested action.

Item Background

City Council adopted Ordinance (O-20903) on February 13, 2018, authorizing the issuance of the 2018A Bonds in an amount not to exceed \$140 million to refund the Public Facilities Financing Authority of the City of San Diego Lease Revenue Refunding Bonds, Series 2010A (Master Refunding Project). The ordinance, and related Resolution (R-311526), approved the financing documents related to the 2018A Bonds, including the forms of the Fourth Amendments to the Facilities Lease

and Site Lease, Fourth Supplemental Indenture, the Bond Purchase Agreement, the Escrow Agreement, and the Continuing Disclosure Certificate. On February 13, 2018, concurrent with the City Council authorization, the Public Facilities Financing Authority (PFFA) authorized the issuance of the 2018A Bonds.

The 2018A Bonds will be issued by the PFFA as a public offering via a negotiated sale, with ratings from Standard and Poor's and Fitch Ratings. For more information regarding the 2018A Bonds financing structure, ordinance and bond document approvals, see Attachment 1: Staff Report dated January 16, 2018 (revised January 22, 2018).

Preliminary Official Statement (POS) for 2018A Bonds

Staff is presenting the POS for the 2018A Bonds for City Council consideration. The POS for the 2018A Bonds provides information that investors would require to review the bond sale material and to make an informed investment decision. It describes the bond offering to the marketplace and includes information about the structure, refunding plan, sources and uses of funds, sources of payment of the bonds, risk factors, and a description of pertinent financial, regulatory, and operational information regarding the City of San Diego. The POS also includes information regarding the City government and financial information (Appendix A) and City demographic and economic information (Appendix B).

The POS reflects the General Fund financial information including information concerning the Fiscal Year (FY) 2017 financial results, the FY 2018 Adopted Budget, and the FY 2018 Mid-Year Budget Monitoring Report. The POS also includes the current information on the General Fund Infrastructure and the Multi-Year Capital Program, Storm Water Program, litigation potentially adversely affecting the City's General Fund, labor relations and contracts, SDCERS and projected increases to the City's pension contribution, Postemployment Healthcare Benefits, Risk Management, investment of funds, and bonded and other indebtedness. Other appendices include a Summary of Legal Documents (Appendix C), Form of the Bond Counsel Opinion (Appendix D), DTC and the Book-Entry Only System (Appendix E), and the Form of the Continuing Disclosure Certificate (Appendix F).

In accordance with the Disclosure Practices Working Group (DPWG) Controls and Procedures, a Financing Group convened to assist in the preparation of the POS and identify material to be solicited from various City departments. The Financing Group consists of: the Disclosure Counsel; the City Attorney's Office; and staff from the Debt Management Department, Comptroller's Office, Financial Management Department, and Real Estate Assets Department. Other City departments involved in the POS preparation include the Risk Management Department, Human Resources Department, Transportation and Storm Water Department, Public Works Department, Office of the City Treasurer, and Economic Development Department. All of the aforementioned City departments have provided pertinent information for inclusion in the POS and were available to address questions from the Disclosure Counsel, DPWG, the Underwriters and their Counsel. Representatives from the underwriting syndicate, consisting of Senior Manager, Co-Senior Manager, Co-Managers, and the Underwriter's Counsel have reviewed the POS.

After a comprehensive review, DPWG approved the POS. 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 2018A Bonds, and the 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.

Contingent upon favorable market conditions for an advance refunding generating net present value savings of 4% or above, the POS for the 2018A Bonds will be released to potential investors and the pricing and sale of bonds will be completed. Staff will continue to monitor the refunding opportunity and market conditions for favorable savings levels and will issue the Council authorized POS to sell refunding bonds on an expedited schedule.

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

Goal #1: Provide high quality public service

Objective #1: Promote a customer-focused culture that prizes accessible, consistent, and predictable delivery of services

Fiscal Considerations:

Total bond proceeds of approximately \$130 million, together with the monies released from the Series 2010A debt service reserve fund and funds that will be on hand with the Trustee for the September 1, 2018 debt service payment for the 2010A Bonds, will be applied to refund the Series 2010A Bonds and pay for financing costs of issuance. Staff will continue to monitor the market with the Municipal Advisor of the transaction. If the savings levels are below the target at the planned time of pricing, the pricing may be delayed until the market improves. Also see above, and Attachment 1: Staff Report dated January 16, 2018 (revised January 22, 2018).

Environmental Impact:

This activity is not a "project" and is therefore not subject to CEQA pursuant to State CEQA Guidelines Section §15060(c)(3).

Equal Opportunity Contracting Information (if applicable):

This agreement is subject to the City's Equal 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 January 30, 2018, City Council approved Resolution No. R-311526 and the first reading of Ordinance No. O-20903, and on February 13, 2018, City Council adopted the Ordinance, thereby authorizing the issuance of the 2018A Bonds and certain other related actions. Concurrent with the City Council February 13 authorization, the PFFA approved Resolution No. FA-2018-2, which also authorized the issuance of the 2018A Bonds.

Key Stakeholders and Community Outreach Efforts:

Business entities involved with the financing and associated POS include KNN Public Finance, LLC (Municipal Advisor); Stradling, Yocca, Carlson & Rauth, P.C. (Bond and Disclosure Counsel); Wells Fargo National Association (Trustee/Escrow Agent); Citigroup Global Markets, Wells Fargo Securities, Hutchinson, Shockey, Erley & Co., and Blaylock Van, LLC (Underwriting Syndicate).

Lakshmi Kommi

Debt Management Director

Rolando Charvel

Chief Financial Officer

Attachment 1: Staff Report dated January 16, 2018 (revised January 22, 2018)



The City of San Diego

Staff Report

DATE ISSUED: January 16, 2018 (Revised January 22, 2018)

TO: City Council

FROM: Debt Management

SUBJECT: Authorization for the City of San Diego Public Facilities Financing Authority Lease Revenue Refunding Bonds, Series 2018

Primary Contact: Lakshmi Kommi Phone: (619) 236-6928

Secondary Contact: Elizabeth Kelly Phone: (619) 236-6932

Council District(s): All

OVERVIEW:

This Action proposes the issuance of the Public Facilities Financing Authority of the City of San Diego Lease Revenue Refunding Bonds, Series 2018 (the "Series 2018 Bonds") to refund the outstanding Public Facilities Financing Authority of the City of San Diego Lease Revenue Refunding Bonds, Series 2010A (the "Series 2010A Bonds") to generate annual cash flow savings for the City's General Fund.

PROPOSED ACTIONS:

1. Approve, via ordinance, the issuance of the Series 2018 Bonds in a principal amount not to exceed \$140 million and the execution of related financing documents to refund the outstanding Series 2010A Bonds. The related financing documents include the form of the Fourth Amendment to the Site Lease, the form of the Fourth Amendment to the Facilities Lease, the form of the Fourth Supplemental Indenture, the form of the Escrow Agreement, and the form of the Continuing Disclosure Certificate.
2. Authorize, via resolution, the City Attorney to retain Stradling, Yocca, Carlson & Rauth, to serve as Bond and Disclosure Counsel for the Series 2018 Bonds, and approve the form of the Bond Purchase Agreement; and,
3. Authorize the Chief Financial Officer to establish one or more special interest bearing account(s) for the proceeds of the Series 2018 Bonds.

STAFF RECOMMENDATION:

Approve the requested actions.

DISCUSSION OF ITEM:

I. Background

The proposed Series 2018 Bonds will refund the outstanding Series 2010A Bonds. The Series 2010A Bonds refunded the Deferred Capital Improvements Lease Revenue Bonds, Series 2009A (the "2009A CIP Bonds"), the Lease Revenue Bonds Series 1996A (San Diego Jack Murphy Stadium) (the "1996A Stadium Bonds"), and the Refunding Certificates of Participation, Series 1996B (the "1996B COPs") (together, the "Original Bonds"). The Series 2010A Bonds were issued in the amount of \$167.6 million. Following the March 1, 2018 debt service payment date, an aggregate \$132.6 million of Series 2010A Bonds will remain outstanding. Following is background information relating to each of the Original Bonds.

2009A CIP Bonds

The 2009A CIP Bonds were issued as a short term, interim financing measure to finance priority General Fund capital improvements for the City's streets, storm drains, buildings, and facilities. The Series 2010A Bonds refunded the notes and converted the 2009A CIP Bonds to long term bonds. Following the March 1, 2018 debt service payment date, the outstanding principal amount of the Series 2010A Bonds attributable to the 2009A CIP Bonds will be \$95.2 million.

1996A Stadium Bonds

The 1996A Stadium Bonds were issued by the City to finance the costs of certain improvements relating to the San Diego Jack Murphy Stadium (subsequently renamed Qualcomm Stadium, and then SDCCU Stadium). The Series 2010A Bonds current refunded the 1996A Stadium Bonds. Following the March 1, 2018 debt service payment date, the outstanding principal amount of the Series 2010A Bonds attributable to the 1996A Stadium Bonds will be \$34.0 million.

1996B COPs

The 1996B COPs were issued to advance refund the Certificates of Participation (Balboa Park and Mission Bay Park Capital Improvements Program), Series 1991, which funded certain improvements in Balboa Park and Mission Bay Park. The Series 2010A Bonds current refunded the 1996B COPs. Following the March 1, 2018 debt service payment date, the outstanding principal amount of the Series 2010A Bonds attributable to the 1996B COPs will be \$3.4 million.

Given the current favorable interest rate conditions in the municipal market, coupled with the potential for rate increases in the future, it is recommended the City conduct the economic refunding of the Series 2010A Bonds to lock in lower rates and achieve economic savings. While certain of the Original Bonds comprising the 2010A Bonds were eligible for an "advance refunding,"¹ *the recent federal tax reform bill eliminated, specifically, all tax-exempt advance refundings, effective for*

¹An advance refunding is utilized when refunding bonds are issued more than 90 days prior to the date the bonds can be called. In this case, proceeds from the refunding bonds are placed in an escrow fund in an amount sufficient, along with interest earnings, to pay scheduled debt service payments on the refunded bonds until the bonds are eligible to be called, and to redeem all remaining bonds on the call date.

bonds issued after December 31, 2017. The City could still conduct the refunding on a taxable basis and realize economic savings because there is no prohibition to conduct advance refundings on a taxable basis. Taxable interest rates are currently at low levels. As such, staff is proposing to issue the refunding bonds on a taxable basis provided the savings result in net present value savings ("NPV savings") of 4% and above as identified under the refunding guidelines in the City's Debt Policy. Alternately, if interest rates move higher, with savings levels not meeting the necessary thresholds, the City would have the option to wait until June 2020 at which point a tax-exempt "current refunding"² could be conducted under the proposed ordinance authority.

Under current market conditions for taxable bonds, the NPV savings level is expected to be at 5.6% for the proposed refunding. If interest rates were to remain at current levels until the transaction is eligible to be current refunded on a tax-exempt basis (i.e., June 2020), a current refunding will provide NPV savings of approximately 15.5%. (The lower savings for taxable bonds are a consequence of the higher interest rates charged for taxable bonds relative to tax-exempt bonds.) Given there is an expectation that interest rates will be rising in the near future, it is unlikely that tax exempt rates will remain at the current levels in 2020. Staff will continue to monitor rates and consult with its Municipal Advisor regarding an optimal timing for the transaction. In addition, consistent with a refunding evaluation threshold commonly used by the market, NPV savings is expected to be greater than the amount of negative arbitrage. (Negative arbitrage arises in today's market because the interest rate earned in the refunding escrow fund is lower than the interest rate on the refunding bonds.)

If 4% or above NPV savings are projected to be realized, staff will conduct the advance refunding on a taxable basis soon after the City Council approvals are received. Annual debt service savings produced by the refunding would benefit the General Fund. If NPV savings decline below 4%, the transaction will be postponed until such time conditions improve.

The proposed financing ordinance would allow staff to implement a taxable refunding in one or more series between now and 2020 or a tax-exempt refunding beginning in June 2020 as described above. In all cases, a preliminary official statement (POS) would be docketed for City Council approval just prior to the bond pricing and execution.

II. Summary of the Proposed Series 2018 Bonds

- **Issuer:** Public Facilities Financing Authority of the City of San Diego.
- **Not to Exceed Amount:** \$140 million. Partial or Full refunding.
- **Method of Sale:** Public Offering; Negotiated Sale.
- **Tax Status:** Taxable or tax-exempt.
- **Structure:** Lease Revenue Refunding Bonds issued under amendments to the 2012 Master Lease and Indenture (see below).

² A current refunding is one in which the refunding bonds are issued within 90 days or less from the date upon which the refunded bonds will be redeemed.

- **Repayment Source:** Payable from General Fund.
- **Final Maturity:** October 2039. The stated final maturity of the proposed Series 2018 Bonds is five months shorter than the Series 2010A Bonds (March 2040). The portions of the Series 2018 Bonds related to each of the Original Bonds will have the same final maturities as under the Series 2010A Bonds, except the 2009A CIP Bonds which mature five months earlier:
 - o 2009A CIP Bonds - 21 year remaining term (through 2039)
 - o 1996A Stadium Bonds - 9 year remaining term (through 2027)
 - o 1996B COPs - 4 year remaining term (through 2022)
- **Debt Service Reserve Fund:** Currently, the Series 2010A Bonds carry a debt service reserve fund with approximately \$6.5 million in cash. The \$6.5 million will be released from the Series 2010A Bonds and applied as a source of funds for the refunding. It is more cost effective to reduce the issuance size of the refunding bonds which increases the cashflow savings (on average, cash flow savings increase by \$400,000 per year due to the release). No adverse effect on the credit ratings or interest rates is anticipated from issuing refunding bonds without a trustee held debt service reserve fund.

III. Legal Structure

The Public Facilities Financing Authority of the City of San Diego (the "Authority") is the issuer of the Series 2018 Bonds. In 2012, the City issued 2012A&B Bonds under a Master Site Lease and a Master Facilities Lease (together the "Master Lease"), and a Master Indenture. Under this structure, the documents allow for future bonds to be issued through supplements to each of the documents. In addition to the 2012 Bonds, the City also issued bonds in 2013 and 2015 under supplements to provide for capital improvements and to refund existing General Fund obligations. The proposed Series 2018 Bonds will also be issued as a fourth supplement to the Master Lease and Master Indenture.

Leased Properties

The Master Lease involves a lease by the Authority to the City of existing City-owned properties and the MTS Site (the "Leased Properties"). Concurrent with the refunding, a portion of properties currently leased under the Series 2010A Bonds will be transferred and added to the 2012 Master Lease's existing pool of assets pledged for the 2012, 2013, and 2015 Bonds. The number of properties and market value within the Series 2010A Bonds that are necessary to support the Series 2018 Bonds is dependent on the refunding bond issue size and resulting debt service and will be determined in consultation with the bond counsel and the City Real Estate Assets Department. *In order to accomplish this proposed refunding, additional General Fund assets are not required other than those already encumbered under the Master Lease and for the Series 2010A Bonds.*

The three series of deferred capital lease revenue bonds outstanding under the Master Indenture and certain other lease financings, including the 1996A Stadium Bonds and 1996B COPs, were issued by leveraging existing City General Fund assets using an asset transfer lease arrangement. Pooling assets in a common lease helps strengthen the Indenture and adds diversity and value for bond holders. Essential properties such as libraries, police stations, and fire stations, necessary for

core operations of the City, or revenue generating ground leases, are generally considered as strong assets by the rating agencies and investors in a lease revenue bond offering.

The properties leased under the Series 2010A Bonds include the following: Police Headquarters; Rose Canyon Operations Station; Northwestern Division Police Station; Dana Inn and Marina; Islandia Hyatt Regency; and Paradise Point Resort.

Of the properties currently leased under the Series 2010A Bonds, it is anticipated that the Police Headquarters and the Islandia Hyatt Regency site (ground lease) will be moved into the 2012 Master Lease to accomplish the refunding. This merges the proposed refunding obligations into the 2012 Master Lease, which, as described above, already includes various deferred capital bond series with various general fund assets supporting the lease structure.

As required under a lease financing structure, the maximum annual debt service payable by the City on the lease revenue bonds issued under the Master Lease, including the Series 2018 Bonds, will not be in excess of the combined annual fair rental value of the Leased Properties. The City properties added for the Series 2018 Bonds are leased until the final maturity of the Series 2018 Bonds, unless modified under conditions set forth in the legal documents.

IV. Financing Approval and Documents

The proposed financing ordinance authorizes the issuance of the Series 2018 Bonds, in one or more series in an amount not to exceed \$140 million. The financing ordinance authorizes the refunding to be executed on a taxable basis between now and 2020, or on a tax-exempt basis in 2020. The financing proceeds will be applied solely to refund the outstanding Series 2010A Bonds and pay for the costs of issuance.

The approval of the financing by the City Council includes authorization of the legal documents described below.

- 1.) Form of the Fourth Amendment to Master Site Lease ("Site Lease") - The Site Lease is the agreement between the City and the Authority under which the City leases the City owned Leased Properties to the Authority. The amendment will identify the assets added to the Leased Properties (i.e., transferred from the Series 2010A Bonds) to support the Series 2018 Bonds.
- 2.) Form of the Fourth Amendment to Master Facilities Lease ("Facilities Lease") - The Facilities Lease is the agreement between the City and the Authority under which the City leases the Leased Properties back from the Authority. The amendment will identify the assets added to the Leased Properties (i.e., transferred from the Series 2010A Bonds) to support the Series 2018 Bonds. The lease payments made by the City are equal to the principal and interest payments on the bonds issued by the Authority. The Facilities Lease contains certain covenants of the City, including that it will take the necessary action to include all lease payments due under the lease in the City's operating budget each year.
- 3.) Form of the Fourth Supplemental Indenture - The Master Indenture is an agreement between the Authority and the Trustee for the bonds. The Master Indenture as supplemented previously and by the Fourth Supplemental Indenture (the "Indenture")

provides for the issuance of the bonds, and includes information regarding the amount of the bonds, the maturities and interest rates on the bonds, the use of bond proceeds, and the nature of the security for the bonds (i.e., that the bonds are limited obligations of the Authority payable from lease payments). The Indenture also sets forth terms, including the specific rights, responsibilities, and obligations of each party with respect to the issuance of the bonds. Under the Indenture, the Authority assigns its rights to receive lease payments under the Facilities Lease to the Trustee to make debt service payments to bondholders.

- 4.) Form of the Continuing Disclosure Certificate ("CDC") - The CDC details the City's ongoing obligation to file annual reports consisting of General Fund prior fiscal year financial and operating information and certain listed events with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access system for the benefit of the bondholders.
- 5.) Form of the Bond Purchase Agreement ("BPA") - The BPA is an agreement among the City, the Authority, and the Underwriters for the transaction pursuant to which the Authority agrees to sell, and the Underwriters agree to buy the bonds. It specifies the purchase price of the bonds, and certain terms of the bonds, such as interest rates and maturities. The agreement also specifies documents that the parties must receive prior to bond closing, including the Bond Counsel opinion regarding the validity of the bonds (and the tax exemption, if sold as tax-exempt) as well as certain opinions and certificates of the City Attorney and other City and Authority officials. Such opinions and certificates would confirm, among other things, that all steps necessary to authorize the execution of the financing documents and the issuance of the bonds have been properly taken.
- 6.) Form of Escrow Agreement - The Escrow Agreement between the Authority and the Trustee provides for the deposit of moneys in the escrow account to pay all debt service on the Series 2010A Bonds to the first eligible redemption date of the Series 2010A Bonds in 2020 and to redeem all Series 2010A Bonds on September 1, 2020. The agreement sets forth the manner in which funds are to be invested pending their expenditure and a schedule of debt service payments to be made with respect to the bonds being refunded.

V. Financing Time Line

Following are the critical milestones related to the execution of the Series 2018 Bonds, assuming market conditions continue to support a taxable advance refunding, including the authorization of the financing ordinance and the POS.

January 2018	Introduction & approval (two readings) of the financing ordinance authorizing the issuance of the Series 2018 Bonds, a resolution authorizing the BPA, and the financing documents
	Authority approval of the Series 2018 Bonds
March 2018	City Council approval of the disclosure document (POS) for Series 2018 Bonds
	Pricing and Closing

VI. Financing Team

The Financing Team consists of staff of the Department of Finance, including the Chief Financial Officer and staff of the Debt Management Department, the Comptroller's Office, the Treasurer's Office, Risk Management Department, and the Financial Management Department. The Financing Team also includes staff of the Real Estate Assets Department, and the City Attorney's Office. External members, selected based on a competitive procurement process, include:

- Municipal Advisor: KNN Public Finance, LLC
- Underwriting Syndicate:
 - Citigroup Global Markets Inc. – Senior Manager
 - Wells Fargo Securities – Co-Senior Manager
 - Hutchinson, Shockey, Erley & Co. – Co-Manager
 - Blaylock Van LLC – Co-Manager
- Transaction Bond/Disclosure Counsel: Stradling, Yocca, Carlson & Rauth, P.C.
- Trustee/Escrow Agent: Wells Fargo Bank National Association

The actions include a resolution authorizing the City Attorney to retain Stradling, Yocca, Carlson & Rauth to serve as Bond and Disclosure Counsel for the Series 2018 Bonds and pay an amount not to exceed \$70,000, including expenses, contingent upon bond closing and payable from bond proceeds.

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

Goal # 1: Provide high quality public service.

Objective # 1: Promote a customer-focused culture that prizes accessibility, consistent, and predictable delivery of services.

Fiscal Considerations:

The pricing of the proposed Series 2018 Bonds is currently anticipated to occur in mid-March 2018 and would be subject to market conditions. Under current market conditions for an economic refunding on a taxable basis, total bond proceeds of approximately \$130 million, together with the monies released from the Series 2010A Bonds debt service reserve fund, and funds on hand with the trustee for the September 1, 2018 debt service payment for the Series 2010A Bonds, will be applied to refund the Series 2010A Bonds and pay for financing costs of issuance. The following table indicates the projected sources and uses, based on January 2018 market conditions for a taxable transaction.

Estimated Sources and Uses*

Sources	(In Millions)
Bond Proceeds	\$130.0
Funds on Hand ⁽¹⁾	6.5
Release of Prior Debt Service Reserve Fund	6.5
Total Sources	\$143.0
Uses	
Escrow Fund to refund Prior Bonds ⁽²⁾	\$142.4
Costs of Issuance ⁽³⁾	.6
Total Uses	\$143.0

*Preliminary; subject to change. Based on taxable interest rates as of January 4, 2018.

- (1) Includes funds payable in advance to the trustee, on February 25, 2018, for the September 1, 2018 debt service payment on the Series 2010A Bonds.
- (2) Includes debt service on the Series 2010A Bonds to the call date (September 1, 2020) and redemption of remaining principal on the call date, net of escrow earnings.
- (3) Includes fees for bond and disclosure counsel, the underwriting syndicate's eligible costs and takedown fees, municipal advisor fees, credit rating fees, bidding agent fees, verification agent fees, trustee fees, title insurance costs, and disclosure document printing fees. The costs will be paid for from the bond proceeds, which is permitted under the bond offering guidelines.

The estimated taxable All-in True Interest Cost (All-in TIC) on the Series 2018 Bonds based on January 2018 market conditions is approximately 3.67%; the estimated annual lease payment would be approximately \$11.1 million in Fiscal Years 2019 through 2022; \$10.4 million in Fiscal Years 2023 through 2027; and \$6.4 million in Fiscal Years 2028 through 2040. In comparison, the All-in TIC for the Series 2010A Bonds is 5.06%, and the annual lease payment is approximately \$13.0 million in Fiscal Years 2019 through 2022; \$12.1 million in Fiscal Years 2024 through 2027; and \$7.3 million in Fiscal Years 2028 through 2040. This translates into anticipated average annual cash flow savings of approximately \$1.3 million. Cumulative gross cash flow savings to the General Fund is estimated to be approximately \$28.2 million over the remaining 22 year term of the bond issue. The net present value savings is estimated at 5.6%. The following table provides a financing comparison between the Series 2010A Bonds and the proposed Series 2018 Bonds.

	Series 2010A Bonds	Series 2018 Economic Refunding (Est.)	Annual Savings
Bond Proceeds	\$169.6 million	\$130.0 million	
Annual Lease Payment: ⁽¹⁾			
FY 2019 - 2022	\$13.0 million	\$11.1 million	\$1.9 million
FY 2023 - 2027	\$12.1 million	\$10.4 million	\$1.7 million
FY 2028 - 2040	\$ 7.3 million	\$ 6.4 million	\$.9 million
All-in TIC	5.06%	3.67%	
Final Maturity	March 2040	October 2039	
Total Debt Service ⁽²⁾	\$207.4 million	\$179.2 million	

(1) Annual lease payments decrease as 1996B COPS and 1996A Stadium portions of transaction mature in 2022 and 2027 respectively.

(2) For the Series 2010A Bonds, the Total Debt Service figure reflects the amount remaining following the payment of debt service due March 1, 2018.

Environmental Impact:

"This activity is not a "project" and is therefore not subject to CEQA pursuant to State CEQA Guidelines Section §15060(c) (3)."

Equal Opportunity Contracting Information (if applicable):

This agreement is subject to the City's Equal Opportunity Outreach Program (San Diego Ordinance No.18173, Section 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:

N/A

Key Stakeholders and Community Outreach Efforts:

Business entities involved in the proposed financings include KNN Public Finance, LLC (Municipal Advisor); Stradling, Yocca, Carlson & Rauth, P.C. (Bond & Disclosure Counsel); Wells Fargo National Association (Trustee/Escrow Agent); Citigroup Global Markets, Wells Fargo Securities, Hutchinson, Shockey, Erley & Co., and Blaylock Van LLC (Underwriting Syndicate).

Public Notice – Senate Bill No. 450

The following information is made available in accordance with recently enacted California legislation (Senate Bill No. 450) to provide certain public disclosures related to the proposed financing. The refunding bonds are anticipated to be sold in March 2018 subject to achieving the necessary NPV savings level established in the financing ordinance. *All figures are estimates and are subject to bond sale and market conditions:*

- A.) True Interest Cost of the Series 2018 Bonds: 3.67%
- B.) Finance Charge of the Series 2018 Bonds calculated as the sum of all fees and charges paid to third parties: \$592,000
 - i. Costs of Issuance: \$ 350,000
 - ii. Underwriting Syndicate Takedown Fee: \$ 242,000
- C.) Net Proceeds of Series 2018 Bonds: \$129,970,000
 - 1. There is an existing debt service reserve fund for the Series 2010A Bonds (\$6.5 million). The \$6.5 million will be released from the Series 2010A Bonds and applied as a source of funds for the refunding.
 - 2. There are additional funds that will be on hand with the trustee (scheduled to be transferred to the trustee in February 2018) for the September 1, 2018 debt service payment for the Series 2010A Bonds (\$6.5 million). The \$6.5 million will be used as a source of funds for the refunding.

D.) Total Payment Amount (estimated sum total of all payments to pay debt service through the expected final maturity (2039) of the bonds): \$179,157,000

Lakshmi Kommi

Debt Management Director

Rolando Charvel

Chief Financial Officer

PUBLIC FACILITIES FINANCING AUTHORITY
OF THE CITY OF SAN DIEGO

RESOLUTION NUMBER FA-2018-3

ADOPTED ON APRIL 24, 2018

RESOLUTION OF THE BOARD OF COMMISSIONERS OF THE PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO APPROVING THE FORM AND AUTHORIZING THE DISTRIBUTION OF THE PRELIMINARY OFFICIAL STATEMENT AND AUTHORIZING THE EXECUTION, DELIVERY AND DISTRIBUTION OF THE OFFICIAL STATEMENT IN CONNECTION WITH THE ISSUANCE AND SALE BY THE PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO OF ITS LEASE REVENUE REFUNDING BONDS SERIES 2018A; AND APPROVING OTHER DOCUMENTS AND ACTIONS IN CONNECTION THEREWITH

WHEREAS, the City of San Diego (City), the Successor Agency to the Redevelopment Agency of the City of San Diego, and the Housing Authority of the City of San Diego have heretofore entered into a Third Amended and Restated Joint Exercise of Powers Agreement dated January 1, 2013 (the Joint Powers Agreement), which created and established the Public Facilities Financing Authority of the City of San Diego (the Authority) for the purpose, among others, of issuing its bonds to be used to provide financial assistance to the City to finance and refinance public capital improvements; and

WHEREAS, pursuant to Article 4 of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (Act) and the Joint Powers Agreement, the Authority is authorized to issue bonds for financing and refinancing public capital improvements whenever there are significant public benefits; and

WHEREAS, the City Council (the Council) has in Ordinance No. 20903 (the Bond Ordinance) requested the Authority to issue, in one or more series, its Lease Revenue Refunding

Bonds Series 2018A (Series 2010A Refunding) (the 2018 Bonds) in a total aggregate principal amount not to exceed \$140,000,000 to refinance the costs of the acquisition, design, construction, installation, improvement, replacement and equipping of certain capital improvement projects of the City that were previously refinanced by the Authority through the issuance of its \$167,635,000 Lease Revenue Refunding Bonds, Series 2010A (Master Refunding Project) (the 2010A Bonds); and

WHEREAS, the Authority has previously entered into an Indenture, dated as of July 1, 2012, as supplemented and amended (the Indenture), with Wells Fargo Bank, National Association, as trustee, to provide for the issuance of bonds pursuant to the terms of the Indenture to finance and refinance public capital improvements for the City and has previously issued several series of bonds (the Prior Bonds) for such purpose and the 2018 Bonds will be issued under the Indenture as Additional Bonds secured on a parity with the Prior Bonds; and

WHEREAS, the Authority previously adopted its Resolution No. FA-2018-2 which authorizes the issuance of the 2018 Bonds pursuant to the Indenture; and

WHEREAS, there has been presented to this meeting a proposed form of Preliminary Official Statement relating to the 2018 Bonds (Preliminary Official Statement), a copy of which is on file in the office of the City Clerk as Document No. _____, which will be used in marketing the 2018 Bonds; and

WHEREAS, the Authority is authorized to undertake the actions described in this Resolution pursuant to the laws of the State of California; NOW, THEREFORE,

BE IT RESOLVED by the Board of Commissioners of the Public Facilities Financing Authority of the City of San Diego as follows:

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

2. The form and content of the proposed Preliminary Official Statement substantially in the form presented to and considered at this meeting, are hereby approved, with such changes thereto as of the Chair of the Authority or Vice Chair of the Authority and each of them or any of their respective designees (each, an Authorized Signatory) may require or approve, such approval to be conclusively evidenced by the execution of the certificate described below by an Authorized Signatory. Each Authorized Signatory is hereby severally authorized and directed, for and in the name of and on behalf of the Authority, to execute and deliver an official statement with respect to the 2018 Bonds (the Official Statement), in substantially the form of the final Preliminary Official Statement, with such changes thereto as such Authorized Signatory executing and delivering such document shall determine to be necessary and desirable and shall require or approve and believes to be in the best interests of the Authority and the City, such requirement or approval to be conclusively evidenced by the execution and delivery thereof. The use and distribution of electronic or physical copies of the Preliminary Official Statement and the Official Statement to persons who may be interested in the purchase of 2018 Bonds is hereby authorized and approved. Each Authorized Signatory, acting alone, is hereby authorized to certify on behalf of the Authority that the Preliminary Official Statement is deemed final as of its date, within the meaning of Rule 15c2-12 promulgated by the Securities and Exchange Commission (except for the omission of certain information as permitted by such Rule).

3. All actions heretofore taken by any Authorized Signatory or by any officers, employees or agents of the Authority with respect to: (i) the issuance, delivery, or sale of the 2018 Bonds; (ii) the refunding of the 2010A Bonds; or (iii) the Preliminary Official Statement,

are hereby approved, confirmed and ratified. Any Authorized Signatory, the Secretary of the Authority, the General Counsel to the Authority and other officers, employees, agents and directors of the Authority are, and each of the foregoing acting alone or through their specified designee is, hereby authorized and directed, for and in the name and on behalf of the Authority, to do any and all things and take any and all actions, including, without limitation, payment of 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 advisable to consummate the transactions evidenced by the documents referenced herein in accordance with the Bond Ordinance and this Resolution.

4. This Resolution shall take effect immediately upon its adoption.

[Remainder of Page Left Intentionally Blank]

ADOPTED, SIGNED AND APPROVED this 24th day of April, 2018, by the following
vote:

AYES: _____

NAYS: _____

ABSENT: _____

VACANT: _____

ABSTAIN: _____

PUBLIC FACILITIES FINANCING AUTHORITY
OF THE CITY OF SAN DIEGO

Myrtle Cole, Chair, Board of Commissioners

Attest:

Secretary to Board of Commissioners

NEW ISSUE — FULL BOOK-ENTRY-ONLY

Fitch: “—”
S&P: “—”
See “RATINGS”

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California (“Bond Counsel”), under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest on the 2018 Bonds is not excluded from gross income for federal income tax purposes but is exempt from State of California personal income tax. See “TAX MATTERS” herein.

\$ _____
**PUBLIC FACILITIES FINANCING AUTHORITY
OF THE CITY OF SAN DIEGO
LEASE REVENUE REFUNDING BONDS
SERIES 2018A
(SERIES 2010A REFUNDING)
(FEDERALLY TAXABLE)**

Dated: Date of Delivery
cover

Due: _____ 15, as shown on the inside

This cover contains certain information for general reference only. It is not a summary of this issue. Investors must read the entire Official Statement, including the Appendices, to obtain information essential to making an informed investment decision.

The Public Facilities Financing Authority of the City of San Diego (the “Authority”) is issuing \$_____ aggregate principal amount of its Lease Revenue Refunding Bonds, Series 2018A (Federally Taxable) (the “2018 Bonds”) pursuant to the Indenture, dated as of July 1, 2012 (the “Master Indenture”), as amended and supplemented by the First Supplemental Indenture, dated as of July 1, 2013 (the “First Supplemental Indenture”), the Second Supplemental Indenture, dated as of April 1, 2015 (the “Second Supplemental Indenture”), the Third Supplemental Indenture, dated as of April 1, 2015 (the “Third Supplemental Indenture”), and the Fourth Supplemental Indenture, dated as of _____, 2018 (the “Fourth Supplemental Indenture”) and, together with the First Supplemental Indenture, the Second Supplemental Indenture, the Third Supplemental Indenture and the Master Indenture, the “Indenture”), each by and between the Authority and Wells Fargo Bank, National Association, as trustee (the “Trustee”).

The 2018 Bonds are being issued to (i) refund the Authority’s outstanding Lease Revenue Refunding Bonds, Series 2010A (Master Refunding Project) (the “2010A Bonds”); and (ii) pay costs of issuance incurred in connection with the issuance of the 2018 Bonds. See “PLAN OF FINANCE.”

The 2018 Bonds are being issued as fully registered bonds, without coupons, registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York (“DTC”). Individual purchases of the 2018 Bonds will be made in book-entry form only, in the principal amount of \$5,000 or any multiple thereof. Interest on the 2018 Bonds will be payable on April 15 and October 15 of each year, commencing October 15, 2018. See “THE 2018 BONDS.”

The 2018 Bonds are payable from revenues derived from Base Rental Payments paid by the City for the use and occupancy of the Leased Property (each as defined in the Lease (defined below) as long as the City has such use and occupancy of the Leased Property, and amounts on deposit in the Revenue Fund and the Redemption Fund established under the Indenture, all as set forth in the Indenture. The Base Rental Payments are subject to abatement under certain circumstances. There is no debt service reserve fund for the 2018 Bonds. The Authority has leased certain property to the City pursuant to the Facilities Lease, dated as of July 1, 2012 (the “Master Facilities Lease, as amended and supplemented by the First Amendment to Facilities Lease, dated as of July 1, 2013 (the “First Amendment to Facilities Lease”), the Second Amendment to Facilities Lease, dated as of April 1, 2015 (the “Second Amendment to Facilities Lease”), the Third Amendment to Facilities Lease, dated as of April 1, 2015 (the “Third Amendment to Facilities Lease”), and will lease additional real property to the City pursuant to the Fourth Amendment to Facilities Lease, dated as of _____, 2018 (the “Fourth Amendment to Facilities Lease” and, together with the Master Facilities Lease, the First Amendment to Facilities Lease, the Second Amendment to Facilities Lease and the Third Amendment to Facilities Lease, the “Lease”). The 2018 Bonds are also payable from certain insurance or condemnation awards, if any, payable under the Lease to the Trustee. The 2018 Bonds are payable on a parity with six series of bonds currently outstanding under the Master Indenture and any additional bonds issued under the Indenture in the future. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2018 BONDS” and “CERTAIN RISK FACTORS.”

The 2018 Bonds are subject to optional, mandatory sinking fund, and special mandatory redemption, as more fully set forth herein. See “THE 2018 BONDS – Redemption Provisions.”

THE 2018 BONDS ARE SPECIAL, LIMITED OBLIGATIONS OF THE AUTHORITY SECURED SOLELY BY THE REVENUES AND OTHER AMOUNTS PLEDGED UNDER THE INDENTURE, AND DO NOT CONSTITUTE A DEBT, LIABILITY OR OBLIGATION OF THE CITY, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS, AND NEITHER THE FAITH AND CREDIT OF THE CITY NOR THE STATE ARE PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE 2018 BONDS. THE AUTHORITY HAS NO TAXING POWER. THE 2018 BONDS DO NOT CONSTITUTE INDEBTEDNESS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION WITH RESPECT TO THE CITY OR ANY OTHER POLITICAL SUBDIVISION OR GOVERNMENTAL ENTITY.

The 2018 Bonds are offered when, as and if issued and received by the Underwriters, subject to the opinion on certain legal matters relating to their issuance by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, as Bond Counsel and Disclosure Counsel to the City and the Authority. Certain additional legal matters will be passed upon for the City and the

Authority by the City Attorney, and for the Underwriters by their counsel, Norton Rose Fulbright US LLP. It is anticipated that the 2018 Bonds will be available for delivery through the facilities of DTC in book-entry form on or about _____, 2018.

Citigroup

Wells Fargo Securities

Hutchinson, Shockey, Erley & Co.

Blaylock Van, LLC

Dated: _____, 2018

MATURITY SCHEDULE

**\$ _____
PUBLIC FACILITIES FINANCING AUTHORITY
OF THE CITY OF SAN DIEGO
LEASE REVENUE REFUNDING BONDS**

**SERIES 2018A
(SERIES 2010A REFUNDING)
(FEDERALLY TAXABLE)
(BASE CUSIP NUMBER: _____)¹**

<i>Maturity Date (October 15)</i>	<i>Principal Amount</i>	<i>Interest Rate</i>	<i>Yield²</i>	<i>Price²</i>	<i>CUSIP¹</i>
--	--------------------------------	-----------------------------	---------------------------------	---------------------------------	---------------------------------

\$ _____ % Term Bond due _____, 20____, Yield²: _____%; Price²: _____; CUSIP¹ _____

^C Priced to the first optional redemption date of _____ 15, 20____, at par.

¹ CUSIP® is a registered trademark of the American Bankers Association. CUSIP Global Services ("CGS") is managed on behalf of the American Bankers Association by S&P Capital IQ. Copyright© 2018 CUSIP Global Services. All rights reserved. This data is not intended to create a database and does not serve in any way as a substitute for CGS. CUSIP® numbers are provided for convenience of reference only. None of the City, the Authority, Bond Counsel, Disclosure Counsel, the Underwriters, Underwriters' Counsel or the Municipal Advisor assume any responsibility for the accuracy of such numbers.

² Reoffering yields/prices are furnished by the Underwriters. Neither the Authority nor the City takes any responsibility for the accuracy thereof.

[UPDATE AS NEEDED]

CITY OF SAN DIEGO

MAYOR

Kevin L. Faulconer

CITY COUNCIL

**(Which also serves as the Board of Commissioners of the
Public Facilities Financing Authority of the City of San Diego)**

Barbara Bry	(District 1)	Mark Kersey	(District 5)
City Council President Pro Tem		Chris Cate	(District 6)
Lorie Zapf	(District 2)	Scott Sherman	(District 7)
Chris Ward	(District 3)	David Alvarez	(District 8)
Myrtle Cole	(District 4)	Georgette Gomez	(District 9)
City Council President			

CITY ATTORNEY

Mara W. Elliott

CITY OFFICIALS

Kris Michell, *Chief Operating Officer*
Rolando Charvel, *Chief Financial Officer*
Gail R. Granewich, *City Treasurer*
Eduardo Luna, *City Auditor*
[Scott Clark, *Interim City Comptroller*]
Andrea Tevlin, *Independent Budget Analyst*
Elizabeth S. Maland, *City Clerk*

BOND COUNSEL AND DISCLOSURE COUNSEL

Stradling Yocca Carlson & Rauth, a Professional Corporation

MUNICIPAL ADVISOR

KNN Public Finance, LLC

TRUSTEE AND ESCROW AGENT

Wells Fargo Bank, National Association

VERIFICATION AGENT

Causey Demgen & Moore, P.C.

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 2018 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 2018 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.

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 a part of, their 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.

The information in APPENDIX E — “DTC AND 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 2018 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.

In connection with this offering, the Underwriters may overallocate or effect transactions which stabilize or maintain the market prices of the 2018 Bonds at levels above those which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriters may offer and sell the 2018 Bonds to certain dealers, institutional investors and others at prices lower or yields higher than the public offering prices or yields stated on the inside front cover hereof, and said public offering prices may be changed from time to time by the Underwriters.

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.

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
General.....	1
Authority; Purpose for Issuance	1
The Lease Payments and the Leased Property.....	2
Security for the Bonds; Limited Obligations of Authority	3
Additional Bonds.....	3
Bondholders' Risks.....	3
Cautionary Statement Regarding Forward-Looking Statements	3
Other Information in This Official Statement.....	4
THE 2018 BONDS	4
General Terms	4
Redemption Provisions	4
DTC and the Book-Entry Only System	7
PLAN OF REFUNDING	8
ESTIMATED SOURCES AND USES OF FUNDS	8
DEBT SERVICE SCHEDULE.....	8
SECURITY AND SOURCES OF PAYMENT FOR THE 2018 BONDS	10
General.....	10
Base Rental Payments; Additional Payments	10
Covenant to Budget	10
Limited Obligation of City	11
Abatement of Lease Payments.....	11
No Debt Service Reserve Fund.....	12
Parity Bonds	12
Additional Bonds.....	13
Repair and Maintenance; Taxes and Assessments; Insurance; Modification of the Leased Property	13
Fire and Extended Coverage Insurance	14
Use and Occupancy Insurance	15
CSAC-EIA Pool.....	15
Title Insurance	15
Substitution, Removal or Addition of Leased Property	16
Eminent Domain	16
Investment of Funds under the Indenture	16
THE LEASED PROPERTY	16
General.....	16
Public Safety Facilities	17
Ground Lease Sites	18
Library Facilities.....	20
Other Facilities.....	20
Existing Encumbrances on Leased Property.....	23
THE AUTHORITY	23
THE CITY	23
CERTAIN RISK FACTORS	23
Limited Obligations of the Authority	23
Limited Obligations of the City	24
Abatement.....	24
No Limitation on Incurring Additional Obligations	25
Earthquake and Seismic Conditions	25
Risks of Flood.....	26
Other Natural Disasters.....	26

Climate Change	26
Constitutional and Statutory Limitations on Increase of Revenues	27
Limited Recourse on Default; Re-Letting of Leased Property	27
Enforcement of Remedies.....	27
No Acceleration on Default	28
Risk Management and Insurance	28
Environmental Concerns.....	28
Fuel Tanks	29
Change in Law	29
Bankruptcy of the City.....	29
Impact of Military Spending.....	30
Impact of Economic Conditions on the City.....	31
CONTINUING DISCLOSURE.....	31
Continuing Disclosure Compliance	31
FINANCIAL STATEMENTS FOR FISCAL YEAR 2017.....	32
TAX MATTERS.....	32
LITIGATION	32
CERTAIN LEGAL MATTERS	33
RATINGS	33
UNDERWRITING	33
MUNICIPAL ADVISOR	34
VERIFICATION	34
MISCELLANEOUS	34
APPENDIX A	CITY GOVERNMENT AND FINANCIAL INFORMATION.....A-1
APPENDIX B	DEMOGRAPHIC AND ECONOMIC INFORMATION REGARDING THE CITY B-1
APPENDIX C	SUMMARY OF LEGAL DOCUMENTS
APPENDIX D	FORM OF BOND COUNSEL OPINION
APPENDIX E	DTC AND THE BOOK-ENTRY ONLY SYSTEM..... E-1
APPENDIX F	FORM OF CONTINUING DISCLOSURE CERTIFICATE

OFFICIAL STATEMENT

\$ _____
**PUBLIC FACILITIES FINANCING AUTHORITY
OF THE CITY OF SAN DIEGO
LEASE REVENUE REFUNDING BONDS
SERIES 2018A
(FEDERALLY TAXABLE)**

INTRODUCTION

This Introduction contains only a brief summary of certain terms of the 2018 Bonds being offered hereby and other material information. All statements contained in this Introduction are qualified in their entirety by reference to the entire Official Statement, including the Appendices. References to, and summaries of, provisions of the City Charter, the Constitution and 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 thereof. This Official Statement speaks only as of its date, and the information contained herein is subject to change.

General

This Official Statement, which includes the cover page, inside cover page, and appendices hereto (the “Official Statement”), is provided for the purpose of setting forth information concerning the issuance and sale by the Public Facilities Financing Authority of the City of San Diego (the “Authority”) of \$ _____ aggregate principal amount of its Lease Revenue Refunding Bonds, Series 2018A (Federally Taxable) (the “2018 Bonds”). Capitalized terms not otherwise defined herein have the meanings given in the Indenture and the Lease (hereinafter defined) or in APPENDIX C — “SUMMARY OF LEGAL DOCUMENTS.”

Authority; Purpose for Issuance

The 2018 Bonds are authorized under the provisions of Article 4 of the California Joint Exercise of Powers Act (commencing with Section 6500) constituting Chapter 5 of Division 7 of Title 1 of the California Government Code (the “Act”) and the laws of the State of California. The Series 2018A Bonds are being issued pursuant to the Indenture, dated as of July 1, 2012 (the “Master Indenture”), as amended and supplemented by the First Supplemental Indenture, dated as of July 1, 2013 (the “First Supplemental Indenture”), the Second Supplemental Indenture, dated as of April 1, 2015 (the “Second Supplemental Indenture”), the Third Supplemental Indenture, dated as of April 1, 2015 (the “Third Supplemental Indenture”), and the Fourth Supplemental Indenture, dated as of _____, 2018 (the “Fourth Supplemental Indenture” and, together with the Master Indenture, the First Supplemental Indenture, the Second Supplemental Indenture and the Third Supplemental Indenture, the “Indenture”), each by and between the Authority and Wells Fargo Bank, National Association, as trustee (the “Trustee”).

The 2018 Bonds are being issued to (i) refund all of the Authority’s outstanding Lease Revenue Refunding Bonds, Series 2010A (Master Refunding Project) (the “2010A Bonds”); and (ii) pay costs of issuance incurred in connection with the issuance of the 2018 Bonds. See “PLAN OF REFUNDING.”

Pursuant to the Master Indenture, the Authority previously issued six series of Lease Revenue Bonds in the aggregate principal amount of \$247,565,000 (the “Prior Bonds”). The Prior Bonds, the 2018 Bonds and any Additional Bonds (hereinafter defined) issued pursuant to a Supplemental Indenture are collectively referred to herein as the “Bonds.” The Prior Bonds are, and any Additional Bonds will be, payable on a parity with the 2018 Bonds from Revenues pledged under the Indenture which consist primarily of Base Rental Payments made by the City under the Lease for the use and occupancy of the Leased Property (defined below). As of March 31, 2018, the principal amount of the Prior Bonds outstanding was \$223,070,000.

The Lease Payments and the Leased Property

The City, exercising its powers under the City Charter (the “Charter”) to convey and lease property, has leased certain real property (including land and in certain cases the buildings and other improvements thereon) owned by the City in connection with the issuance of the Prior Bonds, and in connection with the issuance of the 2018 Bonds, will lease additional real property owned by the City described herein (collectively, the “City Property”) to the Authority pursuant to the Site Lease, dated as of July 1, 2012 (the “Master Site Lease”), as amended and supplemented by the First Amendment to Site Lease, dated as of July 1, 2013 (the “First Amendment to Site Lease”), the Second Amendment to Site Lease, dated as of April 1, 2015 (the “Second Amendment to Site Lease”), the Third Amendment to Site Lease, dated as of April 1, 2015 (the “Third Amendment to Site Lease”), and the Fourth Amendment to Site Lease, dated as of _____, 2018 (the “Fourth Amendment to Site Lease” and, together with the Master Site Lease, the First Amendment to Site Lease, the Second Amendment to Site Lease and the Third Amendment to Site Lease, the “Site Lease”), each by and between the City and the Authority. The Authority has previously leased from the San Diego Metropolitan Transit System (“MTS”) certain interests in real property of MTS (the “MTS Property”) pursuant to and as described in the MTS Site Lease, dated as of July 1, 2013 (the “MTS Site Lease”), by and between MTS and the Authority. The City Property and the MTS Property (collectively, the “Leased Property”) will be leased to the City pursuant to the Facilities Lease, dated as of July 1, 2012 (the “Master Facilities Lease”), as amended and supplemented by the First Amendment to Facilities Lease, dated as of July 1, 2013 (the “First Amendment to Facilities Lease”), the Second Amendment to Facilities Lease, dated as of April 1, 2015 (the “Second Amendment to Facilities Lease”), the Third Amendment to Facilities Lease, dated as of April 1, 2015 (the “Third Amendment to Facilities Lease”), and the Fourth Amendment to Facilities Lease, dated as of _____, 2018 (the “Fourth Amendment to Facilities Lease” and, together with the Master Facilities Lease, the First Amendment to Facilities Lease, the Second Amendment to Facilities Lease and the Third Amendment to Facilities Lease, the “Lease”), each by and between the Authority and the City. It is expected that the MTS Property will be released from the provisions of the Lease and MTS Facility Lease on October 15, 2022. Additionally, there may be substitutions, removal and additions to the Leased Property under the Lease, the Site Lease and the MTS Site Lease. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2018 BONDS — Substitution, Removal or Addition of Leased Property.”

On or before each Lease Payment Date (occurring on April 10 and October 10 of each year) during the term of the Lease, the City is required to pay to the Trustee the Base Rental Payments due on such Lease Payment Date from the City’s General Fund, or from other legally available sources. The Trustee, as assignee of the Authority, will receive the Base Rental Payments for the benefit of the Owners of the Bonds and credit such Base Rental Payments to the Revenue Fund established pursuant to the Indenture. Under the Lease, the City covenants to take such action as may be necessary to include all Base Rental Payments payable under the Lease in its operating budget for each fiscal year and make the necessary annual appropriations therefor. The Lease provides that such covenants of the City are deemed by the City to be and will be construed to be ministerial duties imposed by law. The Bonds, including the 2018 Bonds, are not secured by any security interest in or mortgage on the Leased Property or any other real property.

During any period in which material damage, destruction, title defect or condemnation of all or a portion of the Leased Property results in substantial interference with the use and occupancy of the Leased Property or any portion thereof, such that the annual fair rental value of the portion of the Leased Property available for use and occupancy by the City is less than the annual Lease Payments due under the Lease, all or a portion of such Base Rental Payments will be abated such that the remaining Base Rental Payments due under the Lease in any Lease Year do not exceed the annual fair rental value for the use of the portion of the Leased Property not affected.

In the event of any such interruption of use and occupancy, the Lease will continue in full force and effect and proceeds of use and occupancy insurance, if any, will be used to pay Base Rental Payments that would otherwise be abated. Abatement of Base Rental Payments under such circumstances is not an event of default under the Lease. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2018 BONDS –

Abatement of Lease Payments,” “CERTAIN RISK FACTORS — Abatement” and APPENDIX C — “SUMMARY OF LEGAL DOCUMENTS – THE LEASE – Rental Payments – Rental Abatement.”

Security for the Bonds; Limited Obligations of Authority

The Bonds, including the 2018 Bonds, are limited obligations of the Authority secured under the Indenture solely by a pledge of Revenues (defined below) and moneys held in the Redemption Fund under the Indenture and by an assignment and security interest in the Authority’s rights (except for certain rights to indemnification) under the Site Lease and the Lease. The Revenues are pledged to the payment of all of the Bonds on a parity basis. The Revenues consist of (a) all Base Rental Payments, prepayments, insurance proceeds and condemnation proceeds with respect to the Leased Property, and (b) the Revenue Fund and all interest and other income deposited, pursuant to the Indenture, in the Revenue Fund.

There is no debt service reserve fund for the Bonds.

Additional Bonds

The Authority may at any time issue Additional Bonds pursuant to a Supplemental Indenture, payable from the Revenues as provided in the Indenture and secured by a pledge of and charge and lien upon the Revenues and other security pledged under the Indenture equal to the pledge, charge and lien securing the Bonds, subject to the conditions precedent set forth in the Indenture. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2018 BONDS – Additional Bonds.”

Bondholders’ Risks

There are a number of risks associated with the purchase of the 2018 Bonds. See “CERTAIN RISK FACTORS” for a discussion of some of these risks.

Cautionary Statement Regarding 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 believed by the City to be reasonable, there can be no assurance that such expectations will prove to be correct in whole or in part. Neither the Authority nor the City is obligated to issue any updates or revisions to the forward-looking statements if or when expectations, events, conditions or circumstances on which such statements are based do or do not occur.

The presentation of information in APPENDIX A — “CITY GOVERNMENT AND FINANCIAL INFORMATION,” including tables of receipt of revenues, is intended to show recent historical information (except as otherwise indicated), and the City disclaims any representation that any of such information may indicate future or continuing trends in the financial condition, results of operations or any other affairs of the City. No representation is made that past experience, results of operations or financial condition, as it might be shown by such financial and other information, will continue or be repeated in the future. References in this Official Statement to any particular fiscal year (*e.g.*, Fiscal Year 2017) shall mean the fiscal year ending on June 30 of the referenced year.

Other Information in This Official Statement

For important information regarding the City's budget and finances, see APPENDIX A — "CITY GOVERNMENT AND FINANCIAL INFORMATION." In addition, certain demographic, financial and other information with respect to or affecting the City is contained elsewhere in APPENDIX A — "CITY GOVERNMENT AND FINANCIAL INFORMATION," in APPENDIX B — "DEMOGRAPHIC AND ECONOMIC INFORMATION REGARDING THE CITY" and in the City's Comprehensive Annual Financial Report ("CAFR") for Fiscal Year 2017, which includes the City's audited basic financial statements as of and for the fiscal year ended June 30, 2017. The CAFR is available through the Municipal Securities Rulemaking Board's Electronic Municipal Market Access system ("EMMA") at <https://emma.msrb.org/ES1102564-ES861572-ES1262710.pdf>, and is incorporated by reference herein and constitutes a part of this Official Statement.

Brief descriptions of the 2018 Bonds, the Indenture, the Lease, the Site Lease, the MTS Site Lease and other documents and information are included in this Official Statement, including the Appendices hereto. Such descriptions and information do not purport to be comprehensive or definitive, and are qualified in their entirety by reference to the documents summarized, copies of which may be obtained upon request to Wells Fargo Bank, National Association, 333 South Grand Ave, 5th Floor, Los Angeles, California, 90071; Corporate Trust Department, Phone: (213) 253-7517, Fax: (213) 253-7598.

THE 2018 BONDS

General Terms

The 2018 Bonds will be dated, and accrue interest from, the date of their delivery and will bear interest at the rates per annum and mature in the amounts and on the dates shown on the inside cover page of this Official Statement. The 2018 Bonds will be issued as fully registered bonds, without coupons, registered in the name of Cede & Co., as nominee of the Depository Trust Company, New York, New York ("DTC"). Individual purchases of the 2018 Bonds will be made in book-entry form only in the principal amount of \$5,000 or any multiple thereof. Interest on the 2018 Bonds will be payable on April 15 and October 15 of each year, commencing October 15, 2018 (each, an "Interest Payment Date"). The Trustee will make payments of the principal of and interest on the 2018 Bonds directly to DTC, or its nominee, Cede & Co., so long as DTC or Cede & Co., or other affiliate or nominee of DTC, is the registered owner of the 2018 Bonds. See APPENDIX E — "DTC AND THE BOOK-ENTRY ONLY SYSTEM."

Redemption Provisions

Optional Redemption. The 2018 Bonds maturing on or after October 15, 20__ shall be subject to optional redemption, in whole or in part, on any date on or after October 15, 20__, from any available source of funds of the City, at a redemption price equal to the principal amount of the 2018 Bonds to be redeemed, together with accrued interest thereon to the date fixed for redemption, without premium. Any such redemption will be in such order of maturity as the City will designate in a written notice (and, if no specific order of redemption is designated by the City, *pro rata* among maturities).

Mandatory Sinking Fund Redemption. The 2018 Bonds maturing on October 15, 20__ are also subject to mandatory redemption prior to their stated maturity, in part by lot, from sinking account payments derived from scheduled Base Rental Payments made by the City and deposited in the 2018 Bonds Sinking Account, on each sinking fund redemption date for such 2018 Bonds commencing October 15, 20__, at a redemption price equal to the principal amount thereof to be redeemed plus interest accrued thereon to the dates fixed for mandatory redemption, without premium, according to the following schedule:

***Sinking Fund
Redemption Date
(October 15)***

***Principal Amount to be
Redeemed***

*

* Maturity date.

Provided, however, that if some but not all of the 2018 Bonds maturing on _____ 15, 20__, (the “2018 Term Bonds”) have been optionally redeemed as described above, the total amount of all future sinking account payments with respect to such redeemed 2018 Term Bonds will be reduced by the aggregate principal amount of such 2018 Term Bonds so redeemed, to be allocated among the sinking account payments for such 2018 Term Bonds as are thereafter payable as nearly as practicable on a *pro rata* basis in integral multiples of \$5,000 to the extent possible and in inverse order thereafter.

Special Mandatory Redemption from Insurance and Condemnation Proceeds. The 2018 Bonds will be subject to redemption as a whole or in part on any date, to the extent the Trustee has received hazard or title insurance proceeds or condemnation proceeds not used to repair or replace any portion of the Leased Property damaged, destroyed or taken and elected by the City to be used for such purpose as provided in the Indenture, at a redemption price equal to the principal amount thereof, together with interest accrued thereon to the date fixed for redemption, without premium.

Selection for Redemption. Notwithstanding the Master Indenture, if the 2018 Bonds are not registered in book-entry only form, any redemption of less than all of the 2018 Bonds of a maturity will be effected by the Trustee among owners on a *pro-rata* basis, based on integral multiples of \$5,000.

If the 2018 Bonds are registered in book-entry only form and so long as DTC or a successor securities depository is the sole registered owner of the 2018 Bonds, if less than all of the 2018 Bonds of a maturity are called for prior redemption, the particular 2018 Bonds or portions thereof to be redeemed shall be selected on a “*Pro Rata* Pass-Through Distribution of Principal” basis in accordance with DTC procedures, provided that, so long as the 2018 Bonds are held in book-entry form, the selection for redemption of such 2018 Bonds shall be made in accordance with the operational arrangements of DTC then in effect and if the DTC operational arrangements do not allow redemption on a *Pro Rata* Pass-Through Distribution of Principal basis, the 2018 Bonds will be selected for redemption in accordance with DTC procedures by lot and in integral multiples of \$5,000.

It is the Authority’s intent that redemption allocations made by DTC, the DTC Participants or such other intermediaries that may exist between the Authority and the Beneficial Owners with respect to redemptions of 2018 Bonds be made on a “*Pro Rata* Pass-Through Distribution of Principal” basis as described above. However, the Authority can provide no assurance that DTC, the DTC Participants or any other intermediaries will allocate redemptions among Beneficial Owners on such basis. If the DTC operational arrangements do not allow for the redemption of the 2018 Bonds on a *Pro Rata* Pass-Through Distribution of Principal basis as discussed above, then the 2018 Bonds, as applicable, will be selected for redemption in accordance with DTC procedures by lot.

Notice of Redemption. Notice of redemption will be mailed by the Trustee by first class mail, postage prepaid, not less than 30 nor more than 60 days before any redemption date, to the respective Owners of any 2018 Bonds designated for redemption at their addresses appearing on the Registration Books, and to the Securities Depositories by means acceptable to such institutions. Each notice of redemption will state the name of the 2018 Bonds (including series) to be redeemed, the date of the notice, the redemption date, the place or places of redemption, whether less than all of the 2018 Bonds (or all 2018 Bonds of a single maturity) are to be redeemed, the CUSIP numbers and (in the event that not all 2018 Bonds within a maturity and series are called for redemption) bond numbers of the 2018 Bonds to be redeemed, the maturity or maturities of the 2018 Bonds to be redeemed and in the case of 2018 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 the redemption date there will become due and payable on each of said 2018 Bonds the redemption price thereof, and that from and after such redemption date interest thereon will cease to accrue, and will require that such 2018 Bonds be then surrendered. Neither the failure to receive any notice nor any defect therein will affect the sufficiency of the proceedings for such redemption or the cessation of accrual of interest from and after the redemption date.

Notwithstanding the foregoing, in the case of any optional redemption of the 2018 Bonds, the notice of redemption will state that the redemption is conditioned upon receipt by the Trustee of sufficient moneys to redeem the 2018 Bonds on the anticipated redemption date, and that the optional redemption will not occur if, by no later than the scheduled redemption date, sufficient moneys to redeem the 2018 Bonds have not been deposited with the Trustee. In the event that the Trustee does not receive sufficient funds by the scheduled optional redemption date to so redeem the 2018 Bonds, such event will not constitute an Event of Default, the Trustee will send written notice to the Owners and to the Securities Depositories to the effect that the redemption did not occur as anticipated, and the 2018 Bonds for which notice of optional redemption was given will remain Outstanding.

The City will have the right to rescind any optional or special mandatory redemption by written notice to the Trustee on or prior to the date fixed for redemption. The Trustee will mail notice of rescission of redemption in the same manner notice of redemption was originally provided.

Purchase in Lieu of Optional Redemption. Purchase in lieu of redemption will be available to all 2018 Bonds called for optional redemption or for such lesser portion of such 2018 Bonds as constitute authorized denominations. The City may direct the Trustee (or another agent appointed by the City to make such purchase on behalf of the City) to purchase all or such lesser portion of the 2018 Bonds called for optional redemption. Any such direction to the Trustee must: (i) be in writing; (ii) state either that all the 2018 Bonds called for redemption therein identified are to be purchased or, if less than all of the 2018 Bonds called for redemption are to be purchased, identify those 2018 Bonds to be purchased by maturity date and outstanding principal amount in authorized denominations; and (iii) be received by the Trustee no later than 12:00 noon one Business Day prior to the scheduled redemption date thereof.

If so directed, the Trustee will purchase such 2018 Bonds on the date which otherwise would be the redemption date of such 2018 Bonds. Any of the 2018 Bonds called for redemption that are not purchased in lieu of redemption will be redeemed as otherwise required by the Indenture on such redemption date.

On or prior to the scheduled redemption date, any direction given to the Trustee as described above may be withdrawn by the City by delivering a written certificate to the Trustee. Subject generally to the terms of the Indenture, should a direction to purchase be withdrawn, the scheduled redemption of such 2018 Bonds will occur.

If the purchase is directed by the City, the purchase will be made for the account of the City or its designee. The purchase price of the 2018 Bonds purchased in lieu of redemption will be equal to the outstanding principal of, accrued and unpaid interest on and the redemption premium, if any, which would have been payable on such 2018 Bonds on the scheduled redemption date for such redemption. To pay the purchase price of such 2018 Bonds, the Trustee will use money deposited by the City with the Trustee for such

purpose. The Trustee will not purchase the 2018 Bonds in lieu of optional redemption if, by no later than the redemption date, sufficient moneys have not been deposited with the Trustee or such moneys are deposited, but are not available.

No notice of the purchase in lieu of optional redemption is required to be given to the Owners (other than the notice of redemption otherwise described above under the subcaption “– *Notice of Redemption*”).

Purchase in Lieu of Redemption of Term Bonds. The City will have the option, in lieu of sinking fund redemption of any Term Bonds, to direct the Trustee to use and withdraw amounts on deposit as sinking account payments for such Term Bonds, at any time for the purchase by the City (or the Trustee on behalf of the City) of Term Bonds otherwise required to be redeemed on the following sinking fund redemption date, at public or private sale as and when and at such prices (including brokerage and other charges and including accrued interest) as the City may in its discretion determine. The par amount of any Term Bonds so purchased by the City and surrendered to the Trustee for cancellation in any twelve-month period ending on the sinking fund redemption date will be credited towards and will reduce the par amount of such Term Bonds otherwise required to be redeemed on such sinking fund redemption date pursuant to mandatory sinking account payment (and corresponding mandatory redemption obligation), as set forth in the Indenture.

The City will also have the option to deliver for cancellation to the Trustee Term Bonds in any aggregate principal amount, and to receive a credit therefor against the mandatory sinking account payment (and corresponding mandatory redemption obligation). This option will be exercised by the City on or before the 35th day preceding the applicable mandatory sinking fund redemption date, by furnishing to the Trustee a written certificate setting forth the extent of the credit to be applied with respect to the mandatory sinking account payment for the specified Term Bonds. If the written certificate is not furnished timely to the Trustee, no credit will be made against that mandatory sinking account payment (and corresponding mandatory redemption obligation), although credits may be available against subsequent mandatory sinking account payments.

To the extent not applied theretofore as a credit against any mandatory sinking account payment (and corresponding mandatory redemption obligation) described in the preceding paragraph, such a credit will also be received by the City for Term Bonds which prior thereto have been purchased or redeemed other than through the operation of the mandatory sinking account payment or have been purchased for cancellation and cancelled by the Trustee.

Each Term Bond so delivered, redeemed previously, or purchased and cancelled, will be credited by the Trustee at 100% of the principal amount thereof against the mandatory sinking account payment, subject to the completion of the procedures described above. Any excess of that amount over the then current mandatory sinking account payment will be credited against subsequent mandatory sinking account payments starting with the next subsequent such payment, unless otherwise directed by the City in a written certificate.

DTC and the Book-Entry Only System

DTC will act as securities depository for the 2018 Bonds. The 2018 Bonds will be registered in the name of Cede & Co. (DTC’s partnership nominee), and will be available to ultimate purchasers (the “Beneficial Owners”) only under the book-entry system maintained by DTC in the denomination of \$5,000 or any integral multiple thereof. Beneficial Owners of 2018 Bonds will not receive physical certificates representing their interest in the 2018 Bonds. So long as the 2018 Bonds are registered in the name of Cede & Co., as nominee of DTC, references herein to the Owners of the 2018 Bonds will mean Cede & Co., and will not mean the Beneficial Owners of the 2018 Bonds. Payments by the Trustee of the principal of and interest on the 2018 Bonds and any notice with respect to any 2018 Bond will be sent directly to DTC, or its nominee, Cede & Co., so long as DTC or Cede & Co. is the registered owner of the 2018 Bonds. Disbursements of such payments and delivery of such notices to DTC’s Participants are the responsibility of DTC and disbursements of such payments and delivery of such notices to the Beneficial Owners are the responsibility of DTC’s

Participants and Indirect Participants. See APPENDIX E — “DTC AND THE BOOK-ENTRY ONLY SYSTEM.”

PLAN OF REFUNDING

The Authority expects to apply the proceeds of the 2018 Bonds to advance refund all of the outstanding 2010A Bonds. The Authority will deposit a portion of the proceeds of the 2018 Bonds and other available funds relating to the 2010A Bonds into an escrow fund established under the escrow agreement, dated as of _____ 1, 2018 by and between the Authority and Wells Fargo Bank, National Association, as escrow agent (the “Escrow Agent”), in an amount which, together with interest earnings thereon, is projected to be sufficient to pay the principal and interest due on the 2010A Bonds to and including September 1, 2020 and to redeem all 2010A Bonds maturing thereafter on September 1, 2020 at a redemption price equal to the principal amount to be redeemed. See “VERIFICATION.”

ESTIMATED SOURCES AND USES OF FUNDS

The sources of funds to be received from the sale of the 2018 Bonds and the proposed uses of the 2018 Bond proceeds are estimated to be in the amounts shown below.

TOTAL

SOURCES OF FUNDS

Principal Amount

Prior Funds⁽¹⁾

Total Sources

USES OF FUNDS

Deposit to Escrow Fund

Costs of Issuance⁽²⁾

Total Uses

⁽¹⁾ Prior funds held under the indenture for the 2010A Bonds which consist of amounts in the debt service reserve fund and prefunded lease payments held by the Trustee.

⁽²⁾ Includes fees and costs associated with the issuance of the 2018 Bonds, including, but not limited to, trustee fees, Underwriters’ discount, Municipal Advisor fees and expenses, bond counsel fees and expenses, disclosure counsel fees and expenses, rating agency fees, title insurance costs, verification agent fees and appraisal fees.

DEBT SERVICE SCHEDULE

The following table summarizes the debt service requirements of the outstanding Prior Bonds and the 2018 Bonds, assuming no optional or special mandatory redemptions.

[Remainder of Page Intentionally Left Blank]

<i>Date</i>	<i>Debt Service on Outstanding Prior Bonds⁽²⁾</i>	<i>2018 Bonds</i>		<i>Total 2018 Bonds Debt Service</i>	<i>Aggregate Parity Debt Service⁽¹⁾</i>
		<i>Principal</i>	<i>Interest</i>		
04/15/2018	\$ 6,508,462.51				
10/15/2018	10,423,137.51				
04/15/2019	6,412,987.51				
10/15/2019	10,531,487.51				
04/15/2020	6,305,212.51				
10/15/2020	10,632,662.51				
04/15/2021	6,202,412.51				
10/15/2021	10,746,412.51				
04/15/2022	6,088,287.51				
10/15/2022	10,865,337.51				
04/15/2023	5,970,062.51				
10/15/2023	9,908,412.51				
04/15/2024	5,872,612.51				
10/15/2024	9,259,437.51				
04/15/2025	5,785,862.53				
10/15/2025	9,346,162.51				
04/15/2026	5,700,431.26				
10/15/2026	9,427,662.51				
04/15/2027	5,615,762.51				
10/15/2027	9,536,050.01				
04/15/2028	5,512,431.26				
10/15/2028	9,630,875.01				
04/15/2029	5,414,081.26				
10/15/2029	9,745,075.01				
04/15/2030	5,313,309.38				
10/15/2030	9,853,565.63				
04/15/2031	5,198,896.88				
10/15/2031	9,976,603.13				
04/15/2032	5,081,921.88				
10/15/2032	9,382,365.63				
04/15/2033	4,259,753.13				
10/15/2033	9,513,003.13				
04/15/2034	4,131,562.50				
10/15/2034	9,647,937.50				
04/15/2035	3,997,231.25				
10/15/2035	9,786,606.25				
04/15/2036	3,852,106.25				
10/15/2036	9,939,481.25				
04/15/2037	3,705,575.00				
10/15/2037	10,100,700.00				
04/15/2038	3,546,487.50				
10/15/2038	10,264,187.50				
04/15/2039	3,379,481.25				
10/15/2039	10,440,268.75				
04/15/2040	3,205,106.25				
10/15/2040	10,623,868.75				
04/15/2041	3,022,756.25				
10/15/2041	10,819,381.25				
04/15/2042	2,826,712.50				
10/15/2042	8,721,200.00				
04/15/2043	328,250.00				
10/15/2043	6,728,250.00				
04/15/2044	168,250.00				
10/15/2044	6,898,250.00				
TOTAL	\$ 386,154,387.80				

⁽¹⁾ Represents total debt service on the Prior Bonds and the 2018 Bonds, but does not include any payments on any other outstanding bonds or outstanding lease obligations of the City or the Authority, which, like the Bonds, are payable from lease payments by the City made from its General Fund. See APPENDIX A — “CITY GOVERNMENT AND FINANCIAL INFORMATION – BONDED AND OTHER INDEBTEDNESS – Long-Term Obligations” and “– Other Obligations” for a description of City’s other outstanding lease obligations.

⁽²⁾ As of March 31, 2018.

SECURITY AND SOURCES OF PAYMENT FOR THE 2018 BONDS

General

The 2018 Bonds are special, limited obligations of the Authority and do not constitute a debt, liability or obligation of the City or of the State or any of its political subdivisions and neither the faith and credit of the City nor the State are pledged to the payment of the principal of or interest on the 2018 Bonds. The Authority has no taxing power.

The 2018 Bonds will be secured solely by a pledge of Revenues and certain moneys, funds and accounts pledged to the payment of all Bonds outstanding under the Indenture and by an assignment and security interest in the Authority's rights (except for certain rights to indemnification) under the Site Lease and the Lease. The 2018 Bonds will be secured under the Indenture on a parity with the outstanding Prior Bonds and any Additional Bonds issued in the future. The Revenues consist of (a) all Base Rental Payments (described below), prepayments, insurance proceeds, and condemnation proceeds with respect to the Leased Property and (b) the Revenue Fund and all interest and other income deposited in the Revenue Fund.

The Base Rental Payments will be paid by the City, from the City's General Fund or from other legally available sources, to the Trustee in an amount sufficient to pay the principal of and interest on the Prior Bonds and the 2018 Bonds, on each Interest Payment Date and redemption date. The Authority may, from time to time, enter into supplemental indentures without the consent of the owners of the Outstanding Bonds for the purpose of issuing Additional Bonds, payable from Revenues as provided in the Indenture and secured by a pledge of such Revenues and other security pledged thereunder on a parity with the pledge securing the Outstanding Bonds, subject to certain specific conditions set forth in the Indenture. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Additional Bonds."

Base Rental Payments; Additional Payments

On or before each Lease Payment Date (occurring on April 10 and October 10 of each year) during the term of the Lease, the City is required to pay to the Trustee the Base Rental Payments due on such date from the City's General Fund, or from other legally available sources, subject to abatement as discussed under "Abatement of Lease Payments" below. The Trustee, as assignee of the Authority, will receive the Base Rental Payments for the benefit of the Owners of the Bonds and credit such Base Rental Payments to the Revenue Fund established pursuant to the Indenture. The Trustee will apply the Revenues held in the Revenue Fund on each Interest Payment Date to pay principal and interest due on such date on the Bonds.

Under the Lease, in addition to the Base Rental Payments payable thereunder, the City has agreed to pay Additional Payments consisting of such amounts, if any, in each year as will be required for the payment of all costs and expenses incurred by the Authority in connection with the execution, performance or enforcement of the Site Lease or the Lease, including but not limited to all fees, costs and expenses and all administrative costs of the Authority relating to the Leased Property and indemnification of the Trustee. The Base Rental Payments and Additional Payments, collectively, constitute the "Lease Payments."

Under the Lease, such payments of Base Rental Payments and Additional Payments for each Lease Year or portion thereof during the term of the Lease will constitute the total rental for such Lease Year or portion thereof and will be paid or payable by the City from funds of the City lawfully available therefor for and in consideration of the right of the use and occupancy of, and the continued quiet use and enjoyment of, the Leased Property by the City for and during such Lease Year.

Covenant to Budget

The City has covenanted in the Lease to take such action as may be necessary to include all Lease Payments payable by the City thereunder in its operating budget for each Fiscal Year and to make the

necessary annual appropriations for all such Lease Payments. The Lease provides that such covenants on the part of the City are deemed to be and will be construed to be ministerial duties imposed by law, and it will be the duty of the applicable officials of the City to take such action and do such things as are required by law in the performance of the official duty of such official to enable the City to carry out and perform the covenants and agreements in the Lease.

The Charter requires the City Council to approve the annual budget no later than June 15 of each fiscal year. The annual budget is enacted by the City Council with the adoption of the annual Appropriation Ordinance in July. The Charter provides for continuing appropriation of the prior year's appropriations until a new Appropriation Ordinance is adopted. This would allow the Chief Financial Officer to continue to make Base Rental Payments once such payments have been budgeted and appropriated in the event that the City Council fails to timely adopt the Appropriation Ordinance. For a discussion of financial and budgetary information relating to the City's General Fund, see APPENDIX A — "CITY GOVERNMENT AND FINANCIAL INFORMATION."

Limited Obligation of City

The obligation of the City to make Base Rental Payments under the Lease does not constitute an obligation to levy or pledge, or for which the City has levied or pledged, any form of taxation. The obligation of the City to make Base Rental Payments and Additional Payments does not constitute indebtedness of the City, the State or any of its political subdivisions within the meaning of any constitutional or statutory debt limitation or restriction. See "CERTAIN RISK FACTORS – Limited Obligations of the City.

Abatement of Lease Payments

Except to the extent of (i) amounts held by the Trustee under the Indenture in the Interest Account and Principal Account of the Revenue Fund, (ii) amounts received in respect of use and occupancy insurance, and (iii) amounts, if any, otherwise legally available to the Trustee for payments in respect of the Bonds, during any period in which, by reason of material damage, destruction, title defect or condemnation, there is substantial interference with the use and occupancy by the City of any portion of the Leased Property, rental payments due under the Lease with respect to the Leased Property will be abated to the extent that the annual fair rental value of the portion of the Leased Property in respect of which there is no substantial interference is less than the annual Lease Payments, in which case rental payments will be abated only by an amount equal to the difference between the annual Lease Payments and the annual fair rental value.

In the case of abatement relating to the Leased Property, the amount of annual rental abatement will be such that the resulting Base Rental Payments in any Lease Year during which such interference continues, excluding any amounts described in clauses (i), (ii), (iii) above, do not exceed the annual fair rental value for each Lease Year of the portions of the Leased Property with respect to which there has not been substantial interference, as evidenced by a certificate of an Authorized Representative of the City. Such abatement will continue for the period commencing with the date of such damage, destruction, title defect or condemnation and ending with the restoration of the Leased Property or portion thereof to tenantable condition or correction of title defect or substantial completion of the work of repair or replacement of the portions of the Leased Property so damaged, destroyed, defective or condemned. See "CERTAIN RISK FACTORS – Abatement," and APPENDIX C — "SUMMARY OF LEGAL DOCUMENTS – THE LEASE – Rental Payments – *Rental Abatement*."

In order to help mitigate the risk that an abatement event will cause a disruption in payment of Lease Payments, the Lease requires the City to maintain, or cause to be maintained, use and occupancy insurance against loss of use caused by hazards covered by property insurance (see "— Fire and Extended Coverage Insurance" below) (excluding the Ground Lease Sites) in an amount sufficient to pay the Base Rental Payments attributable to the Leased Property for a twenty-four month period; provided, that the amount of such insurance need not exceed the total remaining Base Rental Payments. See "SECURITY AND SOURCES

OF PAYMENT FOR THE BONDS – Fire and Extended Coverage Insurance” and “– Use and Occupancy Insurance” below.

During any period of abatement with respect to all or any part of the Leased Property, the Trustee is required to use the proceeds of the use and occupancy insurance to make payments of principal of and interest on the Outstanding Bonds. In the event that such funds are insufficient to make all payments with respect to the 2018 Bonds during the period that the Leased Property, or portion thereof, is being restored, then all or a portion of such payments may not be made and no remedy is available to the Trustee or the Owners under the Lease or Indenture for nonpayment under such circumstances. **Failure to pay principal, premium, if any, or interest on to the 2018 Bonds as a result of abatement of the City’s obligation to make Base Rental Payments under the Lease is not an event of default under the Indenture or the Lease.** In the event that Base Rental Payments are abated due to damage caused by earthquake or flood, such abatement may continue indefinitely, as no insurance for such damages is required under the Lease and the City cannot be compelled to repair or replace the damaged Leased Property or to redeem the Bonds. In lieu of abatement of Lease Payments, the City in its sole discretion may elect, but is not obligated, to substitute property for the damaged, condemned or destroyed Leased Property, or portion thereof, pursuant to the substitution provisions of the Lease. See “– Substitution, Removal or Addition of Leased Property” below.

The City participates in the joint purchase of insurance through the CSAC-EIA Pool (as defined below), which includes flood insurance and use and occupancy insurance for all of the City Property (excluding the Ground Lease Sites) but does not include earthquake insurance or use and occupancy insurance in the event of an earthquake. MTS also participates in the joint purchase of insurance through the CSAC-EIA Pool, which includes flood insurance for the MTS Property and use and occupancy insurance, but does not include any earthquake coverage or use and occupancy insurance in the event of an earthquake. See “– CSAC-EIA Pool” below and APPENDIX A — “CITY GOVERNMENT AND FINANCIAL INFORMATION – RISK MANAGEMENT – Property and Flood Insurance” and “– Earthquake Insurance.” **None of the Leased Property other than the San Diego Police Headquarters is covered by earthquake insurance. The City is not required to obtain flood insurance for the Leased Property pursuant to the Lease, and MTS is not required to obtain flood insurance for the MTS Property pursuant to the MTS Site Lease. The City or, with respect to the MTS Property, MTS, in its discretion, may elect at any time to modify the designation of covered properties in the future, in which case it is possible that none of the Leased Property will be covered by flood insurance, and in which case in the event of loss of use from flood, no such insurance funds will be available to make Base Rental Payments.**

No Debt Service Reserve Fund

Neither the Authority nor the City will establish or maintain a debt service reserve fund for the 2018 Bonds and there is no debt service reserve fund for the Prior Bonds. Amounts held or to be held in a debt service reserve fund or account established for any other obligations payable from the City’s General Fund may not be used or drawn upon to pay principal of or interest on the Prior Bonds or the 2018 Bonds.

Parity Bonds

As of March 31, 2018, the Authority had \$223,070,000 aggregate principal amount of Prior Bonds outstanding under the Indenture which will be secured on a parity with the 2018 Bonds when issued. Currently, the Prior Bonds are the only Bonds outstanding under the Indenture. See “DEBT SERVICE SCHEDULE.” See APPENDIX A — “CITY GOVERNMENT AND FINANCIAL INFORMATION – BONDED AND OTHER INDEBTEDNESS” for a discussion of the Authority’s other outstanding bonds and the City’s general fund obligations.

Additional Bonds

The Indenture provides that the Authority and the City may, at any time, determine to issue and deliver Additional Bonds without the consent of the Owners of Outstanding Bonds, payable from the Revenues as provided in the Indenture and secured by a pledge of and charge and lien upon the Revenues as provided in the Indenture equal to the pledge, charge and lien securing the Outstanding Bonds, subject to satisfying certain terms and conditions set forth in the Indenture. The conditions for the issuance of Additional Bonds include:

(1) No Event of Default will be continuing under the Indenture after giving effect to the issuance of the Additional Bonds and the application of the proceeds thereof.

(2) The Supplemental Indenture will require that the proceeds of such Additional Bonds will be applied to finance or refinance capital improvements, or for the refunding or repayment of any Outstanding Bonds or other obligations of the City issued to finance or refinance capital improvements, including payment of the interest to become due on said Additional Bonds during the estimated period of any construction and for a period of not to exceed 12 months thereafter.

(3) The Lease will be amended, if necessary, so that the Base Rental Payments payable by the City thereunder in each Fiscal Year will at least equal projected Debt Service, including Debt Service on the Additional Bonds, in each Fiscal Year.

(4) If the additional facilities, if any, to be leased are not situated on Leased Property described in the Lease and the Site Lease, then the Lease and Site Lease will be amended to add such additional Leased Property. See APPENDIX C — “SUMMARY OF LEGAL DOCUMENTS – THE INDENTURE – Issuance of Bonds – *Conditions for the Issuance of Additional Bonds.*”

Nothing in the Indenture prevents payment of Debt Service on any Series of Additional Bonds from being secured and payable from sources, or by property, instruments or documents, not applicable to the Bonds or any one or more Series of Additional Bonds. See “CERTAIN RISK FACTORS – No Limitation on Incurring Additional Obligations.”

Repair and Maintenance; Taxes and Assessments; Insurance; Modification of the Leased Property

During the term of the Lease, the City with respect to the City Property, and MTS with respect to the MTS Property (pursuant to the MTS Site Lease) will, at its own cost and expense, maintain, preserve and keep its portion of the Leased Property in good repair, working order and condition and that it will from time to time make or cause to be made all necessary and proper repairs, replacements and renewals. In addition, the City and MTS will provide, or cause to be provided, each at its own expense, all power, gas, telephone, light, heating and water, and other public utility services for their respective portions of the Leased Property. The Authority will have no responsibility in any of these matters or for the making of additions or improvements to the Leased Property.

The City and the Authority will not create, or suffer to be created, any mortgage, pledge, lien, charge or other encumbrance upon the Leased Property, except Permitted Encumbrances. The City and the Authority will not sell or otherwise dispose of the Leased Property or any property essential to the proper operation of the Leased Property, except as provided in the Lease. During the term of the MTS Site Lease, MTS will not, directly or indirectly, create, incur, assume or suffer to exist any mortgage, pledge, lien, charge, encumbrance or claim on or with respect to the MTS Property, other than the Permitted Encumbrances.

Notwithstanding anything to the contrary contained in the Lease, but subject to the rights of the City described above, the City may assign, transfer or sublease any and all of the Leased Property or its other rights under the Lease, provided that: (i) the rights of any assignee, transferee or sublessee will be subordinate to all rights of the Authority and the Trustee under the Lease; (ii) no such assignment, transfer or sublease will

relieve the City of any of its obligations under the Lease; (iii) the assignment, transfer or sublease will not result in a breach of any covenant of the City contained in the Lease; (iv) any such assignment, transfer or sublease will by its terms expressly provide that the fair rental value of the Leased Property for all purposes shall be first allocated to the Lease, as the same may be amended from time to time before or after any such assignment, transfer or sublease; and (v) no such assignment, transfer or sublease will confer upon the parties thereto (other than the City) any remedy which allows re-entry upon the Leased Property and any such right of re-entry by the City will be subordinated to the remedies available under the Lease.

In the event that the use, possession or acquisition by the City or the Authority of the Leased Property is found to be subject to taxation in any form, the City will pay or cause to be paid during the term of the Lease, as the same respectively become due, all taxes and governmental charges of any kind whatsoever that may at any time be lawfully assessed or levied against or with respect to the Leased Property and any other property acquired by the City in substitution for, as a renewal or replacement of, or a modification, improvement or addition to, the Leased Property, as well as all gas, water, steam, electricity, heat, power, air conditioning, telephone, utility and other charges incurred in the operation, maintenance, use, occupancy and upkeep of the Leased Property; provided, however, that with respect to any governmental charges or taxes that may lawfully be paid in installments over a period of years, the City will be obligated to pay only such installments as are accrued during such time as the Lease is in effect.

During the term of the MTS Site Lease, MTS will pay, as the same respectively come due, all taxes and governmental charges of any kind whatsoever that may at any time be lawfully assessed or levied against or with respect to the MTS Property, as well as all utility and other charges incurred in the operation, maintenance, use, occupancy and upkeep of the MTS Property; provided that, with respect to any governmental charges that may lawfully be paid in installments over a period of years, MTS shall be obligated to pay only such installments as have accrued during the time the MTS Site Lease is in effect.

Fire and Extended Coverage Insurance

The City, with respect to the City Property pursuant to the Lease, and MTS, with respect to the MTS Property pursuant to the MTS Site Lease, are each required to procure and maintain, or cause to be procured and maintained, throughout the term of the Lease, insurance against loss or damage to their respective portions of the Leased Property (excluding the Ground Lease Sites (as defined below)) caused by fire and lightning, but exclusive of flood and earthquake, with an extended coverage endorsement covering the risk of vandalism and malicious mischief, sprinkler system leakage and boiler loss. Such insurance will be in an amount equal to the lesser of (A) the replacement cost (without deduction for depreciation) of improvements located or to be located on the Leased Property; or (B) the remaining unpaid principal amount of their allocated portion of Bonds Outstanding, plus the amount of use and occupancy coverage (described below), except that such insurance may be subject to deductible clauses of not to exceed the first \$100,000 of the total amount of any one loss.

Fire and extended coverage insurance and use and occupancy insurance may be in the form of a policy which covers the Leased Property and one or more additional parcels of real property insured by the City or MTS, respectively; provided that the amount of coverage available thereunder will be at least equal to the cumulative replacement values of their respective portions of the Leased Property and any other such property which is the subject of a lease, installment purchase or other financing arrangement ("Financed Property") for which bonds, certificates of participation or other obligations have been issued ("Obligations") plus the amount of use and occupancy coverage required by the Lease; in the event the City or MTS elects to obtain insurance for the Leased Property and one or more additional parcels of real property and the amount of the insurance proceeds available to pay all claims thereunder is not sufficient to cover the replacement values of all such properties, then any such proceeds will be used first to rebuild or repair any affected Leased Property or to repay the Bonds. Such insurance may be part of a joint-purchase insurance program. The provider of such insurance will be rated at least "A-" by A.M. Best & Company. As an alternative to providing the fire and extended coverage insurance required by the Lease, or any portion thereof, the City or MTS may provide a

self-insurance method or plan of protection if and to the extent such self-insurance method or plan of protection will afford reasonable coverage for the risks required to be insured against, in light of all circumstances, giving consideration to cost, availability and similar plans or methods of protection adopted by public entities in the State other than the City. See APPENDIX C — “SUMMARY OF LEGAL DOCUMENTS – THE LEASE – Maintenance; Taxes; Insurance and Other Charges” and “Damage, Destruction, Title Defect and Condemnation.”

Use and Occupancy Insurance

The City, with respect to the City Property pursuant to the Lease, and MTS, with respect to the MTS Property pursuant to the MTS Site Lease, are each required to procure and maintain, or to cause to be procured and maintained, use and occupancy insurance against loss, total or partial, of the use and occupancy of the Leased Property (excluding the Ground Lease Sites) against loss of use caused by hazards covered by property insurance required by the Lease (see “– Fire and Extended Coverage Insurance” above), in an amount sufficient to pay the Base Rental Payments attributable to their respective portions of the Leased Property for a twenty-four month period; provided, that the amount of such insurance need not exceed the total remaining Base Rental Payments; provided further, that such insurance may be part of a policy of fire and extended coverage insurance permitted by the Lease; provided further, the City or MTS may obtain use and occupancy insurance covering the Leased Property as well as other parcels of property owned by the City or MTS, provided that the cumulative amount thereof is at least equal to the cumulative amount of use and occupancy insurance required by the Lease with respect to their respective portions of the Leased Property and any agreements relating to Financed Property in respect of which Obligations are outstanding; in the event the City or MTS elects to obtain insurance for the Leased Property and one or more additional parcels of real property and the amount of the insurance proceeds available to pay all claims thereunder is not sufficient to cover the replacement values of all such properties, then any such proceeds will be used first to rebuild or repair any affected Leased Property or to repay the Bonds. Any proceeds of such insurance will be payable to and used by the Trustee as provided in the Indenture to pay principal of and interest on the Bonds for a period of time during which the payment of rental under the Lease is abated. Such insurance may be subject to a deductible clause of not to exceed \$50,000. Such insurance may be part of a joint-purchase insurance program. The provider of such insurance will be rated at least “A-” by A.M. Best & Company. Pursuant to the Lease, use and occupancy insurance cannot be provided by self-insurance.

CSAC-EIA Pool

The City and MTS each participates in the joint purchase of insurance through the California State Association of Counties-Excess Insurance Authority pool (the “CSAC-EIA Pool”), a statewide joint powers authority risk pool. Although not required by the Lease, flood coverage for all components of the City Property (except the Ground Lease Sites) and the MTS Property is currently provided to the City and MTS through their participation in the CSAC-EIA Pool. The City and MTS, in their discretion, may elect at any time to modify the designation of covered properties in the future, in which case it is possible that none of the Leased Property will be covered by flood insurance. The CSAC-EIA Pool provides earthquake coverage in limited amounts for certain designated buildings and structures and certain City lease financed locations. The San Diego Police Headquarters is the only City Property that has any earthquake coverage. The MTS Property does not have any earthquake coverage. See “– Abatement of Lease Payments” above and APPENDIX A — “CITY GOVERNMENT AND FINANCIAL INFORMATION – RISK MANAGEMENT – Property and Flood Insurance” and “– Earthquake Insurance.” The City is not required to obtain flood or earthquake insurance for the Leased Property pursuant to the Lease, and MTS is not required to obtain flood or earthquake insurance for the MTS Property pursuant to the MTS Site Lease.

Title Insurance

The Lease provides that the City will have or obtain, on or before the Closing Date for the 2018 Bonds, a California Land Title Association (CLTA) leasehold policy or policies, or a commitment for such

policy or policies, with respect to all of the Leased Property with liability in the aggregate amount equal to the principal amount represented by the Outstanding Bonds. Such policy or policies will name the Trustee as the insured and will insure the leasehold estate of the Authority under the Site Lease and the MTS Site Lease in the Leased Property, subject only to Permitted Encumbrances.

Substitution, Removal or Addition of Leased Property

Pursuant to the Lease, the City and the Authority may amend the Lease and the Site Lease to (i) substitute real property and/or improvements (the “Substitution”) for all or a portion of the existing Leased Property; (ii) remove all or a portion of real property (including undivided interests therein) or improvements (“Removal”) from the definition of Leased Property; or (iii) to add real property and/or improvements (the “Additional Leased Property”) to the Leased Property, upon compliance with all of the applicable conditions set forth in the Lease. After a Substitution or Removal, the part of the Leased Property for which the Substitution or Removal has been effected will be released from the leasehold under the Lease and under the Site Lease. See APPENDIX C — “SUMMARY OF LEGAL DOCUMENTS – THE LEASE – The Leased Property – Substitution, Removal or Addition of Leased Property.”

Pursuant to the MTS Site Lease, MTS may request the Authority to substitute or remove property for all or part of the MTS Property subject to the MTS Site Lease, but only upon compliance by MTS, at its sole expense, with all requirements for the substitution of property by the City under the Lease. The City may consent to such substitution, such consent not to be unreasonably withheld. A portion of the proceeds of the Series 2013A Bonds was used to refund certain outstanding bonds of the Authority. When all debt service payments on the Series 2013A Bonds relating to the refunded 2003 Old Town Light Rail Refunding Bonds have been paid, which is expected to occur on October 15, 2022, the MTS Property will be released from the provisions of the Lease and the MTS Site Lease and will no longer be part of the Leased Property. See APPENDIX C — “SUMMARY OF LEGAL DOCUMENTS – MTS SITE LEASE – Retained Rights and Obligations of MTS – *Substitution of MTS Property*.”

Eminent Domain

If title to, or the temporary use of, the Leased Property or any portion thereof or the estate of the City or the Authority in the Leased Property or any portion thereof is taken under the exercise of the power of eminent domain by any governmental body or by any person or firm or corporation acting under governmental authority, then the City and the Authority will cause the Net Proceeds of any condemnation award to be transferred to the Trustee for deposit in the Insurance and Condemnation Fund and applied as described in the Indenture. See “THE 2018 BONDS – Redemption Provisions” and APPENDIX C — “SUMMARY OF LEGAL DOCUMENTS – THE LEASE – Damage, Destruction, Title Defect and Condemnation.”

Investment of Funds under the Indenture

Money held by the Trustee under any fund or account held under the Indenture will be invested by the Trustee at the direction of the City solely in Permitted Investments, pending application as provided in the Indenture. Unless otherwise provided in a Supplemental Indenture, all interest or gain derived from the investment of amounts in any of the funds or accounts established under the Indenture (except any Rebate Fund) will be deposited, at the City’s direction, in the Construction Fund or the Revenue Fund.

THE LEASED PROPERTY

General

The City is leasing the City Property to the Authority pursuant to the Site Lease. MTS is leasing the MTS Property to the Authority pursuant to the MTS Site Lease. The Authority is leasing the Leased Property (comprised of the City Property and the MTS Property) to the City pursuant to the Lease. Pursuant to the

Lease, the City's rights to the MTS Property are subject to the retained rights of MTS as described in the MTS Site Lease. The retained rights of MTS include a right to continue to perform, maintain and manage its operations on the MTS Property and to enter upon the MTS Property, to make repairs, additions and improvements to the MTS Property. See APPENDIX C — "SUMMARY OF LEGAL DOCUMENTS — MTS SITE LEASE — Retained Rights and Obligations of MTS."

The Leased Property includes several sites located in the City and (other than with respect to the Ground Lease Sites (as defined below)) the buildings and other improvements thereon owned by the City and MTS. When all debt service payments on the Series 2013A Bonds (one of the six series of Prior Bonds) relating to the refunded 2003 Old Town Light Rail Refunding Bonds have been paid, which is expected to occur on October 15, 2022, the MTS Property will be released from the provisions of the Lease and the MTS Site Lease and will no longer be part of the Leased Property.

The Leased Property is comprised of properties each of which has been appraised at least once during the period from 2010 to 2017 with an aggregate value based on the most recent appraisals of approximately \$366 million. The City will certify on the Closing Date to the effect that the total Base Rental Payments required to be paid by the City pursuant to the Lease in each Lease Year is not in excess of the total fair rental value of the Leased Property in any Lease Year. However, the Leased Property itself is not subject to a security interest, mortgage or any other lien in favor of the Trustee for the benefit of Owners.

Upon the issuance of the 2018 Bonds, the Leased Property will consist of the 19 leased properties described below and summarized in the table and map that follow. The properties comprising the Leased Property are geographically dispersed throughout the City. All Outstanding Bonds under the Indenture are secured by all of the Base Rental Payments, and no portion of the Leased Property or the Base Rental Payments secures any specific series of Bonds.

See "RISK FACTORS" for certain risks that could impact the City's use and occupancy of the Leased Property.

Public Safety Facilities

Fire Communications Center consists of a two-story combination wood and steel frame building with a stucco exterior and includes a satellite communication tower. The Fire Communications Center is staffed 24 hours a day, seven days a week with dispatchers and administrative personnel. The Center is responsible for all citywide medical, fire, and rescue operations and is also contracted to dispatch for the Cities of Poway and Chula Vista in the region.

Fire Station #9 consists of a single story wood frame building with a stucco exterior. Fire Station #9 houses one fire engine and one paramedic unit, and primarily serves La Jolla and its surrounding areas in the City. Engine #9's district is 4.72 square miles. The City personnel at Fire Station #9 are all Firefighter/Paramedics and are responsible for orientation and continued training of field paramedics as well as maintenance of emergency medical equipment. Fire Station #9 also handles department medical forms and other administrative projects.

Fire Station #11 consists of a two-story combination steel and wood frame building with a stucco exterior. Fire Station #11 houses one fire engine, one aerial fire truck, and one paramedic unit; and serves Golden Hill and its surrounding areas in the City. Engine #11's district is 2.85 square miles.

Fire Station #16 consists of a single story wood frame with concrete building. Fire Station #16 houses one fire engine; and serves La Jolla and its surrounding areas in the City. Engine #16's district is 3.45 square miles.

Fire Station #37 consists of a two-story combination steel and wood frame building with a stucco exterior. Fire Station #37 houses one fire engine, one fire brush engine, and one paramedic unit; and serves Scripps Ranch and its surrounding areas in the City. Engine #37's district is 11.28 square miles.

Fire Station #44 consists of a single-story concrete tilt-up building with a partial mezzanine area. Fire Station #44 houses one battalion chief's vehicle, one fire engine, one aerial fire truck, and two primary hazardous materials response units. Fire Station #44 is the only Hazardous Material ("HazMat") station in the City. HazMat is responsible for identifying, containing and removing hazardous materials. Fire Station #44 serves Eastern Mira Mesa and its surrounding areas in the City. Engine #44's district is 6.58 square miles.

San Diego Police Headquarters is situated on the eastern side of downtown San Diego, convenient to several major streets and three freeways. The 7-story public office building contains approximately 165,000 gross square feet as well as an attached parking structure on the 2.76-acre site. It serves as the administrative center for the San Diego Police Department. The building is occupied by a variety of sections such as Vice, Evidence and Property, Recruiting, Communications, Internal Affairs and Homicide. See "CERTAIN RISK FACTORS — Fuel Tanks" herein.

Northeastern Police Station consists of a single story concrete police station and a separate single story concrete vehicle maintenance building. Within the vehicle maintenance building is a car wash, and below the roof area is a fuel island. The Northeastern Police Station serves the northern portions of the City, including the neighborhoods of Carmel Mountain, Miramar, Miramar Ranch North, Mira Mesa, Rancho Bernardo, Rancho Encantada, Rancho Penasquitos, Sabre Springs and Scripps Ranch. The Northeastern Police Station's district encompasses 103.8 square miles.

Southern Division Police Station serves the neighborhoods of Border, Egger Highlands, Nestor, Ocean Crest, Otay Mesa, Otay Mesa West, Palm City and San Ysidro. Southern Division serves a population of 107,631 people and encompasses 31.5 square miles. The facilities are on a 3.30 acre site and consist of one police substation-office building, a police vehicle maintenance facility building with a car wash and a fuel island. See "CERTAIN RISK FACTORS — Fuel Tanks" herein.

The public safety facilities described above contain either above-ground or underground fuel tanks for gasoline and other petroleum products. See "CERTAIN RISK FACTORS — Fuel Tanks" herein.

Ground Lease Sites

A portion of the Leased Property consists of ground leases at five locations (collectively, the "Ground Lease Sites") each consisting of the City's interest in the land underlying the respective sites. The buildings and improvements on each of the Ground Lease Sites are not owned by the City, are not part of the Leased Property and are not insured by the City. The Lease does not require the City to maintain hazard or use and occupancy insurance on property not owned by the City, and the City has confirmed that such insurance is not available for the City's interest in the Ground Lease Sites. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2018 BONDS – Fire and Extended Coverage Insurance" and "– Use and Occupancy Insurance."

The City has not pledged rental income it receives from tenants under any of the leases entered into or to be entered into by the City on portions of the Leased Property (including, without limitation, leases entered into by the City with respect to the Ground Lease Sites (the "Existing Leases")) to pay the Base Rental Payments securing the Bonds, including the 2018 Bonds. However, in the event of default under the Lease, the Trustee may bring an action to collect and receive rent and other income derived by the City from the Existing Leases in an amount not to exceed the lesser of (i) Base Rental Payments attributable to each Ground Lease Site as set forth in the Lease, and (ii) the rent and other income from the Existing Leases actually received by the City. In Fiscal Year 2017, the rent received by the City under the Existing Leases for each Ground Lease Site exceeded the anticipated Base Rental Payments attributable to each Ground Lease Site. The City can give no assurance that this will be the case in future years.

Hilton San Diego Resort Site is located on Mission Bay Drive in the Mission Beach neighborhood, a popular recreational area in the City. This area lies west of Interstate 5, along Mission Bay Drive. The site is located on tidelands of Mission Bay that have been granted to the City from the State for the purpose of creating San Diego Mission Bay Park.

The lease site consists of approximately 18 acres of land area and 1 acre of water area (improved with a boat dock). The City has leased the site to LHO Mission Bay Rosie Hotel, LP, for a 50-year term that commenced on January 1, 1996. The City is currently in negotiations with LHO Mission Bay Rosie Hotel, LP for a new 50-year term lease. It is anticipated that, with the completion of a new lease, the existing hotel will be renovated over a five-year period. A 357-room resort hotel, along with a restaurant, spa, swimming pool, tennis court and boat dock, are located at the Hilton San Diego Resort Site, which improvements are not owned by the City and are not part of the Leased Property. The City collects monthly rent installments (the greater of annual minimum rent, percentage rent consisting of percentages of the gross income resulting from the uses of the premises for various business activities, or the annual guaranteed minimum rent on a calendar month basis, under the terms of the ground lease) which comprises a recurring annual rental revenue source to the City's General Fund.

Islandia Hyatt Regency and Marina Site is a luxury resort and marina in the Mission Beach area of Mission Bay Park. Accessed by West Mission Bay Drive, the marina is convenient to the opening from Mission Bay to the ocean. A 429-room hotel and 178-slip marina comprise the improvements, along with a restaurant, spa, three swimming pools and a gym. The site is leased for a 50-year term that commenced on January 9, 2006. The City collects monthly rent installments (the greater of annual minimum rent, percentage rent consisting of percentages of the gross income resulting from the uses of the premises for various business activities, or the annual guaranteed minimum rent on a calendar month basis under the terms of the ground lease) which comprises a recurring annual rental revenue source to the City's General Fund. There are underground diesel and unleaded gasoline storage tanks located on property. See "CERTAIN RISK FACTORS — Underground Fuel Tanks" herein.

The Lodge at Torrey Pines Site is located on North Torrey Pines Road in La Jolla, approximately 2 miles north of the University of California, San Diego campus. This site is located adjacent to the Torrey Pines golf course, which is an internationally known golf destination. The site location generally lies west of Interstate 5, along the west side of Torrey Pines Road.

The site is leased to Lodge at Torrey Pines Partnership for a 66-year term that commenced on June 5, 1995. A 170-room resort hotel consisting of three 4-story structures, and one 3-story structure, along with one, 2-story parking garage is located at the Lodge, which improvements are not owned by the City and are not part of the Leased Property. The City collects monthly rent installments (the greater of annual minimum rent, percentage rent consisting of percentages of the gross income resulting from the uses of the premises for various business activities, or the annual guaranteed minimum rent on a calendar month basis under the terms of the ground lease) which comprise a recurring annual rental revenue source to the City's General Fund.

Scripps Health Site is located on North Torrey Pines Road, San Diego. The site is located in the southwesterly portion of the University of California San Diego campus, between Torrey Pines to the north and La Jolla Shores and La Jolla, to the south. To the east is the community of University Towne Centre.

The site is leased to Scripps Health from the City of San Diego for a 55-year term that commenced August 1, 1988. A sports center consisting of a two-story 27,500 square foot building and related site improvements (surface parking area, walking-jogging track surrounding two sand volleyball courts and a swimming pool) are located at the Scripps Health Site, which improvements are not owned by the City and are not part of the Leased Property. The City collects monthly rent installments (fixed rent, subject to adjustments, under the terms of the ground lease) which comprise a recurring annual rental revenue source to the City's General Fund.

University of California San Diego Site is located on North Torrey Pines Road in San Diego. The site is leased to Regents of the University of California from the City of San Diego for a 55-year term that commenced February 1, 1985. A 2-story 140,000 square foot university administration building and related site improvements over two levels of subterranean parking are located at the University of California San Diego Site, which improvements are not owned by the City and are not part of the Leased Property. The City collects monthly rent installments (fixed rent, under the terms of the ground lease) which comprise a recurring annual rental revenue source to the City's General Fund.

Library Facilities

Mission Valley Library is located in the southwest corner of a large retail center, Fenton Marketplace, on City-owned land. The Mission Valley Library consists of a 2-story wood framed, steel and masonry public library building and 85 paved open surface parking spaces on the site. SDCCU Stadium is located less than one-mile to the east. The library is staffed and operated by the City's Library Department.

Scripps Miramar Ranch Library Center is located south of Miramar Lake and west of Evans Pond, and serves Scripps Ranch and surrounding communities. The Scripps Miramar Ranch Library Center consists of 2-story wood frame building with pitched, built up roof and poured concrete slab foundation and sits on 9.14 acres.

Other Facilities

Mingei International Museum and Art Institute Building (House of Charm) located in Balboa Park consists of a four level special purpose building, with the lower level and basement level below grade. The House of Charm is located adjacent to one of the two main entrances to Balboa Park. Represented on the National Register of Historical Places, the House of Charm is home to the Mingei International Museum of Folk Art; the San Diego Art Institute, featuring art produced by local artists; and three full-scale rehearsal spaces for the Old Globe Theater. These three non-profit organizations had long terms leases through 2021. The lease to the Mingei Museum was extended 25 years and now expires in 2046. The City anticipates renewing the leases with these organizations.

Light Rail Transit System Maintenance Yard (the "MTS Property") located on Newton Avenue in San Diego. The MTS Property totals approximately 4.17 acres and is owned by San Diego Metropolitan Transit Development Board. The MTS Property includes the MTS maintenance yard, trolley tracks and staging yard, and a single story maintenance facility building, converted from an existing precast concrete, high-bay warehouse building. The building consists of administrative offices, showers and lockers, classrooms, security offices, and repair and maintenance shops. The building also includes parts storage, laydown areas, bridge and 5-ton overhead cranes and washdown areas. The building has capacity for 25 light rail vehicles and includes maintenance offices and pit. It is expected that the MTS Property will be released from the provisions of the Lease and Site Lease on October 15, 2022.

Carmel Valley Multipurpose Community Complex is an 18.7-acre multipurpose community complex located on Townsgate Dr. in the Carmel Valley area proximate to Del Mar area of the City. The multifunctional complex consists of a recreation center with an 11,000 square foot gymnasium, an aquatics center consisting of three pools, tennis courts, basketball courts, playgrounds, amphitheater, and a multipurpose athletic field. The Carmel Valley Multipurpose Community Complex is programmed for active recreation and is an essential amenity for the community serving a population estimated at 39,000 persons. There are approximately 1,500 youths and 400 adults participating in sports organizations which use the complex weekly. Adjacent to a middle school within the San Dieguito Union School District, a City library and a City police station, the community complex is also a heavily used public space after school hours.

[Remainder of Page Intentionally Left Blank]

SUMMARY OF LEASED PROPERTY

<i>Site⁽¹⁾</i>	<i>Address⁽²⁾</i>	<i>General Description</i>	<i>Original Completion Date</i>	<i>Approx. Acreage of Site</i>	<i>Approx. Building Square Footage</i>
1. Fire Communications Center	3750 Kearny Villa Road, 92123	Fire communications building and related facilities	1990	1.47	11,738
2. Fire Station #9	7870 Ardath Lane, 92037	Fire Station	1979	1.15	6,482
3. Fire Station #11	945 25th St., 92102	Fire station	1995	0.29	11,050
4. Fire Station #16	2110 Via Casa Alta, 92037	Fire station	1982	0.82	21,700
5. Fire Station #37	11640 Spring Canyon, 92131	Fire station	2001	1.09	8,400
6. Fire Station #44	10011 Black Mountain Rd., 92126	Fire station	2000	1.64	9,430
7. San Diego Police Headquarters	1401 E. Broadway, 92101	Police administration facility	1987	2.76	165,000
8. Southern Division Police Station	1120 27 th St., 92154	Police station and police vehicle maintenance facility	1993	3.30	22,558
9. Northeastern Police Station	13396 Salmon River Rd., 92129	Police station and police vehicle maintenance facility	1989	3.22	22,558
10. Hilton San Diego Resort (Ground Lease) ⁽³⁾	1775 E. Mission Bay Dr., 92109	Ground Lease under a resort hotel	Not applicable	17.74	Not applicable
11. Islandia Hyatt Regency and Marina Site (Ground Lease) ⁽³⁾	1441 Quivera Rd., 92109	Ground Lease under a resort hotel	Not applicable	9.37	Not applicable
12. The Lodge at Torrey Pines (Ground Lease) ⁽³⁾	11480 N. Torrey Pines Rd., 92037	Ground Lease under a resort hotel	Not applicable	6.05	Not applicable
13. Scripps Health Land (Ground Lease) ⁽³⁾	10820 N. Torrey Pines Rd., 92037	Ground Lease under a sports center on the Scripps Health Clinic campus	Not applicable	3.50	Not applicable
14. University of California San Diego (Ground Lease) ⁽³⁾	10280 N. Torrey Pines Rd., 92037	Ground Lease under a university administrative building	Not applicable	2.87	Not applicable
15. Mission Valley Library	2123 Fenton Parkway, 92108	Public library and parking	2002	2.00	18,930
16. Scripps Miramar Ranch Library Center	10301 Scripps Lake Drive, 92131	Public library and parking	1993	9.14	21,700
17. Mingei International Museum and Art Institute Building (House of Charm)	1439 El Prado, Balboa Park, 92101	Two museums and three theater rehearsal spaces	1996	1.01	69,865
18. Light Rail Transit System Maintenance Yard Portion ⁽⁴⁾	1535 Newton Ave., 92113	Rail yard and maintenance facility for light rail transit system	1993	4.17	92,000
19. Carmel Valley Multipurpose Community Complex	3777 Townsgate Drive, 92130	Community park including a recreation center, aquatics center, tennis courts, basketball, playgrounds, amphitheater, multipurpose athletic field	1998	18.70	23,150 (total for 3 buildings)

⁽¹⁾ See "CERTAIN RISK FACTORS" for a discussion of certain risks applicable to the Leased Property.

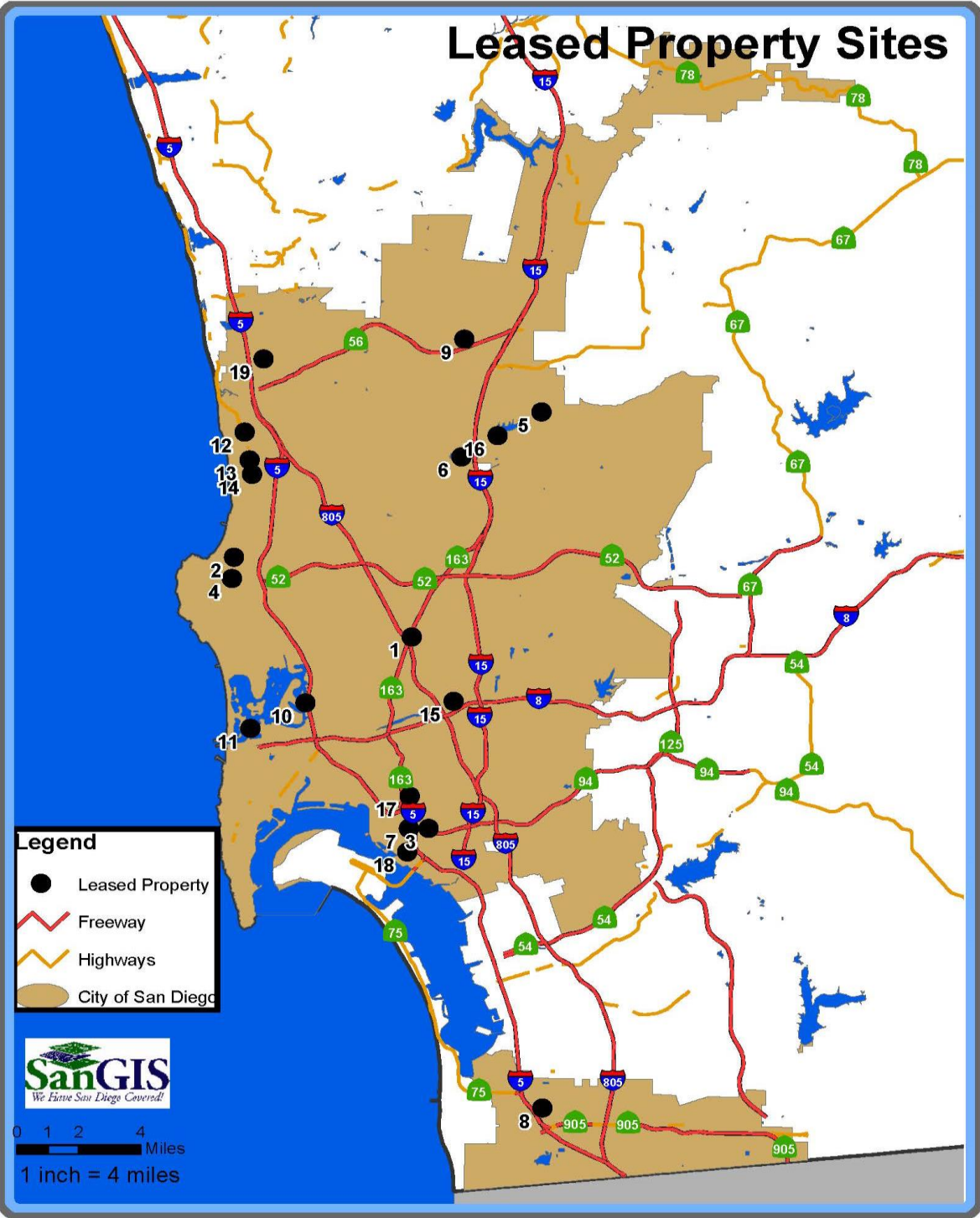
⁽²⁾ All properties are located in San Diego, California.

⁽³⁾ Only the underlying ground is owned by the City and is part of the Leased Property. The site includes improvements that are not owned by the City, are not part of the Leased Property and are not insured by the City. See "- Ground Lease Sites" above.

⁽⁴⁾ San Diego Metropolitan Transit Development Board Property.

Source: City of San Diego.

MAP OF LEASED PROPERTY SITES



Existing Encumbrances on Leased Property

Pursuant to the Site Lease, the MTS Site Lease and the Lease, the Authority acknowledges existing encumbrances on the Leased Property, including, but not limited to, with respect to the Ground Lease Sites, the Existing Leases and restrictions relating to the grant of the Hilton Resort Site to the City by the State in trust for the uses and purposes and upon the express conditions as provided in an act of legislature approved April 27, 1945 Statutes of California Chapter 143 and the rights therein reserved to the people of the State. Upon the issuance of the 2018 Bonds, the City will certify that these existing encumbrances do not interfere with the City's beneficial use and occupancy of the Leased Property. See APPENDIX C — "SUMMARY OF LEGAL DOCUMENTS – THE SITE LEASE – Lease of the Leased Property."

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 2018 Bonds and has pledged none of its moneys, funds or assets toward the payment of any amount due in connection with the 2018 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.

THE CITY

APPENDIX A — "CITY GOVERNMENT AND FINANCIAL INFORMATION" and APPENDIX B — "DEMOGRAPHIC AND ECONOMIC INFORMATION REGARDING THE CITY" set forth important information prepared by the City for inclusion in this Official Statement regarding its finances and operations. *Investors are advised to carefully consider the information presented in Appendix A and Appendix B in making an informed investment decision.*

CERTAIN RISK FACTORS

The following risk factors should be considered by potential investors, along with all other information in this Official Statement, in evaluating the risks inherent in the purchase of the 2018 Bonds. The following discussion is not meant to be a comprehensive or definitive list of the risks associated with an investment in the 2018 Bonds. The order in which this information is presented does not necessarily reflect the relative importance of the various issues. Any one or more of the risk factors discussed below, among others, could lead to a decrease in the market value and/or in the liquidity of the 2018 Bonds or failure by the City to pay Base Rental Payments. There can be no assurance that other risk factors not discussed herein will not become material in the future.

Limited Obligations of the Authority

The 2018 Bonds are special, limited obligations of the Authority and are payable solely from Revenues, which consist primarily of Base Rental Payments made by the City pursuant to the Lease, and certain other funds held under the Indenture, subject to the provisions of the Indenture permitting the application of such amounts for the purposes and on the terms and conditions set forth therein. Neither the City nor any of its officers will incur any liability or any other obligation with respect to the payment of the 2018 Bonds other than the obligation of the City to make Base Rental Payments under the Lease.

Nothing within this Official Statement is intended to imply that there exists any cross-application or cross-collateralization, including, without limitation, any cross-defaults between the Indenture or any other indenture related to bonds issued by the City or the Authority.

Limited Obligations of the City

THE OBLIGATION OF THE CITY TO MAKE LEASE PAYMENTS DOES NOT CONSTITUTE AN OBLIGATION OF THE CITY FOR WHICH THE CITY IS OBLIGATED TO LEVY OR PLEDGE, OR FOR WHICH THE CITY HAS LEVIED OR PLEDGED, ANY FORM OF TAXATION. THE 2018 BONDS AND THE OBLIGATION OF THE CITY TO MAKE LEASE PAYMENTS UNDER THE LEASE DO NOT CONSTITUTE AN INDEBTEDNESS OF THE CITY, THE STATE OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION. THE AUTHORITY HAS NO TAXING POWER.

Abatement

Except to the extent of (i) amounts held by the Trustee under the Indenture in the Interest Account and Principal Account of the Revenue Fund, (ii) amounts received in respect of use and occupancy insurance, if any, and (iii) amounts, if any, otherwise legally available to the Trustee for payments in respect of the Bonds, during any period in which, by reason of material damage, destruction, title defect or condemnation, there is substantial interference with the use and occupancy by the City of any portion of the Leased Property, rental payments due under the Lease with respect to the Leased Property will be abated to the extent that the annual fair rental value of the portion of the Leased Property in respect of which there is no substantial interference is less than the annual Base Rental Payments and Additional Rental, in which case rental payments will be abated only by an amount equal to the difference.

In the case of abatement relating to the Leased Property, the amount of annual rental abatement will be such that the resulting Base Rental Payments in any Lease Year during which such interference continues, excluding any amounts described in clauses (i), (ii), (iii) above, do not exceed the annual fair rental value for such Lease Year of the portions of the Leased Property with respect to which there has not been substantial interference, as evidenced by a certificate of an Authorized Representative of the City. Such abatement will continue for the period commencing with the date of such damage, destruction, title defect or condemnation and ending with the restoration of the Leased Property or portion thereof to tenantable condition or correction of title defect or substantial completion of the work of repair or replacement of the portions of the Leased Property so damaged, destroyed, defective or condemned. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2018 BONDS – Use and Occupancy Insurance” and APPENDIX C — “SUMMARY OF LEGAL DOCUMENTS – THE LEASE – Damage, Destruction, Title Defect and Condemnation.”

The obligation of the City under the Lease to make Base Rental Payments is in consideration for the right to use and occupy the Leased Property, and is absolute and unconditional without any right of set-off or counterclaim, except as to amounts which may be credited to such payment under the Lease, and except as such obligation may be abated as described herein.

There is no statute, judicial decision or other law specifying how an abatement of rental should be measured. For example, it is not clear whether fair rental value is established as of commencement of the Lease or at the time of the abatement or may be adjusted during an event of abatement. Upon abatement, it may be that the value of the Leased Property is substantially higher or lower than its value at the time of issuance of the 2018 Bonds. Abatement, therefore, could have an uncertain and material adverse effect on the security for and payment of the 2018 Bonds.

During any period in which material damage, destruction, title defect or condemnation of all or a portion of the Leased Property results in substantial interference with the use and occupancy of the Leased Property or any portion thereof, all or a portion of the Base Rental Payments due under the Lease will be

abated to the extent described above, the Lease will continue in full force and effect and the proceeds of use and occupancy insurance, if any, will be used to pay Base Rental Payments that would otherwise be abated. In the event that such funds are insufficient to make all payments with respect to the 2018 Bonds during the period that the Leased Property, or portion thereof, is being restored, then all or a portion of such payments may not be made and no remedy is available to the Trustee or the Owners under the Lease or Indenture for nonpayment under such circumstances. **Failure to pay principal, premium, if any, or interest on the 2018 Bonds as a result of abatement of the City's obligation to make Base Rental Payments under the Lease is not an event of default under the Indenture or the Lease.** In the event that Base Rental Payments are abated due to damage caused by earthquake or flood, such abatement may continue indefinitely, as no insurance for such damages is required under the Lease and the City cannot be compelled to repair or replace the damaged Leased Property or to redeem the Bonds under such circumstances. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2018 BONDS – Abatement of Lease Payments."

Notwithstanding the provisions of the Lease and the Indenture specifying the extent of abatement of Base Rental Payments, the requirement for insurance and the application of other funds in the event of the City's failure to have use and occupancy of the Leased Property, the resulting Base Rental Payments of the City may not be sufficient to pay all of the remaining principal and interest on the 2018 Bonds.

No Limitation on Incurring Additional Obligations

Neither the Lease nor the Indenture contains any limitations on the ability of the City to enter into other obligations, without the consent of the Owners of the Outstanding Bonds, which may constitute additional obligations payable from its General Fund. To the extent that the City incurs such additional obligations, the City's funds available to make Base Rental Payments may be decreased. The City is currently liable on other obligations payable from General Fund revenues and is currently contemplating entering into other such obligations. See APPENDIX A — "CITY GOVERNMENT AND FINANCIAL INFORMATION – BONDED AND OTHER INDEBTEDNESS."

Earthquake and Seismic Conditions

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. San Diego County, in comparison to other southern California areas, has sparse seismicity. However, since 1984, earthquake activity in San Diego County has doubled over that of the preceding 50 years. The Police Headquarters and the Light Rail Transit System Maintenance Yard, which comprise a portion of the Leased Property, are located in areas thought to have a greater risk of a seismic event than exists for the remainder of the Leased Property.

A major earthquake could cause widespread destruction and significant loss of life in a populated area such as the City. If an earthquake were to substantially damage or destroy taxable property within the City, a reduction in taxable values of property in the City and a reduction in revenues available to the General Fund to make Lease Payments would be likely to occur. Seismic activity may also affect the use and occupancy of the Leased Property. See "CERTAIN RISK FACTORS – Abatement" above.

There is no assurance that, in the event of a natural disaster, sufficient City reserves or Federal Emergency Management Agency assistance would be available for the repair or replacement of any Leased Property. The City participates in the joint purchase of insurance through the CSAC-EIA pool, which includes earthquake coverage in limited amounts for certain scheduled locations. None of the Leased Property other than the San Diego Police Headquarters is currently covered by such earthquake insurance. The Lease does not require the City to maintain earthquake insurance coverage or to repair or restore the Leased Property if damaged by earthquake where there are no insurance proceeds. See "THE LEASED PROPERTY" and APPENDIX A — "CITY GOVERNMENT AND FINANCIAL INFORMATION – RISK MANAGEMENT – Property and Flood Insurance."

The Lease provides that, in the event that rent is abated, in whole or in part, due to damage, destruction, title defect or condemnation of any part of the Leased Property and the City is unable to repair, replace or rebuild the Leased Property from the Net Proceeds, if any, of insurance or eminent domain, the City will apply for and use its best efforts to obtain any appropriate state and/or federal disaster relief in order to obtain funds to repair, replace or rebuild the Leased Property.

Risks of Flood

The Lease does not require the City to maintain insurance coverage against loss or damage due to flood. However, flood coverage for all components of the City Property (other than Ground Lease Sites) is currently provided to the City through its participation in the CSAC-EIA Pool. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2018 BONDS – CSAC-EIA Pool” above and APPENDIX A — “CITY GOVERNMENT AND FINANCIAL INFORMATION – RISK MANAGEMENT – Property and Flood Insurance.” The City in its discretion may elect at any time to modify the designation of covered properties in the future, in which case it is possible that none of the City Property will be covered for flood damage.

The MTS Site Lease does not require MTS to maintain insurance coverage insuring against loss or damage due to flood. However, flood coverage for all components of the MTS Property is currently provided to MTS through its participation in the CSAC-EIA Pool. MTS in its discretion may elect at any time to modify the designation of covered properties in the future, in which case it is possible that none of the MTS Property will be covered for flood damage.

The MTS Property, which is a portion of the Leased Property, and the Mission Valley Library are located in the 500-year flood plain as described by the Federal Emergency Management Agency. See “THE LEASED PROPERTY.”

Other Natural Disasters

In addition to earthquakes and floods affecting the Leased Property, as described under “— Earthquake and Seismic Conditions” and “— Risks of Flood” above, it is possible the City could experience other natural disasters, such as wildfires, tsunamis, and floods. The City is located in San Diego County which was the location of a major wildfire in October 2003 that burned over 250,000 acres and destroyed more than 3,000 homes. In October 2007 wildfires in San Diego County destroyed several hundred homes, some of which were in the City. In May 2014 and December 2017, wildfires in San Diego County again came close to the City. The City has not experienced significant damage from tsunamis; however, earthquakes from offshore faults and offshore landslides are capable of generating locally damaging tsunamis along the San Diego coastline. The San Diego River, which runs west through the City, is mapped by the Federal Emergency Management Agency (FEMA) as a 100 year floodway. If a natural disaster were to damage or destroy a substantial portion of the taxable property within the City, the assessed valuation of such property could be reduced, which could result in a reduction of property tax revenues. Other revenue sources, such as transient occupancy taxes and sales taxes, could also be reduced. In addition, substantial financial and operational resources of the City could be required during the event and to subsequently repair damage to City infrastructure.

Climate Change

There are potential risks to the City associated with changes to the climate over time. See APPENDIX A—CITY GOVERNMENT AND FINANCIAL INFORMATION—CITY BUDGET AND FINANCIAL INFORMATION—Climate Change.” The City has not yet quantified the costs that it might incur as a result of potential rising sea levels and coastal flooding, increased wildfires, more intense and frequent droughts and more extreme weather events, but over time the costs could be significant and could have a material adverse effect on the City’s finances by requiring greater expenditures to counteract the effects of climate change.

Constitutional and Statutory Limitations on Increase of Revenues

Article XIII A (Limitation on Ad Valorem Tax), Article XIII B (Government Spending Limitation), Article XIII C (Voter Approval for Local Tax Levies) and Article XIII D (Assessment and Property Related Fee Reform) of the Constitution of the State of California were each adopted as measures that qualified for the ballot pursuant to California's initiative process. From time to time, other initiative measures may be adopted, which may affect the City's revenues and its ability to expend said revenues. The above mentioned measures and any future measures could restrict the City's ability to raise additional funds for its General Fund. See APPENDIX A — "CITY GOVERNMENT AND FINANCIAL INFORMATION – LIMITATIONS ON TAXES AND APPROPRIATIONS."

Limited Recourse on Default; Re-Letting of Leased Property

In the event of non-payment by the City of the Lease Payments, or other default by the City under the Lease, the enforcement of any remedies provided in the Indenture and in the Lease by or on behalf of Owners of the 2018 Bonds could prove both expensive and time consuming. Although the Indenture and the Lease provide that if there is a default by the City under the Lease the Trustee may terminate the Lease and re-let the Leased Property (other than the Ground Lease Sites), such Leased Property may not be easily re-leased and any re-letting of the Leased Property could result in lease payments that would be substantially less than the Lease Payments payable by the City under the Lease. Furthermore, due to the essential nature of the governmental function of certain of the Leased Property, it is not certain whether a court would permit the exercise of the remedies of repossession and re-letting with respect to any or all of such Leased Property. The Trustee may exercise any and all remedies available pursuant to the Lease and applicable laws, but the Lease provides that there will be no right under any circumstances to accelerate the Lease Payments not then in default to be immediately due and payable. The Lease also provides that, notwithstanding anything to the contrary contained in the Lease, the Trustee will not re-enter or re-let the Leased Property upon an Event of Default unless the Trustee or its sublessee agrees to perform the City's obligations under any then existing lease, sublease, license, management contract, or other agreement substantially relating to the Leased Property.

The Trustee may not re-enter or re-let the Ground Lease Sites. The Ground Lease Sites are subject to the Existing Leases, which the Trustee cannot terminate, and the Trustee's rights with respect to such sites are expressly subject to the Existing Leases and the rights of the tenants thereunder. **Notwithstanding anything to the contrary in the Lease or the Indenture, neither the Authority nor the Trustee can disturb the peaceful possession of the tenants and their successors and assigns to which they are entitled under the Existing Leases.** However, in the event of default under the Lease, the Trustee may bring an action to collect and receive rent and other income derived by the City from the Existing Leases in an amount not to exceed the lesser of (i) Base Rental Payments attributable to each Ground Lease Site as set forth in the Lease, and (ii) the rent and other income from the Existing Leases actually received by the City. The City can give no assurance that the rent received by the City under the Existing Leases for each Ground Lease Site will equal or exceed the anticipated Base Rental Payments attributable to each Ground Lease Site.

Enforcement of Remedies

The enforcement of any remedies provided in the Lease and the Indenture could prove both expensive and time consuming. The rights and remedies provided in the Lease and the Indenture may be limited by and are subject to the limitations on legal remedies against cities, including State constitutional limits on expenditures, and limitations on the enforcement of judgments against funds needed to serve the public welfare and interest; by federal bankruptcy laws, as now or hereafter enacted; applicable State, bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect (see "– Bankruptcy of the City" below); 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; and 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. Bankruptcy proceedings or the exercise of powers by the federal or State government, if initiated, could subject the Owners of the 2018 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.

The legal opinions to be delivered concurrently with the delivery of the 2018 Bonds (including Bond Counsel's legal opinion) will be qualified, as to the enforceability of the 2018 Bonds, the Indenture, the Site Lease, the Lease and other related documents, by bankruptcy, insolvency, reorganization, moratorium, arrangement, fraudulent conveyance and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitation on legal remedies against cities in the State. See "– Bankruptcy of the City" below.

No Acceleration on Default

In the event of a default under the Indenture or the Lease, there is no remedy of acceleration of the Base Rental Payments. Owners of the 2018 Bonds would have to sue for payment of unpaid Base Rental Payments as and when it becomes due. Any suit for money damages would be subject to the legal limitations on remedies against cities and joint exercise of powers authorities in the State, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest.

Risk Management and Insurance

The Lease obligates the City to maintain and keep, or cause to be maintained or kept, in force various forms of insurance, subject to deductibles, on the City-owned Leased Property for repair or replacement in the event of damage or destruction to such Leased Property caused by certain hazards. The City is also required to maintain, or cause to be maintained, use and occupancy insurance with respect to insured casualty risks. MTS is required to maintain, or cause to be maintained, the same policies of insurance with respect to the MTS Property as the policies of insurance required to be maintained with respect to the City-owned Leased Property under the Lease. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2018 BONDS — Use and Occupancy Insurance" and "– Insurance for the MTS Property" above. Neither the Authority nor the City makes any representation as to the ability of any insurer to fulfill its obligations under any insurance policy required under the Lease or the MTS Site Lease and no assurance can be given as to adequacy of any such insurance to fund necessary repair or replacement or to pay principal and interest with respect to the 2018 Bonds.

The Lease allows the City to self-insure against any or all risks, except use and occupancy and title defects. The MTS Site Lease allows MTS to self-insure against any or all risks, except use and occupancy and title defects. See APPENDIX C — "SUMMARY OF LEGAL DOCUMENTS – THE LEASE – Maintenance; Taxes; Insurance and Other Charges."

The Lease does not require and the City does not maintain insurance coverage for risk of loss due to terrorism.

Environmental Concerns

Owners or operators of real property, including the City and MTS, may be required by law to remedy conditions of a property relating to releases or threatened releases of hazardous substances. The federal Comprehensive Environmental Response Compensation and Liability Act of 1980 commonly referred to as the "Superfund Act," is the most widely applicable of these laws, but California laws with regard to hazardous substances are also stringent. Under many of these laws, the owner or operator is obligated to remedy a hazardous substance condition on the property whether or not the owner or operator created the hazardous substance condition. The City is not currently aware of any hazardous substance conditions with respect to the Leased Property that currently require remedy, but such conditions could exist in the future making any

affected portion of the Leased Property unusable, in which case an abatement of Base Rental Payments could occur.

Fuel Tanks

Certain of the Leased Property sites contain above-ground and underground tanks for the storage of unleaded gasoline, diesel fuel, motor oils and related materials. See “THE LEASED PROPERTY” herein. The fuels used on such sites and any compressed gas storage are inherently hazardous and subject to risks, including risks of fire, explosion, leaks and spills. The City uses such sites pursuant to environmental permits issued by various local, State and federal authorities, and is in compliance with all permits, laws and regulations governing the City’s use of such sites. With the exception of the Islandia Hyatt Regency and Marina Site, the City’s Fleet Services Division operates and maintains the above-ground and underground storage tanks on the Leased Property to ensure compliance with all applicable codes and regulations governing their operation and maintenance. Despite such measures, however, it is possible that loss or damage to the Leased Property or adjacent property, or injury to persons on or near the sites, could result from the City’s use of these sites and that an abatement of Base Rental Payments as a result of such loss or damage to the Leased Property could occur.

Change in Law

No assurance can be given that the State or the City electorate will not at some future time adopt initiatives or Charter amendments or that the State Legislature or the City Council will not enact legislation that will amend the laws of the State Constitution or the City’s municipal code, respectively, in a manner that could result in a reduction of the City’s General Fund revenues and therefore a reduction of the funds legally available to the City to make Base Rental Payments.

Bankruptcy of the City

In addition to the limitations on remedies contained in the Indenture and the Lease, the rights and remedies in the Lease may be limited and are subject to the provisions of federal bankruptcy laws, as now or hereafter enacted, and to other laws or equitable principles that may affect the enforcement of creditors’ rights.

Under Chapter 9 of the United States Bankruptcy Code (Title 11, United States Code) (the “Bankruptcy Code”), which governs bankruptcy proceedings of public entities such as the City, no involuntary bankruptcy petition may be filed against a public entity. However, upon satisfaction of certain prerequisite conditions, a voluntary bankruptcy petition may be filed by the City. The filing of a bankruptcy petition results in a stay against enforcement of remedies under agreements to which the bankrupt entity is a party. A bankruptcy filing by the City could thus limit remedies under the Lease. A bankruptcy debtor may choose to assume or reject executory contracts and leases, such as the Lease. In the event of rejection of a lease by debtor lessee, the leased property is returned to the lessor and the lessor has a claim for a limited amount of the resulting damages.

Under the Indenture, the Trustee holds a security interest in the Revenues, including Base Rental Payments, for the benefit of the Owners of the Bonds, but such security interest arises only when the Base Rental Payments are actually received by the Trustee following payment by the City. The Leased Property itself is not subject to a security interest, mortgage or any other lien in favor of the Trustee for the benefit of Owners. In the event of a bankruptcy filed by the City and the subsequent rejection of the Lease by the City, the Authority would recover possession of the Leased Property and the Trustee, as assignee of the Authority, would have a claim for damages against the City. The Trustee’s claim would constitute a secured claim only to the extent of Revenues in the possession of the Trustee; the balance of such claim would be unsecured.

Bankruptcy proceedings would subject the Owners to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently entail risks of delay, limitation, or modification of their

rights with respect to the Bonds. In a bankruptcy case, the amount recovered by Owners could be affected by whether the Lease is determined to be a “true lease” or a loan or other financing arrangement (a “financing lease”), and Owners’ recovery could be reduced in either case. If the Lease is determined by the bankruptcy court to constitute a “true lease” (rather than a financing lease), the City could choose not to perform under the Lease by rejecting it and the claim of the Owners could be substantially limited pursuant to Section 365 of the Bankruptcy Code to a fraction of the scheduled amount of Base Rental Payments, and that reduced claim amount could be impaired as an unsecured claim under a plan of adjustment. If a bankruptcy court were to treat the Lease as a financing lease then, under a plan of adjustment, the priority, payment terms, collateral, payment dates, payment sources, covenants and other terms or provisions of the Lease and the Bonds may be altered. Such a plan could be confirmed even over the objections of the Trustee and the Owners, and without their consent. For example, the amount of the Base Rental Payments from the City might be substantially reduced because of the power of the bankruptcy court under the Bankruptcy Code to adjust secured claims to the value of their collateral, which, as described above, could be limited to the Revenues held by the Trustee. In addition there can be a substantial disparity in treatment based on the nature of the Leased Property. Whether the Lease is characterized by the bankruptcy court as a true lease or a financing lease, either scenario could result in the Owners not receiving the full amount of the principal and interest due on the Bonds.

In a bankruptcy of the City, if a material unpaid liability is owed to the San Diego City Employees’ Retirement System (“SDCERS”) or any other pension system (collectively the “Pension Systems”) on the filing date, or accrues thereafter, such circumstances could create additional uncertainty as to the City’s ability to make Base Rental Payments if the Lease is rejected. Given that municipal pension systems in California are usually administered pursuant to state constitutional provisions and, as applicable, other state and/or city law, the Pension Systems may take the position, among other possible arguments, that their claims enjoy a higher priority than all other claims, that Pension Systems have the right to enforce payment by injunction or other proceedings outside of a City bankruptcy case, and that Pension System claims cannot be the subject of adjustment or other impairment under the Bankruptcy Code because that would purportedly constitute a violation of state statutory, constitutional and/or municipal law. It is uncertain how a bankruptcy judge in a City bankruptcy would rule on these matters.

Impact of Military Spending

Military and related defense spending are significant factors in the San Diego County (the “County”) economy. Military installations include Marine Corps Base Camp Joseph H. Pendleton; the Marine Corps Recruit Depot; Marine Corps Air Station at Miramar; Naval Air Station North Island; Naval Station San Diego; and Naval Submarine Base, San Diego.

The San Diego Military Economic Impact Study (the “Military Study”) released in October 2017 by the San Diego Military Advisory Council estimates that approximately 22% of the jobs in the County for the federal fiscal year ending September 30, 2017 were directly and indirectly related to the military. According to the Military Study, as of September 30, 2017, there were approximately 115,700 active duty and reserve military personnel and 24,100 full-time civilian workers directly employed by the military throughout the County. The Military Study concludes that overall spending in the County related to the military in the federal fiscal year ended September 30, 2017 represented approximately 22% of the County’s total gross regional product. See “APPENDIX B—DEMOGRAPHIC AND ECONOMIC INFORMATION REGARDING THE CITY OF SAN DIEGO—Military.”

Given the substantial role that the military plays in the local economy, significant reductions in defense spending or the relocation of military bases out of the area could negatively impact the local economy and, in turn, reduce revenues to the City from such major sources as property taxes, sales taxes and transient occupancy taxes. Any direct impact on the City operations or finances is uncertain and the City is unable to predict the extent of any negative impact on the area economy as a result of reduced military spending.

Impact of Economic Conditions on the City

Federal and state budget policies can impact conditions in the local economy and could have an adverse effect on the local economy and the City's major revenue sources. For more information regarding the State's financial condition, see APPENDIX A — "CITY GOVERNMENT AND FINANCIAL INFORMATION – STATE BUDGET INFORMATION." The City cannot predict the timing of future economic downturns or what measures might be taken by the State or federal government to address future economic downturns and budgetary deficits. Accordingly, the City cannot predict the final outcome of future State or federal actions or the impact that such actions will have on the City's finances and operations. See APPENDIX A — "CITY GOVERNMENT AND FINANCIAL INFORMATION."

CONTINUING DISCLOSURE

Pursuant to the Continuing Disclosure Certificate of the City (the "Disclosure Certificate"), the City has agreed 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 2018 due April 10, 2019 and to provide notices of certain enumerated events (as described in the Disclosure Certificate). This Official Statement shall be filed to satisfy the annual reporting requirement for the Fiscal Year 2017. The form of the Disclosure Certificate is attached hereto as APPENDIX F — "FORM OF CONTINUING DISCLOSURE CERTIFICATE." The City's covenants in the Disclosure Certificate have been 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 2018 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 Facility Lease, 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 MSRB's Electronic Municipal Market Access system ("EMMA") for municipal securities disclosures, maintained on the Internet at <http://emma.msrb.org/>. There is also an issuer's page for the Authority's lease revenue bonds on MSRB's 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 2018 Bonds.

Continuing Disclosure Compliance

The City is a party to a number of continuing disclosure undertakings with respect to securities payable from the City's General Fund, the Sewer Utility Fund and the Water Utility Fund pursuant to the Rule. Within the last five years, the City has been a party to continuing disclosure undertakings with respect to three assessment or reassessment districts formed by the City, one of which remains in effect. The City manages the continuing disclosure undertakings of four community facilities districts formed by the City. The City also manages continuing disclosure undertakings of the City's Former RDA and the Successor Agency to the Former RDA.

In the last five years, there have been eight instances in which the ratings on certain series of bonds issued by the City's Former RDA were changed as a result of a corresponding change in the rating of the company insuring such bonds. Neither the City nor the Successor Agency had been notified directly of such changes. Upon becoming aware of such changes, corrected filings were made for those bonds that were outstanding at the time of the corrected filings. In addition, there was one bond issue of the City's Former RDA for which rating upgrades in 2013 and 2015 were not timely filed. Upon becoming aware of such failures, the 2015 rating upgrade was filed, which provided notice of the then current rating.

FINANCIAL STATEMENTS FOR FISCAL YEAR 2017

The City's CAFR for Fiscal Year 2017, which includes the City's audited basic financial statements as of and for the fiscal year ended June 30, 2017, is available through EMMA at <https://emma.msrb.org/ES1102564-ES861572-ES1262710.pdf>, and are incorporated by reference herein and constitute a part of this Official Statement.

The City's basic financial statements as of June 30, 2017 and for the year then ended have been audited by Macias Gini & O'Connell LLP as stated in its report dated December 14, 2017, which is included with the financial statements. Macias Gini & O'Connell LLP as the independent auditors did not review this Official Statement. The City did not request the consent of the independent auditors to incorporate the City's financial statements or the auditor's report as a part of this Official Statement. Accordingly, the independent auditors did not perform any procedures relating to any of the information in this Official Statement.

TAX MATTERS

In the opinion of Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, interest with respect to the 2018 Bonds is exempt from State of California personal income tax. Interest on the 2018 Bonds is not excluded from gross income for federal income tax purposes.

The amount by which a 2018 Bond Owner's original basis for determining gain or loss on sale or exchange of the applicable 2018 Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable 2018 Bond premium, which a 2018 Bond holder may elect to amortize under Section 171 of the Code; such amortizable 2018 Bond premium reduces the 2018 Bond Owner's basis in the applicable 2018 Bond (and the amount of taxable interest received), and is deductible for federal income tax purposes. The basis reduction as a result of the amortization of 2018 Bond premium may result in a 2018 Bond Owner realizing a taxable gain when a 2018 Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the 2018 Bond to the Owner. Purchasers of 2018 Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable 2018 Bond premium.

The federal tax and State of California personal income tax discussion set forth above is included for general information only and may not be applicable depending upon an owner's particular situation. The ownership and disposal of the 2018 Bonds and the accrual or receipt of interest with respect to the 2018 Bonds may otherwise affect the tax liability of certain persons. Bond Counsel expresses no opinion regarding any such tax consequences. Accordingly, before purchasing any of the 2018 Bonds, all potential purchasers should consult their tax advisors with respect to collateral tax consequences relating to the 2018 Bonds.

A copy of the proposed form of opinion of Bond Counsel with respect to the Bonds is attached hereto as Appendix D.

LITIGATION

There is no controversy of any nature now pending against the City or the Authority or, to the knowledge of their respective responsible officers, threatened, seeking to restrain or enjoin the issuance, sale, execution or delivery of the 2018 Bonds or the related documents, or in any way contesting or affecting the validity of the 2018 Bonds or any proceedings of the City or the Authority 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 2018 Bonds or the use of the 2018 Bond proceeds. There is, however, other litigation pending against the City unrelated to the 2018 Bonds. See APPENDIX A — "CITY GOVERNMENT AND FINANCIAL INFORMATION – LITIGATION POTENTIALLY ADVERSELY AFFECTING THE GENERAL FUND."

CERTAIN LEGAL MATTERS

Certain legal matters incident to the authorization, issuance and sale of the 2018 Bonds are subject to the legal opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel to the City and the Authority. The signed legal opinion of Bond Counsel for the 2018 Bonds will be delivered to the initial purchasers of the 2018 Bonds at the time of original delivery of the 2018 Bonds. The proposed form of the legal opinion of Bond Counsel for the 2018 Bonds is set forth in APPENDIX D1 — “FORM OF BOND COUNSEL OPINION FOR 2018 BONDS.”

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 Stradling Yocca Carlson & Rauth, a Professional Corporation, Disclosure Counsel, and by the City Attorney. Bond Counsel and Disclosure Counsel will receive compensation contingent upon the sale and delivery of the 2018 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 2018 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.

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 2018 Bonds.

UNDERWRITING

The 2018 Bonds are being purchased by Citigroup Global Markets Inc., Wells Fargo Bank, National Association, Hutchinson, Shockey, Erley & Co. and Blaylock Van, LLC (the “Underwriters”). The Underwriters have agreed to purchase the 2018 Bonds at a price of \$_____ (being \$_____ aggregate principal amount thereof, less Underwriters’ discount of \$_____ plus original issue premium/less original issue discount of \$_____). The purchase agreement for the 2018 Bonds provides that the Underwriters will purchase all of the 2018 Bonds if any are purchased. The obligation to make such purchase is subject to certain terms and conditions set forth in such purchase agreements, the approval of certain legal matters by counsel and certain other conditions.

The Underwriters may offer and sell the 2018 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.

Wells Fargo Bank, National Association, acting through its Municipal Products Group (“WFBNA”), one of the underwriters of the 2018 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 2018 Bonds. Pursuant to the WFA Distribution Agreement, WFBNA will share a portion of its underwriting compensation, with respect to the 2018 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 2018 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.

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 Products 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 is serving as one of the Underwriters and as trustee for the 2018 Bonds, as well as Escrow Agent for the refunding of the 2010A Bonds, and will be compensated separately for serving in each capacity.

Blaylock Van, LLC (“Blaylock Van” or “BV”) has entered into a distribution agreement (the “Agreement”) with TD Ameritrade, Inc. (“TD”) for the retail distribution of certain municipal securities offerings underwritten by or allocated to Blaylock Van, including the 2018 Bonds. Under the Agreement, Blaylock Van will share with TD a portion of the underwriting compensation paid to BV.

MUNICIPAL ADVISOR

KNN Public Finance, LLC (the “Municipal Advisor”) has acted as Municipal Advisor to the City in conjunction with the issuance of the 2018 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 2018 Bonds. The Municipal Advisor will receive compensation contingent upon the sale and delivery of the 2018 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.

VERIFICATION

Causey Demgen & Moore, P.C. (the “Verification Agent”), independent accountants, upon delivery of the 2018 Bonds, will deliver a report on the mathematical accuracy of certain computations, contained in schedules provided to them by the Underwriters, relating to the sufficiency of moneys and securities deposited with the Escrow Agent to pay, when due, the interest, principal and redemption price of the 2010A Bonds.

The report of the Verification Agent will include the statement that the scope of its engagement is limited to verifying the mathematical accuracy of the computations contained in such schedules provided to it, and that it has no obligation to update its report because of events occurring, or data or information coming to its attention, subsequent to the date of its report.

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 forms of the opinions 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 Owners of any of the Series 2018 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 as representations of fact. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the financial condition, results of operations or any other affairs of the City or the Authority since the date hereof.

PUBLIC FACILITIES FINANCING AUTHORITY OF
THE CITY OF SAN DIEGO

By: _____
Chair

THE CITY OF SAN DIEGO

By: _____
Chief Financial Officer

APPENDIX A

CITY GOVERNMENT AND FINANCIAL INFORMATION

TABLE OF CONTENTS

	<u>Page</u>
GENERAL.....	A-1
Profile of the City of San Diego.....	A-1
Governing Structure.....	A-1
Accounting Practices.....	A-2
CITY BUDGET AND RELATED MATTERS.....	A-2
Budget Process.....	A-2
Five-Year Summary of Financial Results	A-4
General Fund Operating Budget Summary	A-9
Fiscal Year 2018 Adopted Budget	A-10
Fiscal Year 2018 Budget Monitoring.....	A-10
Five-Year Financial Outlook	A-11
Fiscal Year 2019 Proposed Budget.....	A-12
Reserves	A-12
Potential Impacts from Federal and State Budget.....	A-15
Major Revenue Sources	A-15
Former Redevelopment Agency	A-22
General Fund Infrastructure and Multi-Year Capital Program	A-22
`Infrastructure Fund	A-24
Enhanced Infrastructure Financing District	A-25
Storm Water Program	A-25
Climate Change.....	A-27
STATE BUDGET INFORMATION	A-27
State Budgeting Process.....	A-28
Fiscal Year 2018 State Budget.....	A-28
Governor’s Proposed Fiscal Year 2019 State Budget.....	A-28
Effect of State Budget on General Fund Revenues.....	A-29
LABOR RELATIONS.....	A-29
General.....	A-29
Collective Bargaining Agreements	A-29
SAN DIEGO CITY EMPLOYEES’ RETIREMENT SYSTEM	A-30
General.....	A-30
Actuarial Assumptions and Methods	A-32
Implementation of GASB Statements Related to Pension Plans	A-33
Funding Status	A-34
Preservation of Benefits Plan.....	A-34
Citywide and General Fund Pension Contributions.....	A-35
Prospective Funding Status.....	A-37
Supplemental COLA.....	A-37
Proposition B (Pension Reform)	A-37
Labor Agreements.....	A-38
OTHER RETIREMENT PLANS	A-39
Supplemental Pension Savings Plan	A-39
SPSP-H Plan	A-39
2009 401(a) Plan	A-39

TABLE OF CONTENTS
(continued)

	<u>Page</u>
POST-EMPLOYMENT HEALTHCARE BENEFITS.....	A-40
General.....	A-40
Actuarial Assumptions and Methods for the DB OPEB Plan	A-40
Funding Status	A-41
Citywide and General Fund OPEB Contributions	A-41
Retiree Medical Trust.....	A-42
Southern California Firefighters Benefit Trust	A-43
RISK MANAGEMENT	A-43
Self-Insurance	A-43
Employee Group Health Insurance	A-44
Property and Flood Insurance	A-44
Earthquake Insurance.....	A-45
Employee Dishonesty and Faithful Performance Insurance	A-45
LITIGATION POTENTIALLY ADVERSELY AFFECTING THE GENERAL FUND	A-45
No Pending Litigation Regarding the 2018 Bonds	A-45
Litigation and Regulatory Actions	A-45
INVESTMENT OF FUNDS.....	A-47
Investment of Funds.....	A-47
BONDED AND OTHER INDEBTEDNESS	A-49
Issuer Ratings.....	A-49
Long-Term Obligations.....	A-49
Future Financing Plans.....	A-52
Short-Term Borrowings	A-52
Overlapping Debt and Debt Ratios	A-52
LIMITATIONS ON TAXES, APPROPRIATIONS AND REVENUE	A-55
Article XIII A of the California Constitution.....	A-55
Article XIII B of the California Constitution	A-55
Articles XIII C and XIII D (Proposition 218) of the California Constitution	A-56
Proposition 1A	A-58
Proposition 22.....	A-59
Proposition 26.....	A-59
Proposition 30.....	A-60
Proposition 64.....	A-60
Future Initiatives	A-61

APPENDIX A

CITY GOVERNMENT AND FINANCIAL INFORMATION

This Appendix A to the Official Statement covers general information about the City of San Diego's (the "City") governance structure, budget processes, reserves, property taxation system and other tax and revenue sources, City expenditures, including labor relations, employment benefits and retirement costs, and investments, bonds and other long-term obligations. The information and data within this Appendix A are the latest data available to the City; however, events or circumstances may have changed since the dates of the data presented.

As explained under "SECURITY AND SOURCES OF PAYMENT FOR THE 2018 BONDS" in the front part of this Official Statement, the 2018 Bonds (as defined in this Official Statement) are payable solely from Revenues pledged under the Indenture consisting primarily of the Base Rental Payments (as defined in this Official Statement) to be made by the City under the Facility Lease and certain other money held by the Trustee under the Indenture. The 2018 Bonds are not a debt of the City, the State of California (the "State"), or any of its political subdivisions, and none of the City, the State nor any of its political subdivisions is liable thereon.

GENERAL

Profile of the City of San Diego

The City was incorporated in 1850. The City is comprised of 325 square miles and, as of January 1, 2017, the California Department of Finance estimates the population to be 1,406,318. The City, with approximately 11,420 full-time and part-time employees budgeted for Fiscal Year 2018, provides a full range of governmental services, which include police and fire protection, sanitation and health services, construction and maintenance of streets and infrastructure, recreational activities and cultural events, and maintenance and operation of the water and sewer utilities.

The General Fund is the principal operating fund of the City. Departments within the General Fund provide core community services, such as public safety (including police and fire protection), parks and recreation, library services, and refuse collection, as well as vital support functions such as finance, legal and human resources. These core services are primarily supported by major revenue sources that include property tax, sales tax, transient occupancy tax, and franchise fees.

Governing Structure

The City operates under and is governed by the laws of the State and the City Charter (the "Charter"), as periodically amended since its adoption by the electorate in 1931. The City operates under a "Strong Mayor" form of government. Under the Strong Mayor form of government, the Mayor, who is elected to a four-year term and may serve up to two consecutive terms, 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 departments.

The City Council is composed of nine members who are elected to staggered four-year terms and may serve up to two consecutive terms. The City Council is presided over in open meetings by the City Council President, who is selected by a majority vote of the City Council. The Mayor presides over the City Council in closed session meetings of the City Council. The City Council retains its legislative authority; however, all City Council resolutions and ordinances are subject to a veto of the Mayor except for certain ordinances including emergency declarations and the City's annual Salary and Appropriation Ordinances. The City Council may override a Mayoral veto with six votes. The City Attorney, who is elected for a four-year term,

serves as the chief legal advisor of and attorney for the City and all departments. The City Attorney is also limited to two consecutive terms in office.

Accounting Practices

The City's accounting policies conform to generally accepted accounting principles applicable to governmental entities. The City's Governmental Funds, including the General Fund, use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when both available and measurable. Licenses, permits, parking citation and certain other revenues, however, are recorded when received, as they are not susceptible to accrual. Expenditures are recognized when the related liability is incurred except for (1) principal of and interest on general long-term debt, which are recognized when due, and (2) employee annual leave and claims and judgments from litigation and self-insurance, which are recorded in the period due and payable. Proprietary and Fiduciary Funds use the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when a liability is incurred.

The City prepares financial statements annually in conformity with generally accepted accounting principles for governmental entities, which are audited by an independent auditing firm. The City's most recent financial statements for the Fiscal Year ended June 30, 2017 were audited by Macias Gini & O'Connell LLP, CPAs. (For ease of reference, references in this APPENDIX A to any particular Fiscal Year (e.g., Fiscal Year 2017) shall mean the Fiscal Year ending June 30 of the referenced year).

CITY BUDGET AND RELATED MATTERS

Budget Process

Budget Development

The City's budgetary process begins with the development of a Five-Year Financial Outlook, which serves as a guiding document for long-range fiscal planning and provides the framework for the development of the City's annual operating budget. The City's most recently published outlook is the Fiscal Year 2019-2023 Five-Year Financial Outlook (the "Five-Year Outlook"), which was released on November 8, 2017 and will serve or be the basis for the Fiscal Year 2019 budget together with trends in the current Fiscal Year 2018 results. See "—Five-Year Financial Outlook" below.

General Fund revenues and expenditures are established and balanced through the budgeting process and included in the Mayor's proposed budget, along with changes to the non-general funds and capital improvement projects. The budget document is created and presented by the Mayor to the City Council, and made available by April 15 in compliance with the Charter. The Mayor's proposed budget for Fiscal Year 2018 (the "Fiscal Year 2018 Proposed Budget") was released on April 13, 2017 and is available on the City's website. The Fiscal Year 2018 Proposed Budget sets forth the anticipated revenues and expenditures of the General Fund, certain Special Revenue Funds, Capital Project Funds, Enterprise Funds, Internal Service Funds, and certain debt service funds for the ensuing Fiscal Year. Additionally, project-length financial plans are presented to and adopted by the City Council for the Capital Improvements Program. The Fiscal Year 2018 Proposed Budget was presented to City Council on April 19, 2017.

The City's budgets for Governmental Funds, such as the General Fund, Debt Service Funds, Special Revenue Funds, Capital Project Funds and Internal Service Funds, are prepared based on the modified accrual basis of accounting (revenues are recognized in the accounting period in which they become available and measurable, and expenditures are recognized in the accounting period in which the liability is incurred), except that the increase/decrease for advances and deposits to other funds and agencies are considered as additions/deductions of expenditures. The budget for the City's Proprietary Funds, which are comprised of Enterprise Funds and Internal Service Funds, are prepared on the full accrual basis of accounting for all

operating revenues and most operating expenses (revenues are recognized when they are earned and expenses are recognized when the liability is incurred). Certain expenses for long-term liabilities, such as net-pension liability, are budgeted on the modified accrual basis of accounting. The City's budget excludes unrealized gains or losses resulting from the change in fair value of investments. These calculations are performed solely for financial statement reporting purposes to be in compliance with Generally Accepted Accounting Principles (GAAP).

Budget Review

The proposed budget is reviewed by City Council and available for review by the public upon its presentation by the Mayor, no later than April 15. During the month of May, the City Council holds a series of public budget hearings to obtain input from City residents on spending priorities. The Mayor then releases in May, revisions to the proposed budget, which contains the Mayor's recommended changes to the budget based on updated policy related issues, revised current Fiscal Year-end expenditure and revenue projections, and revised projections of revenues and expenditures in the next fiscal year. The Mayor's revisions to the Fiscal Year 2018 Proposed Budget were released on May 16, 2017.

Budget Adoption

As required by the Charter, the City Council adopts the annual budget by June 15 of each Fiscal Year. The City is not aware of the City Council ever having failed to adopt an annual budget by June 15. The annual budget for Fiscal Year 2018 was adopted by the City Council on June 5, 2017. Within five business days of City Council's approval, the Mayor has the discretion to line-item veto any budget modifications approved by the City Council. In turn, the City Council has five business days within which to override the Mayor's veto. The Mayor exercised his line-item veto on June 9, 2017 with respect to certain of the modifications approved by Council, and the City Council was not able to obtain the necessary votes to override the veto. The Appropriation Ordinance that enacts the budget into law (the "Appropriation Ordinance") is prepared by the Chief Financial Officer and the City Attorney based on the approved budget and the adopted Salary Ordinance. The Appropriation Ordinance is presented to the City Council for review and adoption, following two noticed public hearings as required by the Charter. The Appropriation Ordinance for Fiscal Year 2018 was adopted by the City Council on June 26, 2017. Amendments to the adopted budget require City Council approval, except as delegated in the annual Appropriation Ordinance.

Budget Monitoring

The City's Financial Management Department and Comptroller's Office monitor fund balances, as well as revenue and expenditure projections, throughout the Fiscal Year. The Comptroller's Office prepares monthly and periodic reports to the City Council that serve as a summary of the year-to-date financial activity of the General Fund and certain other budgeted funds. The Financial Management Department prepares an analysis of actual and projected financial activity for the entire fiscal year on a quarterly basis by issuing four budget monitoring reports during the year (First Quarter, Mid-Year, Year-End Budget Monitoring Reports and the Year-End Performance Report). The First Quarter Budget Monitoring Report includes three months of actual budgetary data and provides the City Council an initial analysis and projection of revenues and expenses. The Mid-Year Budget Monitoring Report includes five months of actual budgetary data. In accordance with Municipal Code Section 22.0229, the Mayor recommends to the City Council mid-year budget appropriation adjustments for any projected deficit or surplus. The Year-End Budget Monitoring Report is prepared incorporating nine months of actual results and includes projections through fiscal year-end. The Year-End Budget Monitoring Report is typically released at the same time as the City Council's first public hearing on final budget decisions for the upcoming fiscal year. This allows the City Council to have the most current budget information available for the current fiscal year prior to making decisions on the budget for the upcoming fiscal year. The Year-End Performance Report provides a detailed comparison and variance analysis of the year-end projections for General Fund revenues and expenditures found in the Year-End Budget Monitoring Report to the un-audited actual results to date. The Year-End Performance Report also includes

financial schedules prepared by the Comptroller's Office and is prepared in accordance with Charter Section 39.

If revenues decline and/or expenditures increase, various alternatives are considered, including alternative funding sources, budget reductions or reallocations of funds between departments to support the ongoing activities of the City. The City also maintains a variety of reserves that are available for expenditure subject to City Council approval and in accordance with the City's Reserve Policy. See "-Reserves" below.

Five-Year Summary of Financial Results

Tables A-1 and A-2 present the Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balance of the City's General Fund, respectively, for Fiscal Years 2013 through 2017.

TABLE A-1
CITY OF SAN DIEGO
BALANCE SHEET FOR THE GENERAL FUND
Fiscal Years 2013 through 2017
(in thousands)
(audited)

ASSETS	2013	2014	2015	2016	2017
Cash and Investments ⁽¹⁾	\$ 242,330	\$ 322,758	\$ 360,958	\$ 320,081	\$ 311,538
Receivables:					
Taxes – Net ⁽²⁾	66,132	72,755	78,648	127,026	97,235
Accounts – Net	10,676	8,530	15,703	20,291	13,987
Claims	214	221	8	8	8
Accrued Interest	593	535	748	1,109	917
Grants	-	1,186	-	-	-
From Other Funds ⁽³⁾	-	38,805	22,937	18,340	19,410
From Other Agencies ⁽⁴⁾	-	-	-	8,030	9,508
Contributions	-	-	-	2,636	634
Advances to Other Funds	1,693	1,548	848	811	782
Advances to Other Agencies ⁽⁴⁾	1,083	3,730	7,627	1,103	1,000
Prepaid Items	-	-	-	1,691	1
Restricted Cash Investments	-	-	-	229	2,163
Total Assets	\$ 322,721	\$ 450,068	\$ 487,477	\$ 501,355	\$ 457,183
LIABILITIES					
Accounts Payable ⁽⁵⁾	\$ 27,015	\$ 34,141	\$ 32,042	\$ 32,870	\$ 31,107
Accrued Wages and Benefits ⁽⁶⁾	43,564	48,594	52,004	61,468	28,372
Due to Other Funds ⁽⁷⁾	-	-	5,053	4,042	3,032
Due to Other Agencies	1,025	50	-	-	14
Deferred Revenue ⁽⁸⁾	18,673	-	-	-	-
Contract Deposits	339	403	-	-	-
Other Accrued Liabilities	-	-	1,441	1,550	1,761
Total Liabilities	\$ 90,616	\$ 83,188	\$ 90,540	\$ 99,930	\$ 64,286
TOTAL DEFERRED INFLOWS OF RESOURCES⁽⁸⁾	\$ -	\$ 16,766	\$ 19,122	\$ 25,524	\$ 19,438
FUND BALANCE					
Nonspendable	\$ -	\$ 1,248	\$ 849	\$ 2,502	\$ 783
Restricted ⁽¹⁾⁽⁹⁾	60,507	104,885	140,358	146,228	116,253
Committed ⁽¹⁾⁽⁵⁾⁽¹⁰⁾	50,560	147,053	130,891	109,474	116,497
Assigned ⁽¹¹⁾	8,717	5,575	6,162	11,189	28,869
Unassigned	112,321	91,353	99,555	106,508	111,057
Total Fund Balance	\$ 232,105	\$ 350,114	\$ 377,815	\$ 375,901	\$ 373,459
Total Liabilities & Fund Balance	\$ 322,721	\$ 450,068	\$ 487,477	\$ 501,355	\$ 457,183

(Footnotes (unaudited) to Table A-1 appear on next page)

-
- (1) Beginning in Fiscal Year 2014, additional funds were consolidated with the General Fund that had previously been presented separately in the Comprehensive Annual Financial Report.
 - (2) The increase in Fiscal Year 2016 is due to the accrual of the last Triple Flip payment as well as the increase of sales tax from 0.75% to 1% due to the ending of the Triple Flip. The 1% sales tax accrual continues in Fiscal Year 2017.
 - (3) The Fiscal Year 2014 amount includes an interfund loan to advance construction fund expenses charged to bond funds. The loan was repaid in Fiscal Year 2015 subsequent to receipt of bond construction fund proceeds from the Trustee.
 - (4) Beginning in Fiscal Year 2016, the outstanding receivable from the California Employers' Retiree Benefit Trust to draw funds for Retiree Health Care costs was reclassified from Advances to Other Agencies to Receivables From Other Agencies.
 - (5) Fiscal Year 2013 amounts were restated in Fiscal Year 2014 due to a correction of accrued expenditures.
 - (6) Fiscal Year 2017 Accrued Wages and Benefits decreased due to the pay period end date which created a reduction in the number of days to the end of the pay period which needed to be accrued.
 - (7) The increase beginning in Fiscal Year 2015 is due to Storm Water Low Flow Diversion Costs that are payable to the Wastewater Fund. This liability is reduced by annual payments.
 - (8) Government Accounting Standards Board Statement No. 65 ("GASB 65") was implemented in Fiscal Year 2014, eliminating use of the term deferred in the financial statements. Beginning in Fiscal Year 2014, Deferred Revenue is recorded as Deferred Inflows of Resources.
 - (9) The Restricted Fund Balance increase beginning in Fiscal Year 2014 is a result of a contribution to the emergency reserve of approximately \$27.1 million per the City's reserve policy and the consolidation of certain funds previously classified as special revenue. Beginning in Fiscal Year 2015, Restricted Fund Balance increased due to clarifying guidance on GASB 54 resulting in Committed Fund Balance being reclassified as Restricted Fund Balance. The Fiscal Year 2017 decrease is due to reclassification of funds previously consolidated with the General Fund.
 - (10) The increase in Committed Fund Balance beginning in Fiscal Year 2014 is a result of the consolidation of the Worker's Compensation Fund and Public Liability Fund.
 - (11) The increase in Assigned Fund Balance for Fiscal Year 2017 is due to the fund balance appropriations for the Fiscal Year 2018 Budget.

Source: Table: Fiscal Years 2013 - 2017 Comprehensive Annual Financial Reports, Comptroller's Office, City of San Diego.

Footnotes: Comptroller's Office, City of San Diego.

[Remainder of Page Intentionally Left Blank]

TABLE A-2
CITY OF SAN DIEGO
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE FOR THE GENERAL FUND
Fiscal Years Ended June 30, 2013 through 2017
(in thousands)
(audited)

	2013	2014	2015	2016	2017
REVENUES⁽¹⁾					
Property Taxes ⁽²⁾	\$ 412,204	\$ 460,592	\$ 449,244	\$ 471,321	\$ 506,197
Sales Taxes ⁽³⁾	240,922	254,219	265,295	284,448	280,558
Transient Occupancy Taxes ⁽⁴⁾	83,904	89,673	98,138	107,675	116,869
Franchises ⁽⁵⁾	-	-	-	-	86,992
Other Local Taxes ⁽⁵⁾⁽⁶⁾	74,691	117,347	129,940	131,010	32,541
Licenses and Permits ⁽⁷⁾	32,772	34,952	24,727	24,929	24,502
Fines, Forfeitures and Penalties ⁽⁸⁾	29,656	30,327	30,596	40,183	31,040
Revenues from Federal Agencies	1,341	1,875	579	240	104
Revenues from Other Agencies ⁽⁹⁾	7,645	7,399	11,910	9,526	22,694
Revenues from Private Sources	84	2,647	2,164	2,335	2,118
Revenues from Use of Money and Property	56,263	58,637	61,852	66,305	65,896
Charges for Current Services ⁽¹⁰⁾	155,389	186,547	211,459	231,825	247,733
Other Revenue ⁽¹¹⁾	<u>8,686</u>	<u>16,403</u>	<u>30,040</u>	<u>26,759</u>	<u>21,650</u>
Total Revenues	\$ 1,103,557	\$ 1,260,618	\$ 1,315,944	\$ 1,396,556	\$ 1,438,894
EXPENDITURES⁽¹⁾					
Current:					
General Government and Other Support Services	\$ 247,644	\$ 264,867	\$ 259,491	\$ 305,993	\$ 310,898
Neighborhood Services ⁽¹²⁾	30,994	28,295	37,642	39,310	32,868
Public Safety ⁽¹³⁾	599,333	652,266	657,123	673,375	682,816
Parks, Recreation and Culture	119,226	135,879	140,780	146,190	156,825
Transportation ⁽¹⁴⁾	58,813	65,178	69,446	88,797	105,122
Sanitation and Health	63,270	80,543	90,256	89,695	93,872
Capital Outlay ⁽¹⁵⁾	1,351	5,554	50,321	12,948	80,629
Debt Service:					
Principal Retirement ⁽¹⁶⁾	11,688	32,478	8,945	9,004	6,834
Interest	<u>4,905</u>	<u>1,979</u>	<u>1,309</u>	<u>3,742</u>	<u>5,771</u>
Total Expenditures	\$ 1,137,224	\$ 1,267,039	\$ 1,315,313	\$ 1,369,054	\$ 1,475,635
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(33,667)</u>	<u>(6,421)</u>	<u>631</u>	<u>27,502</u>	<u>(36,741)</u>
OTHER FINANCING SOURCES (USES)⁽¹⁾					
Transfers from Proprietary Funds ⁽¹⁰⁾	\$ 20,127	\$ 27,109	\$ 268	\$ 288	\$ 349
Transfers from Other Funds ⁽¹⁷⁾	85,228	27,798	34,628	41,304	38,039
Transfers to Proprietary Funds ⁽¹⁸⁾	(13,013)	(9,134)	(719)	(807)	(1,019)
Transfers to Other Funds ⁽¹⁹⁾	(61,665)	(37,804)	(52,182)	(77,366)	(48,884)
Proceeds from the Sale of Capital Assets	-	-	2	-	2,403
Capital Leases ⁽¹⁵⁾⁽¹⁶⁾	<u>2,824</u>	<u>22,850</u>	<u>45,073</u>	<u>6,624</u>	<u>72,440</u>
TOTAL OTHER FINANCING SOURCES (USES)	\$ 33,501	\$ 30,819	\$ 27,070	\$ (29,957)	\$ 63,328
Extraordinary Gain/Loss ⁽²⁰⁾	\$ (46,279)	\$ (21,067)	\$ -	\$ -	\$ -
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(46,445)	3,331	27,701	(2,455)	26,587
FUND BALANCE AT JULY 1⁽²¹⁾	<u>278,550</u>	<u>346,784</u>	<u>350,114</u>	<u>378,356</u>	<u>346,872</u>
FUND BALANCE AT FOLLOWING JUNE 30⁽²¹⁾	<u>\$ 232,105</u>	<u>\$ 350,115</u>	<u>\$ 377,815</u>	<u>\$ 375,901</u>	<u>\$ 373,459</u>

(Footnotes (unaudited) to Table A-2 appear on next page)

-
- (1) Beginning Fiscal Year 2014, additional funds were consolidated with the General Fund that had previously been presented separately in the Comprehensive Annual Financial Report.
 - (2) The increase in Fiscal Year 2014 is primarily due to a one-time residual distribution related to the Non-Housing DDR of the Successor Agency's Non-Housing Assets.
 - (3) The Sales Tax Triple Flip ended in Fiscal Year 2016.
 - (4) Includes the General Fund portion of Transient Occupancy Tax (5.5% of the 10.5% levy) only; the balance (5% of the 10.5% levy) is allocated to Special Promotional Programs. Of this 5% balance, approximately 1% may be budgeted in the General Fund as discretionary revenue and for Special Promotional Programs in the General Fund.
 - (5) Beginning in Fiscal Year 2017, Franchise Fees were separated from the Other Local Taxes category.
 - (6) Amounts include revenues from Franchise Fees and Property Transfer Tax. Starting Fiscal Year 2014, additional funds were consolidated into the General Fund, which include revenues previously classified under Gas Tax Fund and Environmental Growth Fund.
 - (7) Beginning in Fiscal Year 2015, Licenses and Permits decreased primarily due to Parking Meter revenues being collected in a newly established Parking Meter Operations Special Revenue Fund.
 - (8) The Fiscal Year 2016 increase was due to a lawsuit settlement related to the Mission Valley Terminal.
 - (9) The increase in Fiscal Year 2017 is due to a payment from the County for land annexation near Mount Hope Cemetery.
 - (10) Beginning in Fiscal Year 2015, information technology revenues were reclassified from Transfers from Proprietary Funds to Charges for Current Services.
 - (11) In Fiscal Year 2015, the City received settlements from various insurance companies relating to the clean-up of the San Diego Bay.
 - (12) Fiscal Year 2013 amount restated in Fiscal Year 2014 due to a correction of accrued expenditures.
 - (13) Fiscal Year 2014 Public Safety expenditures increased primarily due to increases in retirement contributions and flexible benefit costs.
 - (14) Transportation expenditures increased in Fiscal Year 2017 due to a public liability settlement.
 - (15) In Fiscal Year 2015 and 2017, the City entered into capital leases for City staff office space.
 - (16) Principal Retirement expenditures and Other Financing Sources Capital Leases increased in Fiscal Year 2014 due to the refinancing of certain capital leases.
 - (17) The decrease beginning in Fiscal Year 2014 is due to the consolidation of funds that were previously presented separately as stated in Footnote 1.
 - (18) Beginning in Fiscal Year 2015, the decrease in Transfers to Proprietary Funds is due to the reclassification of money provided to Fleet Services to purchase vehicles. In prior years, this was treated as a transfer; however, in Fiscal Year 2015 the transfer was reclassified to be an expenditure.
 - (19) In Fiscal Year 2015, the General Fund contribution to CIP projects increased by approximately \$11 million. The increase in Fiscal Year 2016 Transfers Out is due to the creation of the Pension Stabilization Reserve and contributions to CIP projects. The Fiscal Year 2016 transfers did not occur in Fiscal Year 2017.
 - (20) In Fiscal Year 2013, the extraordinary loss was due to the establishment of an allowance for uncollectible interfund loans from the Successor Agency. In Fiscal Year 2014, the extraordinary loss was due to a one-time payment to the Successor Agency to partially fund the Due Diligence Review payment.
 - (21) Beginning in Fiscal Year 2014 fund balance increased due to the consolidation of funds, pursuant to GASB 54, that had previously been reported separately from the General Fund in the CAFR. Beginning fund balance may not tie to previous year's ending fund balance due to the addition and removal of funds consolidated with the General Fund pursuant to GASB 54.

Source: Table: Fiscal Years 2013-2017 Comprehensive Annual Financial Reports, Comptroller's Office, City of San Diego.

Footnotes: Comptroller's Office, City of San Diego.

General Fund Operating Budget Summary

Set forth in Table A-3 below are the City's actual results on a budgetary basis for Fiscal Year 2016 and Fiscal Year 2017, and the City's Fiscal Year 2018 Adopted Budget for the General Fund. The following includes only those funds associated with General Fund operations as reported in the City's budget and excludes the additional budgeted funds included with the General Fund for GAAP reporting purposes.

TABLE A-3
CITY OF SAN DIEGO
GENERAL FUND
OPERATING BUDGET SUMMARY
Fiscal Years 2016 through 2018
(in thousands)
(unaudited)

	<i>Fiscal Year 2016</i>	<i>Fiscal Year 2017</i>	<i>Fiscal Year 2018</i>
	<i>Actuals on a Budgetary Basis⁽¹⁾</i>	<i>Actuals on a Budgetary Basis⁽¹⁾</i>	<i>Adopted Budget</i>
REVENUE SOURCES:			
Property Tax	\$ 471,321	\$ 506,197	\$ 534,621
Sales Tax	275,664	271,522	275,307
Property Transfer Tax	10,485	9,529	10,069
Transient Occupancy Tax	107,675	116,869	121,054
Licenses and Permits	24,929	24,502	21,663
Fines, Forfeitures, and Penalties	40,183	31,015	31,851
Interest Earnings	716	308	671
Franchises	81,929	73,080	75,087
Other Rents and Concessions	53,647	60,838	57,771
Revenue from Other Agencies/Private Sources	10,478	24,837	4,483
Charges for Current Services	133,648	141,869	152,804
Transfers from Other Funds ⁽²⁾	80,268	82,483	117,789
Other Revenue	7,874	3,658	4,575
Fund Balance Appropriation ⁽³⁾	-	-	26,075
Total General Fund Revenues and Transfers⁽⁴⁾	\$ 1,298,817	\$ 1,346,707	\$ 1,433,823
EXPENDITURES:			
Public Safety ⁽⁵⁾	\$ 662,866	\$ 681,282	\$ 725,951
Parks, Recreation, Culture and Leisure	144,650	155,192	161,995
Sanitation and Health	85,505	93,772	91,508
Transportation	59,739	64,890	65,677
Neighborhood Services	27,957	29,014	31,149
General Government and Support ⁽⁶⁾	229,247	232,541	269,320
Capital Projects	2,244	2,123	1,553
Debt Service	5,908	9,253	5,440
Transfers to Other Funds ⁽⁷⁾	88,493	52,813	81,232
Total General Fund Expenditures and Transfers⁽⁴⁾	\$ 1,306,609	\$ 1,320,880	\$ 1,433,823

⁽¹⁾ Actuals on a Budgetary Basis are prepared using the modified accrual basis of accounting except that (1) the increase/decrease for advances and deposits are considered as additions/deductions of expenditures, and (2) unrealized gains/losses resulting from the change in fair value of investments are excluded.

- (2) The Fiscal Year 2018 increase in Transfers from Other Funds is primarily due to one time transfers of \$17 million from the Pension Stabilization Fund, \$10 million from excess reserves in Workers Compensation Fund and \$8.5 million from the Stadium Operations Fund.
- (3) The Fiscal Year 2018 Adopted General Fund Budget includes an appropriation of fund balance of \$26.1 million for various one-time expenditures.
- (4) The Fiscal Year 2018 Adopted Budget General Fund Revenues and Expenditures total does not foot due to rounding.
- (5) The Fiscal Year 2018 increase in Public Safety is primarily due to increases in personnel and fringe expenditures for the Police and Fire Departments, which includes contributions to the City's Pension.
- (6) The Fiscal Year 2018 increase in General Government and Support is primarily due to \$9 million increase in rent payments due to the purchase of 101 Ash St. building, \$5 million for a special citywide election and increases to personnel and fringe expenditures which includes contributions to the City's Pension.
- (7) The Fiscal Year 2018 increase in Transfers to Other Funds is primarily due to transfers of \$17.8 million to the Infrastructure Fund, and \$10 million for prefunding of the Fiscal Year 2019 General Fund reserves contribution.

Source: Table: Fiscal Year 2016 and Fiscal Year 2017: Comprehensive Annual Financial Reports, Comptroller's Office, City of San Diego; Fiscal Year 2018: Adopted Budget, Financial Management, City of San Diego.

Footnotes: Comptroller's Office, City of San Diego; and Financial Management, City of San Diego

Fiscal Year 2018 Adopted Budget

The City's budget for Fiscal Year 2018 (the "Fiscal Year 2018 Adopted Budget") reflects a balanced General Fund budget of \$1.43 billion and is available on the City's website. The General Fund budget is approximately 39.4% of the City's total Fiscal Year 2018 Adopted Budget of \$3.64 billion. The General Fund budgeted expenditure level for Fiscal Year 2018 reflects a net increase of \$112.9 million, compared to the General Fund actuals on a budgetary basis for Fiscal Year 2017 at \$1.32 billion, primarily due to a \$45.2 million increase in the Actuarially Determined Contribution to the pension system due to new demographic assumptions, investment loss, discount and inflation rate reduction, and liability experience loss, a \$16.7 million increase in flexible benefit allotments resulting from non-pensionable benefit increases outlined in labor agreements between the City and the six recognized employee organizations, and a \$17.8 million transfer to the newly created Infrastructure Fund as a result of implementing Charter Section 77.1. See "Infrastructure Fund."

The Fiscal Year 2018 Adopted Budget General Fund expenditures are higher than the General Fund revenues by \$26.1 million which is supported by the appropriation of prior year-end fund balance. The Fiscal Year 2018 Adopted General Fund Budget includes 7,527.43 budgeted full-time equivalent ("FTE") positions, a net decrease of 3.26 FTE positions from the Fiscal Year 2017 Adopted General Fund Budget.

Excluding the appropriation of fund balance, the General Fund's four largest revenue sources - property tax (38.0%), sales tax (19.6%), transient occupancy tax ("TOT") (8.6%), and franchise fees (5.3%) - account for approximately \$1.00 billion or 71.5% of the total budgeted General Fund revenues in Fiscal Year 2018.

Fiscal Year 2018 Budget Monitoring

The City released the First Quarter Monitoring Report on October 24, 2017. It included updates on major General Fund revenue projections and expenses.

The City released the Mid-Year Budget Monitoring Report on January 29, 2018. It included updates on major General Fund revenue projections, General Fund expenditures, updates on General Fund and Risk Management reserves, and a discussion of non-General Fund expenditures with significant budget variances. Major General Fund revenues are projected to be \$7.0 million higher than in the adopted budget primarily due to higher projections in TOT, Franchise Fees, and Departmental revenue. General Fund expenditures are projected to be \$12.6 million higher than the Adopted Budget primarily due to unanticipated expenditures associated with county health emergencies, homeless initiatives, and Fire-Rescue air operations during extreme fire weather conditions. As a result, the net projected overage is \$5.6 million which will be covered with use of fund balance in excess of reserves. This use of fund balance is in excess of the \$10.3 million set aside in

Fiscal Year 2018 to prefund the Fiscal Year 2019 reserve contribution goal of 15.25%. The Fiscal Year 2018 year-end revenue and expenditure projections, based on third-quarter results, will be released in May 2018.

Five-Year Financial Outlook

The City's Fiscal Year 2019-2023 Five-Year Financial Outlook ("Five-Year Outlook") released in November 2017 is focused on the City's General Fund, guides long-range fiscal planning and serves as the framework for the development of the Fiscal Year 2019 Adopted Budget. The Five-Year Outlook is based on the Fiscal Year 2018 Budget and incorporates projected General Fund revenues, the methodology for those projections, and priority appropriation needs in General Fund departments over the next five fiscal years. This Five-Year Outlook includes priority initiatives identified by the Mayor for the Fiscal Years 2019-2023 and provides additional information on critical strategic expenditures for the City over the outlook period. This document is not a budget, and therefore does not include all departmental needs that may be identified and considered in the preparation of the Fiscal Year 2019 Proposed Budget and future budgets. New revenues and expenditures for programs and services in addition to the General Fund's ongoing revenues and expenditures are included in the Fiscal Year 2019-2023 projections.

The Five-Year Outlook projects that all four major revenue sources (property tax, sales tax, transient occupancy tax, and franchise fees) will increase in Fiscal Year 2019; however, in outer years of the Five-Year Outlook the rate of increase is expected to slow. This overall expectation and projection for the City's revenues is consistent with information received from the City's sales tax consultant (Avenu Insights & Analytics), the San Diego Tourism Authority, and the UCLA Anderson Forecast.

As of the publication date of the Five-Year Outlook, the City's Fiscal Year 2019-2023 expenditure projections will exceed revenue projections for the next three Fiscal Years (\$10.1 million in Fiscal Year 2019, \$34.6 million in Fiscal Year 2020, and \$19.8 million in Fiscal Year 2021). Fiscal Years 2022 and 2023 have projected revenue exceeding projected expenses by \$5.6 million and \$59.3 million, respectively. The suspension of pensionable pay increases pursuant to Proposition B ends with Fiscal Year 2018. The Five-Year Outlook's Salary and Wages section includes projections for salary increases based on the existing or tentative Memoranda of Understanding of the various recognized employee organizations as of the publication of the report. The Police Officers Association projection includes salary increases of 25.6%-30.6% (based on years of service) across Fiscal Years 2019 and 2020 and the projection for Deputy City Attorneys Association of San Diego provides for a 3.3% increase in Fiscal Year 2019. Projected salary increases for the unrepresented employees and the remaining recognized employee organizations (Local 127, Local 145, Teamsters 911, and Municipal Employees Association) were projected at 6.6% across Fiscal Years 2019 and 2020, with additional increases of 12.5% over the same period for Fire Dispatchers holding an Emergency Medical Certification. These agreements with the various recognized employee organizations and unrepresented employees represent a \$323.2 million cumulative increase over baseline expenditures for expected salaries, wages and flexible benefits during the period covered by the Five-Year Outlook. Additional information regarding approved labor agreements is described in the "LABOR RELATIONS" section.

The Five-Year Outlook presents three potential mitigation actions that could be proposed to address these deficits: use of excess General Fund equity from Fiscal Year 2017, delaying contributions to reserves, and requesting budget reductions as part of the Fiscal Year 2019 Budget. As the Five-Year Outlook is not a budget, any potential mitigations will be addressed during the preparation of the Fiscal Year 2019 Proposed Budget.

On September 8, 2017, the San Diego City Employees' Retirement System ("SDCERS") Board of Administration (the "Board") approved changes to actuarial assumptions, including the lowering of actuarially assumed investment earnings on an incremental basis over the next two valuation reports and a smoothing of future pension payments. SDCERS provided the City with updated estimates based on the actuarial assumptions, data and methods that were used in the preparation of the Actuarial Valuation Report as of June 30, 2016 with specific changes to certain assumptions and methods. It is important to note that the City

generally relies on the most recently completed actuarial valuation for development of the Five-Year Outlook. However, due to significant changes in assumptions, the City included these more recent estimates prepared by SDCERS' actuary in September 2017. After the publication of the Five-Year Outlook in November 2017, SDCERS actuary completed the June 30, 2017 actuarial valuation. The actuarially determined contributions ("ADC") included in the June 30, 2017 actuarial valuation are higher compared to those included in the Five-Year Outlook. The projected increases in the ADC compared to the ADC assumed in the Five-Year Outlook range from an incremental increase of \$10.6 million in Fiscal Year 2019 up to a \$34.4 million increase in Fiscal Year 2023. Approximately 72.9% of the ADC is allocated to the General Fund in Fiscal Year 2018, and this allocation may vary each year based on budgeted employees. These projected increases to the ADC will increase General Fund expenditures, increase projected deficits, decrease projected surpluses and may limit the City's ability to address priority initiatives identified in the Five-Year Outlook. See "SAN DIEGO CITY EMPLOYEES' RETIREMENT SYSTEM" below.

The SDCERS Board is expected to adopt the June 30, 2017 Actuarial Valuation in March 2018. The revenue and expenditure projections in the Five-Year Outlook, including the projected increase to the ADC payment, will be reviewed and updated during the development of the Fiscal Year 2019 Proposed Budget discussed below.

Fiscal Year 2019 Proposed Budget [To Be Updated]

The Mayor's Fiscal Year 2019 Proposed Budget will be released by April 15, 2018 as required by the City Charter. In anticipation of the projected shortfalls in the Five-Year Outlook for Fiscal Year 2019 and 2020, the Chief Operating Officer has required that all General Fund Departments submit budget reduction proposals totaling 2% of the Department's 2018 Adopted Budget. These budget reductions will be evaluated and potentially accepted in order to submit a balanced budget, as required by the City Charter.

Reserves

City Reserve Policy

In 2008, the City established a formal city reserve policy ("City Reserve Policy"). With respect to the General Fund, the City Reserve Policy generally includes two broad categories—the General Fund Reserves and the Risk Management Reserves—that are then composed of specific reserve areas with individual reserve requirements. A separate, Pension Payment Stabilization Reserve was added to the City Reserve Policy in 2016. The City Reserve Policy is reviewed biennially. Changes are approved by the City Council and incorporated into Council Policy 100-20. The most recent updates to the City Reserve Policy were approved by the City Council on November 20, 2017. The City Reserve Policy is available on the City's website.

General Fund Reserves

Pursuant to San Diego Charter section 91.1, the General Fund Reserves are composed of an Emergency Reserve and a Stability Reserve. By Charter, the Emergency Reserve may be appropriated by a two-thirds vote of the City Council in the event of a significant emergency or economic downturn, unanticipated liability, or adverse litigation that affects revenues and expenditures on the General Fund. Use of the Stability Reserve is governed by the City Reserve Policy, as is the reserve level for both the Emergency Reserve and the Stability Reserve.

General Fund reserve levels are set as a percentage of General Fund revenues.¹ According to the City Reserve Policy, the Emergency Reserve level shall be 8.0% of General Fund revenues and the Stability

¹ For General Fund Reserve purposes, General Fund revenues are measured as a rolling three-year average of audited General Fund operating revenues. For Fiscal Year 2017, General Fund Reserve levels are based on audited General Fund operating revenues for Fiscal Years 2015-2017.

Reserve level shall be 8.7% of General Fund revenues. The City expects to reach its total General Fund Reserve policy goal of 16.7% of General Fund revenues by Fiscal Year 2025. The Emergency Reserve is fully funded and the Stability Reserve is anticipated to be 7.0% at the end of Fiscal Year 2018, for total General Fund Reserves of 15% of General Fund revenues.

In the event that reserve balances are reduced below the amount established by the City Reserve Policy, the Mayor is required to prepare a plan as promptly as conditions warrant to replenish the reserve balance to policy levels.

Emergency Reserve. The Emergency Reserve is intended to sustain General Fund operations in the case of a public emergency such as a natural disaster or other unforeseen catastrophic event and may not be used to meet operating shortfalls or to fund new programs or personnel. Appropriation of the Emergency Reserve requires a two-thirds majority of the City Council.

Stability Reserve. The Stability Reserve is intended to mitigate financial and service delivery risk due to unexpected revenue shortfalls or unanticipated critical expenditures. This reserve may be used to provide budgetary stabilization but not as an alternative funding source for new programs. Recommendations to appropriate from the Stability Reserve are made by the Mayor and require approval of a majority of the City Council.

In addition to the Emergency Reserve and the Stability Reserve, the City tracks unrestricted General Fund fund balance, which is called Excess Equity in the City Reserve Policy. On June 30, 2017, the audited fund balance of the General Fund Reserves, plus Excess Equity, was \$218.2 million, which is 16.3% of General Fund revenues. Excess Equity is spendable and not considered for reserve policy funding requirements. According to the Mid-Year Budget Monitoring Report, General Fund Reserves plus Excess Equity is projected to be \$203.9 million, or 16.9% of General Fund revenues, at the end of Fiscal Year 2018.

The General Fund Reserves target for Fiscal Year 2018 is \$181.3 million. The City expects to exceed this target and has prefunded the Fiscal Year 2019 contribution to the Stability Reserve in Fiscal Year 2018 in an amount of \$10.3 million. Projected Excess Equity at the end of Fiscal Year 2018 is \$12.3 million, which is unrestricted, spendable and available for budgeting in Fiscal Year 2019.

Risk Management Reserves

Additionally, the City maintains separate Risk Management Reserves in order to provide funding for claims made against the City. The Risk Management Reserves include the Workers' Compensation Fund Reserve, the Long-Term Disability Fund Reserve, and the Public Liability Fund Reserve. See "RISK MANAGEMENT – Self Insurance – Workers' Compensation and Long-Term Disability" and "– Public Liability Insurance" herein.

All operating funds including General Fund and the enterprise funds contribute a pro rata amount equal to a specified rate based on the gross employee salaries paid from all the operating funds, to both the Workers' Compensation Reserve and the Long-Term Disability Reserve. These contributions consist of the funding for current expenditures and for the annual reserve contributions as specified in the Revised Reserve Policy.

Workers' Compensation Reserve. The Workers' Compensation Reserve is maintained as a contingency in the event the annual expense for claims exceeds the annual "pay-go" budgeted amount. The Worker's Compensation Reserve is included within the General Fund and reported as committed fund balance. Consistent with the Revised Reserve Policy, year to year fluctuations in the City's outstanding liability are factored into the City's Workers' Compensation contributions to achieve a target reserve level equal to 12% of the average outstanding liability for the three most recent fiscal years. This amount is approximately one year of operating cash for the Workers' Compensation Program.

As of June 30, 2017, the outstanding cash balance in the Workers' Compensation Reserve was \$54.1 million, or 22% of the average outstanding liability reported in the actuarial valuations for Fiscal Year 2015 through Fiscal Year 2017. The City projects that it will end Fiscal Year 2018 with a \$41.2 million balance in the Workers' Compensation Reserve, which achieves the 12.0% target of \$30 million and is \$11.2 million in excess of the reserve target. The projected fund balance reduction is primarily attributed to two transfers to other reserves – \$7 million to the Stability Reserve and \$3.1 million to the Public Liability Reserve. The remaining projected fund balance reduction is attributed to rate relief for contributing departments.

Long-Term Disability Reserve. The Long-Term Disability Reserve is maintained to fund self-insured claims in the event the annual expense for a claim exceeds the annual "pay-go" budgeted amount. The Long-Term Disability Reserve is maintained in a separate internal service fund. As of June 30, 2017, the outstanding cash balance in the Long Term Disability Reserve was \$18.2 million, or 333% of the average outstanding liability reported in the actuarial valuations for Fiscal Year 2015 through Fiscal Year 2017. The City projects that it will end Fiscal Year 2018 with a \$16.0 million balance in the Long-Term Disability Reserve, which achieves the 100% target of \$5.5 million and is \$10.5 million in excess of the reserve target. The projected fund balance reduction is primarily attributed to rate relief for contributing departments.

Public Liability Reserve. The Public Liability Reserve is maintained as a contingency in the event the annual expense for claims exceeds the "pay-go" budgeted amount. The Public Liability Reserve is included within the General Fund and reported as committed fund balance. Consistent with the Revised Reserve Policy, year to year fluctuations in the City's outstanding liability are factored into the City's Public Liability Fund contributions to achieve certain incremental reserve targets annually and achieve a final target reserve level equal to 50% of current estimated outstanding public liability obligations by Fiscal Year 2019.

The Public Liability Reserve is solely funded from the City General Fund, as approved by City Council in the annual budget ordinance, including funding for current expenditures to maintain reserve levels as specified in the Revised Reserve Policy.

The cash balance in the Public Liability Reserve was \$33.6 million as of June 30, 2017 and the reserve target for Fiscal Year 2018 is \$32.6 million, or 47%. The City expects to end Fiscal Year 2018 with a \$36.7 million balance in the Public Liability Reserve, which is \$4.1 million over the 47% target.

Pension Stabilization Reserve

In 2016, the City Council added a new reserve to the City Reserve Policy called the Pension Payment Stabilization Reserve (the "Pension Reserve"), which includes other operating funds in addition to the General Fund. The Pension Reserve may be used to supplement the City's pension payment, or Actuarially Determined Contribution ("ADC"). The City Reserve Policy calls for a Pension Reserve level of up to 8% of the average of the General Fund's portion of the last three years of the ADC. The Pension Reserve may be budgeted in any year there is an increase in the City's ADC.

The Fiscal Year 2018 Adopted Budget included the use of the entire Pension Reserve, which included \$16 million in General Fund contributions, to mitigate the impact to General Fund services of a significant increase in the City's ADC. The City Reserve Policy requires the Mayor to prepare a plan to replenish the Pension Reserve to policy levels. The forecast for reserve contributions in the Fiscal Year 2019-2023 Five-Year Financial Outlook Report includes a plan to replenish the Pension Reserve on an incremental basis of 20.0%, or approximately \$3.5 million per year, to achieve the full reserve target by Fiscal Year 2023. Full funding of the Pension Reserve in Fiscal Year 2018 would require a \$16.4 million General Fund contribution based on the average ADC between Fiscal Years 2016 and 2018.

Potential Impacts from Federal and State Budget

Federal fiscal policies and State budget actions can impact the City General Fund adversely. Direct funding contributed by federal and state governments for the City General Fund for Fiscal Year 2017 was less than 1% of revenues and is also less than 1% of revenues in the Fiscal Year 2018 Adopted Budget. Although federal and State contributions are not a major revenue source to the City General Fund, federal and State budget decisions can negatively impact the local economy which, in turn, can result in lower revenues to the City General Fund from the major sources such as property taxes, sales taxes and TOT revenues.

Given the uncertainty regarding federal fiscal policy and its impact on the State, and the inherent volatility in the State's revenue system, the City cannot fully anticipate the impacts of these factors on the revenues or expenditures of the City. The City cannot predict the extent of any fiscal problems that will be encountered in this or in any future Fiscal Years, and it is not clear what measures will be taken by the State or federal government to address current or future economic conditions. Future federal and State budgets will be affected by national economic conditions and other factors over which the City will have no control. Also, the City cannot predict what actions will be taken in the future by the State Legislature and the Governor to address the State's budget challenges, or the impact that such actions will have on the City's finances and operations. To the extent that the State budget process results in reduced revenues or increased expenses to the City, the City will be required to make adjustments to its budget. See "STATE BUDGET INFORMATION" herein.

Major Revenue Sources

Property Taxes

Property tax revenue is the City's largest revenue source, representing 38.0% of the total General Fund revenue for the Fiscal Year 2018 Adopted Budget. The County of San Diego (the "County") assesses and collects secured and unsecured property taxes for the cities, school districts, and special districts within the County, including the City. The delinquency dates for property tax payments are December 10 for the first installment and April 10 for the second installment. Once the property taxes are collected, the County conducts its internal reconciliation for accounting purposes and distributes the City's share of such taxes to the City, periodically and typically pursuant to a published schedule. Prior to distribution, the moneys are deposited in an account established on behalf of the City in the County Treasurer's Investment Pool (the "Pool"). If the County or the Pool were at any time to become subject to bankruptcy proceedings, it is possible that City property taxes held in the Pool, if any, could be temporarily unavailable to the City. In the event of such an occurrence, the City believes that General Fund revenue requirements could be met for a limited period of time through the use of other City funds. *Ad valorem* taxes are subject to constitutional limits as discussed under the section "LIMITATIONS ON TAXES AND APPROPRIATIONS." The City does not participate in a Teeter Plan, which is an alternate method for allocating property taxes by counties. A Teeter Plan allows counties to allocate 100% of property taxes levied for a city in exchange for retaining future delinquent tax payments, penalties and interest. Since the City does not participate in the Teeter Plan, it receives taxes, penalties and interest on delinquent taxes as collected by the County.

Taxes are levied for each Fiscal Year on taxable real and personal property which is situated in the City as of the preceding January 1. For assessment and collection purposes, property is classified either as "secured" or "unsecured" and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing the taxes on which there is a lien on real property sufficient, in the opinion of the County Assessor, to secure payment of the taxes. Other property is assessed on the "unsecured roll."

Property taxes on the secured roll are due in two installments, on November 1 and February 1 of the Fiscal Year. If unpaid, such taxes become delinquent on December 10 and April 10, respectively, and a 10% penalty attaches to any delinquent payment. If not paid, the property is subject to default. Such property may

be redeemed by payment of the delinquent taxes and the delinquent penalty, plus a redemption penalty of 1.5% per month from July 1 of the following year to the time of redemption. If taxes are unpaid for a period of five years or more, the property is subject to sale by the County Tax Collector.

Property taxes on the unsecured roll are due following the January 1 lien date and become delinquent, if unpaid, on August 31 of the Fiscal Year. A 10% penalty attaches to delinquent taxes on property on the unsecured roll, and an additional penalty of 1.5% per month begins to accrue beginning November 1 of the Fiscal Year. The taxing authority has four ways of collecting unsecured personal property taxes: (a) commencing a civil action against the taxpayer; (b) filing a certificate in the office of the County Clerk specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer; (c) filing a certificate of delinquency for record in the County Recorder's Office, in order to obtain a lien on certain property of the taxpayer; and (d) seizing and selling personal property, improvements or possessory interests belonging or assessed to the assessee.

A supplemental assessment occurs upon a change of ownership of existing property and for new construction upon completion. A supplemental tax bill is issued for the difference in property value resulting from the increase or decrease in assessed value prorated for the remainder of the year.

Effective July 1, 1988, Assembly Bill 454, Chapter 921, eliminated the reporting of the unitary valuations pertaining to public utilities such as San Diego Gas and Electric. In lieu of the property tax on these previously included assessed valuations, the City now receives from the State (through the County) an amount of unitary revenue based upon the unitary property tax received in the prior year.

Property taxes allocated to the City include an amount to compensate cities for the loss of motor vehicle license fees. Motor Vehicle License Fees ("MVLFF" or "VLF") are levied as a percentage of an automobile's purchase price, subject to depreciation, and are paid annually to the California Department of Motor Vehicles at the time of registration. The fees are then forwarded to the State Controller's Office, which allocates the funds to local governments per capita on a monthly basis. Beginning in 1999, the MVLFF underwent a series of offsets, first initiated by the State Legislature as part of the 1998-1999 Budget agreement. These offsets ultimately resulted in a 67.0% reduction in the effective MVLFF rate, from 2.0% of a vehicle's value to 0.65%. To compensate cities and counties for the tax offset, the State began providing State General Fund revenue to cities and counties on a dollar-for-dollar basis, known as the MVLFF backfill. As part of the Fiscal Year 2005 State Budget agreement, the MVLFF rate was statutorily reduced to 0.65%, thereby eliminating the MVLFF backfill. Cities were compensated for the loss in MVLFF revenue with increased property tax revenues from the State in lieu of the MVLFF revenue. Although the MVLFF rate has subsequently increased, the City does not share in this increase.

As a result of Assembly Bill x1 26 (AB 26) enacted by the State Legislature in June 2011 and a decision issued by the California Supreme Court in December 2011, each redevelopment agency in California dissolved as of February 1, 2012, at which time a successor agency assumed responsibility for winding down its operations. As a result, the distribution of property tax revenues to the former San Diego Redevelopment Agency has not occurred since Fiscal Year 2012. Funding for continuing obligations as approved by the State Department of Finance is distributed to the City as the Successor Agency from the Redevelopment Property Tax Trust Fund (RPTTF). Residual funds remaining in the RPTTF after the Successor Agency's enforceable obligations are met are distributed to the local taxing entities per appropriate allocation formulas.

In 2017, the City established a financing district for a developing area of the City, and property tax increases in that area will be applied to fund infrastructure related to the district and will not be available for General Fund expenditures. See "— Enhanced Infrastructure Financing District" below.

Property taxes allocated to the City also include a special tax levy of \$0.005 per \$100 of assessed value, authorized by the Charter for the maintenance of zoological exhibits in Balboa Park. As required by the Charter, these revenues are collected in the Zoological Exhibits Fund, a special revenue fund. These funds are

then remitted to the San Diego Zoological Society, a not-for-profit corporation independent from the City that manages the zoo, in accordance with a contractual agreement with such society.

Fiscal Year 2018 Property Tax Budget. The total Fiscal Year 2018 property tax budget is \$534.6 million, which includes additional property tax distributions from the Former RDA. See “—Former Redevelopment Agency” below. The Fiscal Year 2018 Adopted Budget for property tax revenue, excluding property tax revenue from the Former RDA, is \$507.8 million, consisting of \$372.0 million of 1% property tax levy and \$135.8 million of “in-lieu of VLF” property tax revenue. The property tax budget was developed based on a property tax growth rate of 5.0% reflecting stronger home sales, increases in median home price, a positive California CPI in calendar year 2016 and a projected decrease in the number of foreclosures. In addition, the Fiscal Year 2018 Adopted Budget includes \$8.3 million in tax sharing pass-through payment from the Former RDA as part of the Recognized Obligations Payment Schedule (“ROPS”), and \$18.5 million in anticipated residual property tax payments. The residual property tax payments are the City's proportionate share of funds remaining in the Redevelopment Property Tax Trust Fund (“RPTTF”) after ROPS requirements have been met.

The Fiscal Year 2018 budget reflects a projected 5.0% property tax growth rate; however, the City has experienced an increase in assessed value of 6.4% for calendar year 2016. This is 1.3% higher than the 5.0% budgeted property tax growth rate leading to the slight increase in the 1.0% property tax base, the Motor Vehicle License Fee (“MVL”) backfill payment, and the projected RPTTF tax sharing pass-through payments.

In the Fiscal Year 2018 Mid-Year Budget Monitoring Report, property tax revenue is projected to be slightly under budget by \$1.8 million due to lower than expected RPTTF residual property tax from the Former RDA. The projected residual property tax payment is approximately \$14.2 million or \$4.4 million below the Fiscal Year 2018 budget amount. These projections are based on enforceable obligations included on the most recent ROPS submission to the State Department of Finance as approved by the City Council on January 9, 2018 and was approved by the Oversight Board on January 22, 2018. Exclusive of the reclassification of RDA property sales between pass through and residual categories, total RPTTF distributions are expected to be \$5.9 million below budget based on updated RPTTF projections.

Another factor that may influence the property tax forecast relates to the California Department of Finance’s (“DOF”) review and denial or approval of enforceable obligations on the ROPS. If enforceable obligations are denied, the ROPS payment will decrease and lead to an increase in the RPTTF residual balance available for distribution to local entities. A decrease in enforceable obligations due to a denial will increase the City’s RPTTF residual payment throughout all fiscal years of the Outlook. A significant variable in the ROPS enforceable obligations is the dollar amount and terms of the repayment of various outstanding loan agreements.

Lastly, there are two outstanding legal challenges that may influence the property tax forecast for the City. First, a dispute between the County of San Diego and various local entities within the County, involves how the RPTTF residual payments are calculated and distributed every six months. The trial court’s decision in favor of the City and other local entities is currently on appeal, and an appellate decision is expected in late 2018 or early 2019. If the trial court’s decision is upheld, the City would be compensated for any past underpayment of RPTTF residual amounts and would receive an increase in RPTTF residual payments going forward throughout the Outlook period. Currently, the alleged underpayments are estimated to be at least \$35.0 million.

The second dispute involves the San Diego County Office of Education and other school districts against numerous city successor agencies including the City of San Diego Successor Agency regarding the distribution of funds from the RPTTF to taxing entities. Should the school districts receive a favorable decision, the City liability is estimated to be between \$2.0 to \$13.0 million.

For information concerning Fiscal Year 2018, see “CITY BUDGET AND RELATED MATTERS — Fiscal Year 2018 Adopted Budget” and “— Fiscal Year 2018 Budget Monitoring.”

Table A-4 presents the assessed valuation within the City for the current Fiscal Year and each of the previous nine Fiscal Years.

TABLE A-4
CITY OF SAN DIEGO
ASSESSED VALUATION ⁽¹⁾⁽²⁾⁽³⁾
Fiscal Years Ended June 30, 2009 through 2018
(in thousands except for percentages)
(unaudited)

<i>Fiscal Year</i>	<i>Secured Property</i>	<i>Unsecured Property</i>	<i>Total Gross Taxable Assessed Valuation⁽⁴⁾</i>	<i>Annual Assessed Valuation % Change</i>
2009	\$180,350,012	\$ 8,798,579	\$189,148,591	5.72%
2010	178,991,464	9,076,918	188,068,382	(0.57)
2011	176,479,695	8,826,634	185,306,329	(1.47)
2012	177,922,657	8,581,900	186,504,557	0.65
2013	177,302,834	8,762,568	186,065,402	(0.24)
2014	184,757,252	9,213,896	193,971,148	4.25
2015	196,336,515	9,686,457	206,022,972	6.21
2016	208,467,408	9,938,948	218,406,356	6.01
2017	220,872,043	9,940,131	230,812,174	5.68
2018	234,912,899	10,580,839	245,493,738	6.36

⁽¹⁾ The official date of assessment is the first day of January preceding the Fiscal Year during which taxes are levied. For example, January 1, 2017 is the official assessment date for property taxes due during Fiscal Year 2018.

⁽²⁾ Includes only locally assessed values.

⁽³⁾ Includes incremental value allocated to former redevelopment project areas.

⁽⁴⁾ Total gross taxable assessed valuation before various exemptions are deducted. Fiscal Year 2018 exemptions equaled approximately \$11.8 million.

Source: Fiscal Years 2009 – 2017: Comprehensive Annual Financial Report Statistical Section (unaudited), Comptroller’s Office, City of San Diego. Fiscal Year 2018 data is from the San Diego County Assessor as compiled by MuniServices, LLC.

[Remainder of Page Intentionally Left Blank]

Table A-5 shows the City's secured tax collections for each of the ten Fiscal Years shown.

TABLE A-5
SECURED TAX LEVIES AND COLLECTIONS⁽¹⁾
Fiscal Years 2008 through 2017
(in thousands except for percentages)
(unaudited)

<i>Fiscal Year</i>	<i>Tax Levy⁽²⁾</i>	<i>Current Year Collections⁽²⁾</i>	<i>Current Year Collections as Percentage of Current Tax Levy</i>	<i>Total Tax Collections⁽³⁾</i>	<i>Total Collections as Percentage of Current Tax Levy</i>
2008	\$299,911	\$283,716	94.60%	\$294,717	98.27%
2009	303,593	290,480	95.68	300,881	99.11
2010	297,217	286,303	96.33	293,934	98.90
2011	293,624	285,913	97.37	290,653	98.99
2012	296,007	289,530	97.81	293,471	99.14
2013	299,332	293,577	98.08	296,286	98.98
2014	315,060	308,606	97.95	311,010	98.71
2015	331,187	325,794	98.37	328,253	99.11
2016	330,483	327,903	99.22	329,727	99.77
2017	349,650	346,510	99.10	346,510	99.10

⁽¹⁾ Includes Secured Property Tax Levies and Collections for the General Fund and Zoological Exhibits Fund.

⁽²⁾ Taxes levied and collected for the year include the local assessment only.

⁽³⁾ Includes delinquent collections, net of penalties and interest.

Source: Fiscal Year 2017 Comprehensive Annual Financial Report Statistical Section (unaudited), Comptroller's Office, City of San Diego.

[Remainder of Page Intentionally Left Blank]

Table A-6 below indicates the ten largest secured and unsecured property taxpayers in the City for the tax roll of Fiscal Year 2017.

TABLE A-6
PRINCIPAL PROPERTY TAXPAYERS IN CITY OF SAN DIEGO
Tax Roll for Fiscal Year 2017
(in thousands, except for percentages)
(unaudited)

<i>Taxpayers</i>	<i>Type of Business</i>	<i>Taxable Assessed Value</i>	<i>Percent of Total City Taxable Assessed Value</i>
Irvine Company, LLC	Real Estate	\$ 2,824,024	1.29%
Qualcomm, Inc.	Electronics	2,033,760	0.93
Kilroy Realty, LP	Real Estate	1,235,896	0.56
Host Hotels Resorts, LP	Hotel Management	1,050,373	0.48
Kaiser Foundation Health Plan	Healthcare	645,985	0.29
One Park Boulevard, LLC	Hotel Management	498,162	0.23
Fashion Valley Mall, LLC	Developer	495,027	0.23
BEX Portfolio, LLC	Real Estate	474,716	0.22
ARE-SD Region, LLC	Real Estate	466,918	0.21
Illumina Inc.	Chemical Products	<u>435,092</u>	<u>0.20</u>
TOTAL		<u>\$ 10,159,953</u>	<u>4.63%</u>

Source: Fiscal Year 2017 Comprehensive Annual Financial Report Statistical Section (unaudited), Comptroller's Officer, City of San Diego and MuniServices, LLC.

Sales Tax

Sales tax is collected and distributed by the California Department of Tax and Fee Administration. The sales tax rate is established by the State Legislature. Sales tax is the City's second largest revenue source representing 19.6% of General Fund revenues in the Fiscal Year 2018 Adopted Budget.

Collected at the point of sale, sales tax receipts are remitted to the California Department of Tax and Fee Administration, which allocates tax revenue owed to the City in the form of monthly payments. According to the Bradley-Burns Sales and Use Tax law, cities are to receive one cent of the total 7.50 cent statewide sales tax levied on each dollar of taxable sales (one-fourth of which is now received as property tax). In addition to the Bradley-Burns sales tax, San Diego County voters approved a half-cent supplemental sales tax in 1987 to fund the San Diego Transportation Improvement Program ("TransNet"), resulting in a total countywide sales tax of 8.0%. The TransNet sales tax was renewed in 2008 for an additional 40-year term. TransNet sales tax revenues are not City General Fund revenues, are restricted to transportation projects and are not available to pay the City's General Fund lease obligations. The 8.0% sales tax also includes a half-cent sales tax known as the Proposition 172 safety sales tax, which the California voters approved in 1993 for the purpose of funding local public safety expenditures, and a quarter-cent sales tax increase effective January 1, 2013, which the California voters approved at the November 2012 election.

Fiscal Year 2018 Sales Tax Budget. The Fiscal Year 2018 General Fund Adopted Budget for sales tax revenues is \$275.3 million (excluding Proposition 172 safety sales tax). The Fiscal Year 2018 Adopted Budget for sales tax assumed anticipated higher fuel prices, marginal growth in general retail, continued trend away from brick-and-mortar retail stores to online purchases, stable automotive sales in light of higher interest rates, and a normalized level of consumer confidence.

In the Fiscal Year 2018 Mid-Year Budget Monitoring Report, this projection was updated to \$900,000 under budget, due to lower than expected sales tax in Fiscal Year 2017, which reduces the base sales tax amount in Fiscal Year 2018. See Official Statement, APPENDIX B—“DEMOGRAPHIC AND ECONOMIC INFORMATION REGARDING THE CITY – Table B-4” for historic taxable transactions in the City.

For information concerning Fiscal Year 2018, see “CITY BUDGET AND RELATED MATTERS — Fiscal Year 2018 Adopted Budget” and “— Fiscal Year 2018 Budget Monitoring.”

Transient Occupancy Tax

The City’s TOT is levied at 10.5 cents per dollar of the daily room price in hotels and motels used by visitors staying in San Diego for fewer than 30 consecutive days. The TOT is allocated pursuant to the City Municipal Code, with guidelines provided by the City Council Policy 100-03. Of the 10.5 cents of collected TOT, 5.5 cents is allocated toward general government purposes; 4.0 cents is allocated to special programs to promote the City, including funding tourism related infrastructure, facilities and services, and to support the City’s General Fund departments that provide services related to promoting local tourism. The remaining 1.0 cent is allocated for any purposes approved by the City Council.

San Diego’s local attractions, natural amenities, and proximity to other popular tourist sites continue to make the area a top destination. According to the San Diego Tourism Authority (the “Tourism Authority”), there were 35.0 million visitors to San Diego County in calendar year 2017, which is less than 1% increase from calendar year 2016. San Diego County’s average hotel occupancy rate also increased by less than 1% to 77.3% in calendar year 2017. Although the region remains a popular spot for vacations and conventions, future economic weakness and other factors could have an adverse impact on tourism in San Diego and, in turn, could result in a reduction in TOT.

Fiscal Year 2018 Transient Occupancy Tax Budget. The Fiscal Year 2018 Adopted Budget for TOT revenues is \$231.1 million. Of the total budgeted amount, \$121.1 million in TOT revenue is allocated to the General Fund, which comprises 8.6% of the General Fund revenue budget. The remaining funds are allocated to Special Promotional Programs, which includes the one-cent City Council discretionary TOT funding budgeted to be transferred to the General Fund and TOT allocated for reimbursement of General Fund tourism related expenditures. The TOT revenue estimate for Fiscal Year 2018 is based on the growth in receipts experienced over the past two calendar years and projections for continued increases in overnight visitors. As a result, growth in TOT receipts is expected to continue through the remainder of Fiscal Year 2018.

In the Fiscal Year 2018 Mid-Year Budget Monitoring Report, General Fund TOT revenue is projected to exceed budget by \$2.2 million based on better than expected year-end performance in Fiscal Year 2017 and sustained growth in the primary economic drivers of TOT - overnight visits, occupancy rates, and room rates. The 2018 Mid-Year Budget Monitoring Report maintains the same General Fund TOT revenue projection identified in the First Quarter Budget Monitoring Report.

For information concerning Fiscal Year 2018, see “CITY BUDGET AND RELATED MATTERS — Fiscal Year 2018 Adopted Budget” and “— Fiscal Year 2018 Budget Monitoring.”

For further discussion of tourism in the City and County, see APPENDIX B — “DEMOGRAPHIC AND ECONOMIC INFORMATION REGARDING THE CITY – Tourism.”

Franchise Fees

Franchise fees revenue results from agreements with private utility companies in exchange for use of the City’s rights-of-way. Currently, San Diego Gas and Electric (“SDG&E”), Cox Communications, Spectrum (formerly, Time Warner Cable), and AT&T are the primary sources of franchise fee revenue to the City. In

addition, the City collects franchise fees from private refuse haulers that conduct business within its borders. The revenue received from such agreements is based on a percentage of gross sales.

SDG&E, the single largest contributor of franchise fee revenue, is charged 3.0% of the gross sales of gas and electricity within the City, 75% of this revenue is allocated to the General Fund. The City also generates franchise fee revenue by collecting 5.0% of gross revenues from Cox Communications, Spectrum, and AT&T. Refuse hauler fees are imposed on private refuse haulers depending on tonnage per year: Class I haulers (less than 75,000 tons per year) or Class II haulers (more than 75,000 tons per year).

In addition, the City receives a 3.53% surcharge on SDG&E's electricity sales for the undergrounding of electric utility lines that was approved by the California Public Utilities Commission in December 2002. This revenue is collected outside of the General Fund and held in a Special Revenue Fund restricted for operations, maintenance and capital improvements for the Underground Utility Program. This revenue is being challenged in court. See "LITIGATION POTENTIALLY ADVERSELY AFFECTING THE GENERAL FUND — Litigation and Regulatory Actions — *Jess Willard Mahon Jr. v City of San Diego, et al.*"

Fiscal Year 2018 Franchise Fees Budget. The Fiscal Year 2018 Budget includes \$75.1 million in franchise fee revenue, which comprises 5.3% of the General Fund revenue budget. The budget is based on the average growth of actual receipts in the previous year.

The Fiscal Year 2018 General Fund Budget for SDG&E franchise fee revenue is \$44.5 million. The revenue from cable franchise fees is primarily from Cox Communications, Spectrum and AT&T. The Fiscal Year 2018 Adopted Budget includes cable franchise fee revenue of \$15.9 million.

Another category of franchise fee revenue is from private refuse haulers and is based on the total amount of refuse hauled annually. The Fiscal Year 2018 Adopted Budget for refuse hauler franchise fee revenue from refuse haulers is \$11.2 million. The City also budgeted \$1.5 million in franchise fees from the EDCO and Sycamore Landfill facilities, \$1.5 million from the vehicle tow program, and \$0.4 million from other franchise fee sources.

In the Fiscal Year 2018 Mid-Year Budget Monitoring Report, General Fund franchise fee revenue is projected to be over budget at fiscal year-end by \$4.1 million primarily due to increased revenues from SDG&E and refuse haulers. Revenue received from SDG&E is based on a percentage of gross sales and received in equal installments throughout the year; a clean-up payment was received after the end of the calendar year in February, which was consistent with the estimate used in the Mid-Year Report.

For information concerning Fiscal Year 2018, see "CITY BUDGET AND RELATED MATTERS — Fiscal Year 2018 Adopted Budget" and "— Fiscal Year 2018 Budget Monitoring."

Former Redevelopment Agency

The Redevelopment Agency of the City of San Diego (the "Former RDA") was dissolved as of February 1, 2012. The City is serving as the Successor Agency to the Former RDA and as the housing successor to the Former RDA. The Successor Agency is a separate and distinct legal entity from the City, whereas the housing successor is the City, not a separate legal entity. The role of the Successor Agency is to wind down the activities of the Former RDA, which is ongoing. At this time, absent any new legislation by the State, the City does not expect significant payments to be made from the General Fund related to the dissolution of the Former RDA.

General Fund Infrastructure and Multi-Year Capital Program

The City owns a wide array of public assets, including police stations, fire stations, libraries, operational facilities, parks, recreation centers, streets, and bridges which are built and maintained through

expenditures from the General Fund. Over the years, under pressure of competing financial priorities, the City deferred investment in the City's infrastructure. The City deferred funding repair, maintenance, and capital expenditures of many asset classes, including parts of the City's core infrastructure, which resulted in deteriorated assets.

Starting in 2007, the City began to address capital costs for General Fund asset classes through a multi-year financing program supplemented by cash funding from various sources including the General Fund, TransNet, Capital Outlay and Gas Tax funds. Since 2010, approximately \$333 million in lease revenue bond proceeds have been allocated to plan, design, and construct General Fund Capital Improvement Program ("CIP") projects for the capital repair, expansion, acquisition and/or replacement of streets, sidewalks, facilities, storm drains and other infrastructure. In addition to bond proceeds, since 2010, \$310 million in General Fund, TransNet, Capital Outlay and Gas Tax funds have been allocated through the yearly budget process.

Infrastructure investment remains a high priority for the City. The City currently expects to issue an estimated \$270 million in General Fund supported lease obligations in as-needed amounts between Fiscal Years 2019 and 2023 for General Fund CIP (see "BONDED AND OTHER INDEBTEDNESS – Future Financing Plans" herein). In addition to financing capital costs, the City has also engaged in condition assessments of key asset classes to help inform and identify infrastructure funding needs.

Condition assessments of General Fund Facilities (buildings) were presented to City Council in 2016 for 560 City-occupied facilities and 133 City-leased facilities.. These assessments evaluated the physical structure (superstructure and foundation), building systems (roofing, plumbing, electrical, equipment, fire protection, HVAC), and interior finishes (paint, carpeting). Industry best management practice is to establish minimum service level targets to address safety and operational needs of existing facilities based on facility type and usage. Using this standard, the City has selected conditions varying from Fair to Good. The estimate to bring the 560 City-occupied facilities to conditions varying from Fair to Good was \$403 million in 2016 dollars. The estimated cost to bring the 133 City-leased facilities to conditions varying from Fair to Good was \$426 million in 2016 dollars.

An evaluation of the condition of City sidewalks was completed in May 2015, which estimated \$53 million in needed repairs. Approximately \$8.2 million in funding was made available to partially address the sidewalks' capital and repair needs in Fiscal Years 2015 through 2018. The City streets' pavement assessment concluded with an average Overall Condition Index ("OCI") of 72 in Fiscal Year 2016 and identified that the City's street network was in Good condition overall.

In addition, the City is currently assessing conditions of all non-open space park sites in the City. Condition assessments of 76 parks has already been completed, which identified that \$24.8 million in 2016 dollars reinvestment is necessary for the park assets. Condition assessments of the remaining 173 City parks are anticipated to be completed by Fiscal Year 2020.

The City's other infrastructure needs include annual maintenance and repair costs for existing assets as well as construction of new assets including fire stations, libraries and parks needed to provide essential services. The City has identified significant storm water capital projects in the Watershed Asset Management Plan needed to comply with more stringent water quality regulations (see "Storm Water Program" herein). In addition, the San Diego Convention Center Corporation ("the Corporation") has identified capital needs of approximately \$24 million for the existing San Diego Convention Center ("the Center") over the next five years (Fiscal Years 2019 through 2023). The Center was originally built in 1989 and expanded in 2001. The Corporation anticipates using certain operational reserves and remaining loan proceeds from a loan from the State of California's Infrastructure Bank ("I-Bank loan") to fund a portion of these capital improvements based on priority needs. Between Fiscal Year 2008 and Fiscal Year 2017, a total of approximately \$20 million was expended on capital improvements to the Center and an additional \$18 million is projected to be expended

in Fiscal Year 2018. Approximately \$23 million of the improvements through Fiscal Year 2018 is expected to be financed with the I-Bank loan.

Approximately \$495.0 million was expended on City CIP projects in Fiscal Year 2017 of which \$213.0 million was expended on General Fund CIP projects. In the Fiscal Year 2018 Adopted Budget, approximately \$475.6 million was allocated to City CIP projects of which approximately \$83.8 million was for General Fund CIP projects. Additionally, throughout the Fiscal Year, Council has approved actions that have resulted in an additional \$86.2 million allocated to General Fund CIP Projects. In addition to new appropriations, approximately \$1.1 billion in prior year appropriations are available to support projects in Fiscal Year 2018, with \$600 million being eligible for General Fund CIP projects.

In January 2018, the City released the Fiscal Year 2019-2023 Five-Year Capital Infrastructure Planning Outlook (“CIP Outlook”, which was previously referred to as the Consolidated Multi-Year Capital Plan (“MYCP”)) for General Fund and non-General Fund asset classes including water and sewer enterprises, airports, and City landfill. The CIP Outlook serves as a planning tool that forecasts capital infrastructure needs and revenue sources over the next five fiscal years to assist in budget decisions and the allocation of resources to meet these needs. The CIP Outlook provides the City Council, key stakeholders, and the public with information in advance of budget meetings to facilitate an informed discussion during the development of the FY2019 Capital Improvement Program Budget.

The projected capital needs identified in the CIP Outlook were developed based on information currently available to the City. Factors considered include federal and state mandated requirements, preservation of public safety, community input, estimated service level standards, the aforementioned partial condition assessments, maintaining an average OCI of 70 for pavement of streets and roads, and projects currently listed in the annual budget. The CIP Outlook is developed to closely follow the annual release of the Five-Year Financial Outlook to assist with forecasting future available funding for capital projects. In comparing projected citywide capital needs of \$4.37 billion and revenue of \$2.79 billion, the CIP Outlook identified a citywide funding gap of \$1.58 billion across all asset classes. All of the identified gap is in General Fund-backed assets, where General Fund projected asset needs and revenues total \$2.24 billion and \$659.4 million, respectively. The asset type with the largest funding gap is Storm Water, comprising \$458.9 million, or approximately 29%, of the gap (see “Storm Water Program” herein). Projected revenue sources include \$270 million in General Fund supported lease obligations as described above, \$110 million in TransNet revenue, \$74.5 million expected to be allocated to infrastructure through Fiscal Year 2023 as a result of a June 7, 2016 ballot measure (see “Infrastructure Fund” herein) and \$25 million in Gas Tax revenue. See “Future Initiatives” for a discussion of a possible initiative to repeal the recent Gas Tax increase.

Specific assets were excluded from the CIP Outlook due to the uncertainty tied to those assets, including the proposed San Diego Convention Center Expansion, SDCCU (formerly known as Qualcomm) Stadium, and any new coastal assets needed to protect against rising sea levels.

Infrastructure Fund

On June 7, 2016, a ballot measure for a plan to fund General Fund infrastructure was approved by voters on a majority vote. Generally, the measure amended the City Charter to require the following revenue sources to be dedicated to the construction, repair and maintenance of General Fund infrastructure and to be placed in a separate fund (the “Infrastructure Fund”): (1) 50% of all new major General Fund revenue growth (including Property Tax, General Fund components of TOT, and Franchise Fees) from 2016 baseline levels over the next five years; (2) the year-to-year growth in General Fund Sales Tax revenue above 2016 baseline levels in excess of CPI growth over 25 years; and (3) any reductions in pension and certain defined contribution plan contributions based on 2016 actuals over 25 years. The Mayor may request the suspension of the transfer for one fiscal year by a vote of two-thirds of the City Council.

Assuming growth rates shown in the Five-Year Outlook for the City's General Fund revenues, the City estimates that \$92.2 million will be allocated to the Infrastructure Fund through Fiscal Year 2023 and anticipates that the revenues deposited into the Infrastructure Fund will increase over the life of the plan. No revenues are anticipated to be transferred to the fund in Fiscal Year 2023. Any revenue dedicated to the Infrastructure Fund would reduce unrestricted General Fund revenue available for other City programs or services. In Fiscal Year 2043, all diversions to the Infrastructure Fund will cease and those moneys will again be unrestricted General Fund revenue.

Enhanced Infrastructure Financing District

On July 27, 2017, the Otay Mesa Enhanced Infrastructure Financing District (OM EIFD) was formed. The district's boundaries are coterminous with the Otay Mesa Community Plan Area, which is a developing area located in the southern portion of the City comprising approximately 9,300 acres. The district was formed to provide supplemental funding for public infrastructure needs identified in the Otay Mesa Community Plan and Otay Mesa Public Facilities Financing Plan. Property tax increment (including property tax in lieu of VLF) generated above the base year established at the time of district formation that would have otherwise been allocable to the City, will now flow to the OM EIFD until 2062, when the district sunsets, except for the portion of property tax increment allocable to the Infrastructure Fund through Fiscal Year 2022 (see "Infrastructure Fund" herein). Based on projections contained in the Infrastructure Financing Plan prepared for the district, through Fiscal Year 2028, \$49.4 million of property tax revenue growth would be diverted to the district, and, over the 45 year life of the OM EIFD, \$970 million would be diverted.

Storm Water Program

The City's Storm Water Division owns and maintains over 39,000 storm drain structures, approximately 900 miles of drainage pipe, and 14 storm water pump stations. The City has adopted a Storm Water Program to maintain and keep facilities in good repair to mitigate flood risk and reduce pollutants in urban runoff and storm water and comply with all local, State, and federal environmental regulations. Currently, the City's Storm Water Program is funded primarily from the General Fund, including property-related storm water fees and revenue from parking enforcement related to street sweeping, as well as bond proceeds.

The Regional Water Quality Control Board ("RWQCB") is the State agency charged with implementing the federal Clean Water Act (Clean Water Act). The RWQCB issues the Municipal Separate Storm Sewer Systems National Pollutant Discharge Elimination System Permit (Municipal Permit) as required by the Clean Water Act. Under the Municipal Permit, the City must comply with water quality requirements established by the RWQCB by maintaining and operating storm drain systems, eliminating dry weather flows and reducing pollutants in storm water runoff. The RWQCB has established specific numeric limitations on the maximum amount of pollutants that can be received by some of the City's six watersheds. The RWQCB periodically conducts water quality tests to determine if the receiving waters are meeting water quality requirements.

The Municipal Permit also requires the City to develop Water Quality Improvement Plans ("Improvement Plans") to identify and address the highest priority water quality problems, including all of the City's existing storm water quality regulatory deadlines between fiscal year 2012 and fiscal year 2035 for each of the six watersheds within the City's jurisdiction. These Improvement Plans were reviewed and accepted by the RWQCB in March 2016. In October 2016, the City updated its estimate for implementation costs. For the period between Fiscal Year 2017 and Fiscal Year 2035, the operating cost estimate is approximately \$1.37 billion and the capital cost estimate is approximately \$1.92 billion (for an estimated total for the operating cost estimate and capital cost estimate of approximately \$3.30 billion).

These estimates could be higher or lower depending on numerous factors, including, but not limited to, changes in regulatory standards; science and technology advancements; and new impairments that could be

identified by the RWQCB as future water quality tests are conducted. In June 2017 the RWQCB adopted Order No. R9-2017-0077 which directs Municipal Permit holders to control trash discharges to water bodies (“State Trash Policy”). The State Trash Policy will be included in the next Municipal Permit reissuance in 2018, and estimated funding needs to comply range from a combined total of \$12 million to \$17 million over 10 years beginning in fiscal year 2019. This funding need increase is in addition to the compliance funding needs identified above. Most of these compliance activities represent pollution prevention or control obligations with respect to current storm water operations and are not subject to accrual in the basic financial statements.

The City Storm Water Division’s estimated costs to implement the Improvement Plans are higher compared to current spending levels and projected budget allocations. Estimated operating expenses budgeted for fiscal year 2018 are approximately \$53.0 million. The estimated allocated Capital Improvement Program budget for fiscal year 2018 is approximately \$36.1 million, which is funded with General Fund revenues, TransNet and bond proceeds. Based on the CIP Outlook, for the five year period between Fiscal Year 2019 and Fiscal Year 2023, the City projects to allocate approximately \$104 million to address Storm Water Program capital costs. The City’s storm water fees of 95 cents per month per residence generated approximately \$5.6 million in fiscal year 2017 and cover only a small portion of the City’s annual storm water expenses.

The City is employing a multi-faceted strategy to comply with Municipal Permit requirements and reduce estimated costs to implement the Improvement Plans. First, the City is continuing to work collaboratively with the RWQCB to evaluate, and where justified with scientific data, amend regulations to reduce or eliminate certain program elements that are not needed to meet water quality targets. The City is also evaluating the possibility of extending compliance schedules to reduce annual funding needs through the U.S. Environmental Protection Agency’s (“USEPA”) Integrated Planning Framework (“IPF”) program. Extending the compliance schedules may reduce the annual funding needs but would likely increase the total costs of implementing the Improvement Plans. The IPF program provides a framework for municipalities to extend compliance schedules and focus on the highest priority water quality issues when Clean Water Act funding need obligations exceed specified ratepayer affordability thresholds. The RWQCB retains discretion whether to allow municipalities to utilize the IPF program, therefore the City is actively seeking RWQCB approval to incorporate the IPF program into the next five-year Municipal Permit issuance expected to be adopted in late 2018 or early 2019. Second, the City is pursuing a combination of alternative funding and financing strategies, such as grants and State Revolving Fund loans. Third, the City continues to implement pilot studies, such as studies of street sweeping, storm drain cleaning and business inspection programs, to identify cost-saving improvements to operations. Absent an increase in storm water fees or other new funding sources discussed above, the unfunded or increased compliance funding needs would continue to be paid from the General Fund.

The Municipal Permit contains several regulatory deadlines through Fiscal Year 2035. The City has met or is projected to meet the first three regulatory deadlines, but is currently not projected to meet certain regulatory deadlines related to the Los Peñasquitos watershed in 2020 due to insufficient funding, and related to the bacteria Total Maximum Daily Load (“TDML”) in fiscal year 2021 due to insufficient funding and the time requirements to implement capital projects. As discussed above, the City is currently pursuing a multi-faceted strategy to meet these regulatory deadlines that includes seeking regulatory adjustments, pursuing alternative funding sources, and reducing funding needs through program improvements. If the City does not meet these required storm water regulations by the compliance deadlines, it is possible that the RWQCB could levy fines and penalties on the City of \$10,000 per day per violation and the USEPA could levy penalties of up to \$52,000 per day. Every violating discharge from a storm drain outfall that flows to a receiving water body could be assessed as a separate violation. Additionally, should the City fall out of compliance, it could be exposed to litigation from third parties.

Since 2009, approximately \$58.5 million in bond proceeds from past bond issuances have been allocated to the Storm Water Division’s Capital Improvements Program, including storm drains and watershed

projects. The City expects to continue to use proceeds from future bond issues to finance the Storm Water Program and water quality capital projects and to assist in addressing the needs stated above.

In addition to the compliance cost estimates described above, there may be additional operational storm water needs related to City-owned property and facilities (including approximately 26,000 acres of open space and 9,000 acres of community parks, fire stations, police stations and libraries) that could affect the City's General Fund. The City intends to evaluate these operational needs, related costs, and budget resources following condition assessment and data gathering for these properties.

Climate Change

The San Diego Foundation's (the "Foundation") Regional Focus 2050 Study (the "Focus 2050 Study") released in November, 2008 and updated in 2014 explores what the San Diego region could be like in the year 2050 if current trends continue. More than 40 multi-disciplinary experts from regional universities, local governments, public sector agencies, nonprofits, and private sector organizations contributed to the research. The range of impacts presented in the Focus 2050 Study are based on projections of climate change on the San Diego region using three climate models and two emissions scenarios drawn from those used by the Intergovernmental Panel on Climate Change. As summarized in the Foundation's 2014 release entitled "San Diego, 2015 is Calling," the Focus 2050 Study predicts that, if current trends continue, by the year 2050: (i) San Diego will experience hotter and more humid heat waves and less frequent but more intense rainfall; (ii) warming, compounded by less frequent precipitation, will worsen droughts and threaten imported and local water sources; (iii) extreme high tides and winter storms magnified by sea level rise will result in more frequent and widespread local flooding; (iv) wildfire seasons may be longer and more extreme, with warming temperatures, drier soils and vegetation and less frequent rain; and (v) rising sea level will threaten coastlines, beaches and wetlands.

In December 2015, the City Council adopted the Climate Action Plan for the City (the "Plan") which calls for eliminating 50% of all greenhouse gas emissions in the City by 2035. The Plan establishes a roadmap for the City of San Diego to achieve the greenhouse gas emission targets set by the State of California, while improving San Diego's environment and economy. A separate climate adaption plan is underway, which will further identify vulnerabilities and adaptation strategies to prepare for the climate change impacts described above. Similar to actions to reduce greenhouse gas emissions, the City has already begun taking risk reduction actions that support climate adaptation.

The Fiscal Year 2018 Adopted Budget details resources included in the budget related to implementing the Climate Action Plan and includes: \$27.5 million for energy and water efficient buildings, \$1.3 million for clean and renewable energy, \$10.3 million for bicycling, walking, transit and land use, \$10.7 million for zero waste and \$79.9 million for climate resiliency.

STATE BUDGET INFORMATION

The following information concerning the State's budget has been obtained from publicly available information which the City believes to be reliable; however, the City takes no responsibility as to the accuracy or completeness thereof and has not independently verified such information. The following information is provided as supplementary information only, and it should not be inferred from inclusion of this information that the 2018 Bonds are payable from State revenues. The 2018 Bonds are payable solely from Base Rental Payments to be made by the City under the Facility Lease and certain other moneys held under the Indenture. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2016 BONDS" in the front part of this Official Statement. The 2018 Bonds are not a debt of the City, the State, or any of its political subdivisions, and none of the City, the State or any of its political subdivisions is liable thereon.

State Budgeting Process

According to the State Constitution, the Governor is required to propose a budget to the State Legislature no later than January 10 of each year, and a final budget must be adopted by a majority vote of each house of the State Legislature no later than June 15, although this deadline has been routinely breached in the past. The budget becomes law upon the signature of the Governor, who may veto specific items of expenditure.

Information about the State budget is regularly available at various State-maintained websites. Text of the State budget may be found at the State Department of Finance website, www.govbud.dof.ca.gov. An impartial analysis of the budget is posted by the Office of the Legislative Analyst at www.lao.ca.gov. In addition, various State of California official statements, many of which contain a summary of the current and past State budgets, may be found at the website of the State Treasurer at www.treasurer.ca.gov. The information referred to is prepared by the respective State agency maintaining each website and not by the City, and the City takes no responsibility for the continued accuracy of the Internet addresses or for the accuracy or timeliness of information posted there, and such information is not incorporated herein by these references.

Fiscal Year 2018 State Budget

On June 15, the State Legislature adopted the State's Fiscal Year 2018 Budget (the "2018 State Budget"). The following analysis was prepared with information provided by the State Legislative Analyst's Office *California Spending Plan*, which included budgetary actions taken by the legislature through September 2017. The 2018 State Budget projected revised total State general fund revenues of \$118.5 billion, and total State general fund expenditures of \$121.4 billion for Fiscal Year 2017. The 2018 State Budget projected that the State would end Fiscal Year 2017 with a general fund ending balance of \$1.6 billion and total reserves of \$7.4 billion. For Fiscal Year 2018, the State Budget projected total State general fund revenues of \$125.9 billion and expenditures of \$125.1 billion and a State general fund balance of approximately \$2.4 billion and reserves totaling \$9.9 billion.

Governor's Proposed Fiscal Year 2019 State Budget

On January 10, 2018, the Governor released his proposed State budget for Fiscal Year 2019 (the "Proposed State Budget"). The following information is taken from the Legislative Analyst Office's overview of the Proposed State Budget dated January 12, 2018.

The Proposed State Budget provides updated projections for Fiscal Year 2018 State general fund revenues and expenses. For Fiscal Year 2018, total State general fund revenues and transfers of \$127.3 billion and authorizes total general fund expenditures of \$126.5 billion. The State is projected to end Fiscal Year 2018 with a reserve balance of \$12.597 billion, comprised of a balance of \$4.19 billion in the Special Fund for Economic Uncertainties (the "SFEU") and a balance of \$8.411 billion in the Budget Stabilization Account (the "BSA").

For Fiscal Year 2019, the Proposed State Budget assumes total general fund revenues and transfers of \$129.8 billion and authorizes total general fund expenditures of \$131.7 billion. The State is projected to end Fiscal Year 2019 with a \$15.748 billion reserve balance, comprised of a \$2.230 billion balance in the SFEU and of a \$13.461 billion balance in the BSA. The balance in the BSA includes an additional \$3.5 billion deposit into the fund filling the reserve to the constitutional maximum of 10% of State general fund tax revenues. See "LIMITATIONS ON TAXES AND APPROPRIATIONS – Proposition 2."

The Proposed State Budget places a high priority on building reserves in light of economic and federal budget uncertainty, allocating funding increases for schools and community colleges and allocating funding for State Infrastructure.

Effect of State Budget on General Fund Revenues

State budgets and budget policies can have either a positive or a negative effect on the City's financial condition. State budgets are affected by national and State economic conditions and other factors over which the City has no control. The City monitors fiscal measures taken by the State for their potential effects on the City's General Fund revenues and expected cash flows. To the extent that the State budget process results in reduced revenues to the City, the City will be required to make adjustments to its budget.

LABOR RELATIONS

General

The table below shows the City's several recognized employee organizations which represent City employees and the number of employees represented by each organization. The City also employs a number of employees who are unrepresented (classified and unclassified). The Fiscal Year 2018 Budget included 919.5 unrepresented positions, excluding elected officials. The City intends to offer unrepresented employees a 3.3% general salary increase in pensionable compensation in Fiscal Year 2019.

The City's Employee Organizations

Organization ⁽¹⁾	Represented Employees ⁽³⁾
San Diego Municipal Employees' Association	5,119
American Federation of State, County, and Municipal Employees, Local 127	2,082
San Diego Police Officers Association	2,033
San Diego City Firefighters, International Association of Firefighters, Local 145	938
California Teamsters Local 911	166
Deputy City Attorneys Association ⁽²⁾	151

⁽¹⁾ Represents classified employees, except where otherwise noted.

⁽²⁾ Represents unclassified deputy city attorneys.

⁽³⁾ As of the Fiscal Year 2018 Adopted Budget.

Source: Financial Management, City of San Diego.

Collective Bargaining Agreements

The City currently has collective bargaining agreements with each of its recognized employee organizations that run through Fiscal Year 2020, with the exception of the Deputy City Attorneys Association, which has an agreement through Fiscal Year 2019. All current collective bargaining agreements include pensionable salary increases in Fiscal Year 2019, as described below. There are also negotiations ongoing concerning additional special salary increases for classifications where retention and recruitment issues exist.

MEA: The City's current collective bargaining agreement with MEA runs through June 30, 2020. MEA-represented employees will receive a 3.3% general salary increase in pensionable compensation in Fiscal Years 2019 and 2020. In addition, effective in Fiscal Year 2019 there will be special salary adjustments ranging from 5% to 7% for certain classifications experiencing recruitment and retention issues. The agreement also contains non-pensionable compensation increases in Fiscal Years 2019 and 2020. The non-pensionable compensation includes increases to flexible benefits credits for all MEA-represented employees. Additionally, the City Council approved three separate pensionable pay increases for Emergency Medical Dispatch Certification Pay for MEA-represented Emergency Command and Data Center ("ECDC") Fire dispatcher classification series in the Fire-Rescue Department staggered over Fiscal Years 2019 and 2020 (5% on January 1, 2019, 5% on July 1, 2019; and 2.5% on January 1, 2020).

AFSCME Local 127: The City's current collective bargaining agreement with AFSCME Local 127 runs through June 30, 2020. AFSCME Local 127-represented employees will receive a 3.3% general salary increase in pensionable compensation in Fiscal Years 2019 and 2020. In addition, effective in Fiscal Year 2019 there will be special salary adjustments ranging from 5% to 10% for certain classifications experiencing recruitment and retention issues. The agreement also contains non-pensionable compensation increases in Fiscal Years 2019 and 2020.

POA: The City's current collective bargaining agreement with POA runs through June 30, 2020. POA-represented sworn officers will receive pensionable general salary increases as follows: 8.3% on July 1, 2018, 5% on January 1, 2019, 7.3% on July 1, 2019, and 5% on January 1, 2020, for a total of 25.6% increase by the end of Fiscal Year 2020. POA-represented sworn officers with 20 or more years of service will receive an additional 5% pensionable general salary increase on July 1, 2019. POA-represented sworn officers reaching 20 years of service after July 1, 2019 will receive a 5% pensionable general salary increase as they reach 20 years of service. As part of the agreement reached with POA, the additional Flexible Benefit Plan allotment which was to be received by POA-represented employees in Fiscal Year 2020 of approximately \$6,728 per employee was eliminated to help offset \$9 million of the cost of the pensionable increases in Fiscal Year 2020.

IAFF Local 145: The City's current collective bargaining agreement with IAFF Local 145 runs through June 30, 2020. IAFF Local 145-represented employees will receive a 3.3% general salary increase in pensionable compensation in Fiscal Years 2019 and 2020. The agreement also contains non-pensionable compensation increases in Fiscal Years 2019 and 2020.

Teamsters Local 911: The City's current collective bargaining agreement with Teamsters Local 911 runs through June 30, 2020. Teamsters Local 911-represented employees will receive a 3.3% general salary increase in pensionable compensation in Fiscal Years 2019 and 2020. In addition, beginning in Fiscal Year 2019, specialty pays will be provided for participation on specialty teams or special assignments. The agreement also contains non-pensionable compensation increases in Fiscal Years 2019 and 2020.

DCAA: The City's current collective bargaining agreement with DCAA runs through June 30, 2019. DCAA-represented employees will receive a 3.3% general salary increase in pensionable compensation in Fiscal Year 2019. In addition, effective in Fiscal Year 2019 there will be special salary adjustments ranging from 2% to 3% for Deputy II, IV and V due to recruitment and retention issues. The agreement also contains non-pensionable compensation increases in Fiscal Year 2019.

See also sections on "CITY BUDGET AND RELATED MATTERS" and "SAN DIEGO CITY EMPLOYEES' RETIREMENT SYSTEM" for impacts of collective bargaining agreements on the City's Fiscal Year 2018 Budget and pension contributions.

SAN DIEGO CITY EMPLOYEES' RETIREMENT SYSTEM

The City faces significant financial challenges in addressing an unfunded pension liability of approximately \$2.76 billion as of June 30, 2017. Unless otherwise indicated, the information under this heading "San Diego City Employees' Retirement System" ("SDCERS") refers to all City employees who are members of SDCERS and not just those SDCERS members who are considered to be General Fund employees.

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. Benefit increases also require a majority vote of the public. All approved benefit changes are codified in the City's Municipal Code. The plans cover all eligible employees of the City, the Port, and the Airport. All City employees initially hired before July 20, 2012 working half-time or greater, 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.

Due to the implementation of Proposition B, discussed below, as of July 20, 2012, SDCERS is closed to new City employees, except for the Police plan, which will remain open. SDCERS is considered part of the City's financial reporting entity and is included in the City's CAFR as a pension trust fund. See Note 12, "Pension Plans," in the City's Fiscal Year 2017 CAFR. SDCERS also prepares its own Comprehensive Annual Financial Report, the most recent of which is for Fiscal Year 2017.

The amounts and percentages set forth under this caption relating to SDCERS, including, for example, actuarial accrued 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. Prospective purchasers of the 2018 Bonds are cautioned to review and carefully assess the reasonableness of the assumptions set forth in this document and in the documents that are cited as the sources for the information under this caption. In addition, the prospective purchasers of the 2018 Bonds are cautioned that such sources and the underlying assumptions speak as of their respective dates, and are subject to change. Prospective purchasers of the 2018 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 A-7
CITY OF SAN DIEGO PLAN MEMBERSHIP
As of June 30, 2017

	<i>General</i>	<i>Safety</i>	<i>Total by Classification</i>
Active Members	4,257	2,131	6,388
Inactive Members	2,257	594	2,851
Retirees	5,255	3,342	8,597
DROP Participants ⁽¹⁾	<u>744</u>	<u>427</u>	<u>1,171</u>
Total Members, as of June 30, 2017	12,513	6,494	19,007

⁽¹⁾ 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.

Source: SDCERS Comprehensive Annual Financial Report 2017.

The City is required 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 Actuarially Determined Contribution ("ADC") is calculated by the SDCERS' actuary, Cheiron, Inc. ("Cheiron") and approved by the SDCERS Board. Cheiron conducts an

actuarial analysis for SDCERS annually, the most recent of which is the June 30, 2017 Annual Actuarial Valuation of SDCERS, dated December 22, 2017 (the “2017 Actuarial Valuation”). The 2017 Actuarial Valuation serves as the basis for the City’s pension contribution for Fiscal Year 2019. 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 and Methods

Funding Method

Cheiron calculates the City’s contribution using the Entry Age Normal (“EAN”) actuarial funding method. Under EAN, there are three components to the total contribution: the normal cost, an amortization payment on any unfunded actuarially accrued liability (“UAAL”), and the expected administrative expenses. The normal cost (associated with active employees only) is the present value of the benefits that SDCERS expects to become payable in the future attributable to the current year’s employment. Normal cost is computed as the level annual percentage of pay required to fund the retirement benefits between each member’s date of hire and assumed retirement. The difference between the EAN actuarial liability and the actuarial value of assets is the UAAL. The administrative expense component is \$11.8 million and is assumed to increase by 2.5% per year.

Amortization Periods and Methodology

The UAAL as of June 30, 2017 for the Police portion of SDCERS is amortized over several different closed periods as follows: changes in the UAAL due to changes in methods and assumptions are amortized over 30 years, changes in the UAAL due to benefit changes are amortized over five years, the outstanding balance of the Fiscal Year 2007 UAAL is amortized over a closed 20 year period (such that, as of Fiscal Year 2018, 10 years of amortization remain), and subsequent yearly experience gains and losses are amortized over 15 years. The non-Police portion of UAAL as of June 30, 2012, is amortized over 15 years.

Effective with the 2017 Actuarial Valuation, the remaining balances of the 2009 experience loss and the 2012 non-Police UAAL were re-amortized using a 5-year layering approach, in which one-fifth of the remaining balance continues to be amortized over the same period, while each additional one-fifth is amortized over an additional year.

Finally, if necessary, there is an additional UAAL cost component to ensure that there is no negative amortization in any year. Also as a result of Proposition B, the non-Police portion of the UAAL is amortized using the level dollar method while the Police portion is amortized using the level percentage of payroll method. Level dollar amortization generally results in decreasing inflation-adjusted payments over time whereas level percentage of payroll amortization generally results in level inflation-adjusted payments over time.

Actuarial Assumptions

The following are the principal actuarial assumptions used by Cheiron in preparing the 2017 Actuarial Valuation. The actuarial assumptions reflect recommendations approved by the SDCERS Board in September 2017. In addition, the December 5, 2017 agreement between the City of San Diego and the San Diego Police Officers Association is not reflected in this valuation, except in projecting total payroll to Fiscal Year 2019 for the purpose of determining the Normal Cost portion of the ADC (see “Labor Agreements” below).

1. Investment Return Rate: 6.75% net of investment expenses. The assumption is scheduled to decline to 6.50% in the 2018 actuarial valuation.

2. Inflation Rate: 3.05% per year, compounded annually.
3. Administrative Expense Assumption: Administrative expenses are assumed to be \$11.8 million for Fiscal Year 2018 (assuming payment at the beginning of the fiscal year, increasing by 2.50% annually).
4. Interest Credited to Member Contributions: 6.75% compounded annually.
5. Projected Salary Increases Due to Inflation: 0% in Fiscal Years 2015-2018, 3.05% thereafter.
6. Cost-of-Living Adjustments: 1.90% per year, compounded annually.
7. Additional Assumptions: Additional assumptions were used regarding: cost of living annuity benefit, member refunds of contributions, rates of separation from active membership, post-retirement mortality, rates of disability, active member mortality, family composition and rates of retirement.

Actuarial Value of Assets (Asset Smoothing Method)

SDCERS uses an actuarial value of assets to calculate the City's pension contribution each year and uses an asset smoothing method to dampen the volatility in asset values that could occur because of fluctuations in market conditions. Use of an asset smoothing method is consistent with the long-term nature of the actuarial valuation process. The actuarial value of assets each year is equal to 100% of the expected actuarial value of assets² plus 25% of the difference between the current market value of assets and the expected actuarial value of assets. The market value of assets represents, as of the valuation date, the value of the assets as if they were liquidated on that date. This means that changes in the market value of assets are factored into the actuarial value of assets roughly over a four year period. The actuarial value of assets will also be adjusted, if necessary, to ensure that the actuarial value of assets will never be less than 80% of the market value of assets, nor greater than 120% of the market value of assets. The consequence of the smoothing methodology is that the actuarial value of assets increased by 5.5%, while the market value of assets increased by 11.0% from June 30, 2016 to June 30, 2017. As of June 30, 2017, the market value of plan assets was approximately \$7.0 billion, and the actuarial value was approximately \$6.8 billion.

Implementation of GASB Statements Related to Pension Plans

GASB accounting standards require that the City record, in its Statement of Net Position, the Net Pension Liability ("NPL") related to defined benefit retirement plans offered to City employees. The NPL represents the difference between the Total Pension Liability and the fair value of pension assets. An NPL of \$2.522 billion will be included in the City's CAFR for the Fiscal Year ending June 30, 2018. See Table A-9 for the General Fund's share of the ADC from Fiscal Years 2014 through 2018.

The measurement of the NPL for Fiscal Years 2016 and 2017 assumes a long-term expected rate of return of plan investments of 7.00% (the "Discount Rate"). A change in the assumed Discount Rate would have a significant effect on the measurement of the NPL. For Fiscal Year 2016, a 1% decrease in the assumed Discount Rate to 6.00% would increase the NPL by \$1.048 billion, or 39.5%; and a 1% increase in the assumed Discount Rate to 8.00% would decrease the NPL by \$864 million, or 33%.

² The expected actuarial value of assets is equal to the prior year's actuarial value of assets increased by actual contributions made, decreased by actual disbursements made, all items further adjusted with the expected investment returns for the year.

Funding Status

According to the 2017 Actuarial Valuation, at June 30, 2017, the City had a UAAL of \$2.757 billion and a funded ratio based on the actuarial value of assets of 71.2%. The UAAL increased by \$199.6 million over the UAAL set forth in the Actuarial Valuation at June 30, 2016 ("2016 Actuarial Valuation"), which was \$2.557 billion, and the funded ratio decreased by 0.4%. The UAAL in the 2017 Actuarial Valuation was expected to increase by \$6.3 million compared to the UAAL in the 2016 Actuarial Valuation. The larger than expected increase was primarily driven by the change to the discount rate assumption (\$254.0 million). Net asset experience was favorable, decreasing the UAAL by \$100.5 million. There was a relatively small liability experience loss of \$39.9 million, primarily due to salary (promotional increases greater than expected).

Table A-8 below sets forth the City's portion of SDCERS historical funding progress for Fiscal Years 2008 through 2017. Additionally, see Note 12, "Pension Plans," in the City's Fiscal Year 2017 CAFR.

TABLE A-8
CITY OF SAN DIEGO
SCHEDULE OF FUNDING PROGRESS
Fiscal Years Ended June 30, 2008 through June 30, 2017
(in thousands)
(unaudited)

<i>Valuation Date (June 30)</i>	<i>Actuarial Value of Assets (A)</i>	<i>Market Value of Assets (B)</i>	<i>AAL (C)</i>	<i>Funded Ratio (Actuarial) (A/C)</i>	<i>Funded Ratio (Market) (B/C)</i>	<i>UAAL (Actuarial) (C)-(A)</i>	<i>AAL less Market Value of Assets (C)-(B)</i>	<i>Covered Payroll⁽¹⁾</i>	<i>UAAL to Covered Payroll</i>
2008 ⁽²⁾	\$4,660,346	\$4,408,719	\$5,963,549	78.1%	73.9%	\$1,303,203	\$1,554,830	\$535,774	243.2%
2009	4,175,229	3,479,357	6,281,636	66.5	55.4	2,106,408	2,802,279	536,591	392.6
2010	4,382,047	3,900,537	6,527,224	67.1	59.8	2,145,177	2,626,687	530,238	404.6
2011 ⁽²⁾	4,739,399	4,848,054	6,917,175	68.5	70.1	2,177,776	2,069,121	514,265	423.5
2012	4,982,442	4,799,827	7,261,731	68.6	66.1	2,279,289	2,461,904	511,091	446.0
2013 ⁽²⁾	5,317,778	5,395,158	7,555,527	70.4	71.4	2,237,749	2,160,369	499,463	448.0
2014	5,828,594	6,292,855	7,858,703	74.2	80.1	2,030,110	1,565,848	480,536	422.5
2015 ⁽²⁾	6,204,244	6,387,829	8,205,953	75.6	77.8	2,001,709	1,818,124	480,662	416.4
2016 ⁽²⁾	6,455,378	6,307,412	9,013,130	71.6	70.0	2,557,752	2,705,718	465,100	549.9
2017 ⁽³⁾	6,808,418	7,000,220	9,565,802	71.2	73.2	2,757,384	2,565,582	448,890	614.3

⁽¹⁾ Covered payroll includes all elements of compensation paid to active City employees (who are SDCERS members) on which contributions to the pension plan are based.

⁽²⁾ Reflects revised actuarial assumptions.

⁽³⁾ Current year methodologies and assumptions are discussed above.

Source: SDCERS Comprehensive Annual Financial Reports (Valuation Dates 2008-2016) and Cheiron Actuarial Valuation Report dated December 22, 2017 (Valuation Date 2017) for Actuarial Value of Assets, Market Value of Assets, AAL, Funded Ratio (Actuarial), UAAL (Actuarial), Covered Payroll and UAAL to Covered Payroll.

Preservation of Benefits Plan

The Preservation of Benefits ("POB") Plan is a qualified governmental excess benefit arrangement ("QEBA") under Internal Revenue Code ("IRC") section 415(m). The POB Plan allows for the payment of promised benefits that exceed IRC section 415(b) limits and therefore cannot be paid from SDCERS assets. The POB Plan is unfunded within the meaning of federal tax law and the City may not prefund the POB Plan to cover future liabilities. Cheiron prepared an annual actuarial valuation for the POB Plan, separate from the actuarial valuation for the pension plan, until Fiscal Year 2016 when the POB Plan actuarial valuation was discontinued in accordance with GASB 73. Contributions to the POB Plan are funded annually on a pay-go

basis by the City and the payments are calculated by Cheiron based on the amount of pension benefits earned in excess of the IRC Section 415(b) limit in any particular fiscal year. See “Table A-9” below. The Total Pension liability for the POB Plan as of June 30, 2016, the most recent year for which the City has data, was \$11.7 million, and this entire amount is unfunded.

Citywide and General Fund Pension Contributions

The City’s Pension Plan ADC for Fiscal Year 2018 is \$324.5 million. The City’s pension plan payment is typically made on July 1 of each fiscal year, including Fiscal Year 2018. The 2017 Actuarial Valuation shows the ADC for Fiscal Year 2019 slightly decreasing by \$1.6 million, from \$324.5 million to \$322.9 million. The ADC was expected to increase by \$4.8 million, assuming continued phase-in of investment experience from prior years and no changes in assumptions. There were two significant offsetting changes which led to a slight overall decrease in the ADC. The discount rate assumption was reduced from 7.00% to 6.75%, which increased the ADC by \$17.5 million and the implementation of a five-year layering method for certain components of the UAAL (described under “Amortization Period and Methodology,” above) decreased the ADC by \$22.5 million. Two other notable factors affecting the ADC were the net asset experience gain, which decreased the ADC by \$10.3 million and the liability experience loss, which increased the ADC by \$8.8 million.

The General Fund’s budgeted proportional share of the ADC for Fiscal Year 2018 is \$237.9 million and is projected to be approximately \$235.4 million for Fiscal Year 2019. POB Plan contributions are made on a monthly basis as payments are owed to beneficiaries.

Table A-9 sets forth the City’s ADC and pension contributions and the General Fund’s share payments for Fiscal Years 2014 through 2018. The City does not pay any portion of employee pension contributions.

TABLE A-9
CITY OF SAN DIEGO
PENSION CONTRIBUTION
Fiscal Years 2014 through 2018
(in thousands)

<i>Fiscal Year ended June 30</i>	<i>Pension Plan ADC</i>	<i>POB Plan Contribution</i>	<i>Total Pension Contribution⁽¹⁾</i>	<i>General Fund Pension Contribution⁽¹⁾</i>	<i>General Fund Revenues⁽²⁾</i>	<i>General Fund Pension Contribution as a Percent of General Fund Revenues⁽²⁾</i>
2014	\$275,400	\$1,403	\$276,803	\$216,520	\$1,276,385	16.97%
2015	263,600	1,399	264,999	193,683	1,221,223	15.86
2016	254,900	1,595	256,497	189,437	1,298,817	14.59
2017	261,100	1,633	262,733	186,979	1,346,707	13.89
2018 ⁽³⁾	324,500	1,500	326,000	237,895	1,407,748	16.90

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

⁽²⁾ General Fund Revenues for Fiscal Year 2014 – 2017 are audited (see Comprehensive Annual Financial Reports under General Fund Schedule of Revenues, Expenditures and Charges in Fund Balance Budget and Actual (Budgetary Basis)) and for Fiscal Year 2018 are budgeted (see Table A-3, Total General Fund Revenues and Transfers less Fund Balance Appropriation).

⁽³⁾ Except for Pension Plan ADC, all other amounts are budgeted.

Source: SDCERS Comprehensive Annual Financial Reports for Pension Plan ADC (2014-2017) and Pension Plan Contribution (2014-2017). Comprehensive Annual Financial Reports, Comptroller's Office, City of San Diego for POB Plan Contribution (2014-2017) and General Fund Revenues (2014-2017). Comptroller's Office, City of San Diego for General Fund Pension Contribution (2014-2017) and General Fund Pension Contribution as a Percent of General Fund Revenues (2014-2017); Financial Management, City of San Diego for Pension Plan ADC (2018), Pension Plan Contribution (2018), POB Plan Contribution (2018), General Fund Pension Contribution (2018), General Fund Revenues (2018) and General Fund Pension Contribution as a Percent of General Fund Revenues (2018).

Prospective Funding Status

As part of its actuarial valuations for SDCERS, Cheiron prepares projected financial trends to show the City's expected changes in actuarially determined contribution amounts. The following table uses the actuarial assumptions and methodologies discussed above, including the revised assumptions approved by the SDCERS Board September 2017 that were used for the 2017 Actuarial Valuation. The table also assumes the validity of Proposition B, which is discussed below. It is important to note that the table uses investment returns as assumed, 6.75% in Fiscal Year 2018 and 6.5% annually thereafter. These exact returns will not occur given the variability in annual investment returns. The City expects investment returns will vary, and may vary significantly from year to year, which will potentially result in greater volatility and higher (or lower) ADC payments than presented in the table.

TABLE A-10
CITY OF SAN DIEGO ACTUARIAL FUNDING PROJECTIONS
Fiscal Years 2018 through 2027
(earnings as assumed)

<i>Fiscal Year Ending June 30</i>	<i>Assumed Investment Return Rate</i>	<i>Actuarially Determined Contribution (millions)</i>	<i>UAAL (billions)</i>
2018	6.75%	\$324.5	\$2.56
2019	6.50	322.9	2.76
2020	6.50	347.4	2.94
2021	6.50	354.5	2.91
2022	6.50	353.9	2.77
2023	6.50	353.4	2.63
2024	6.50	353.8	2.49
2025	6.50	354.2	2.34
2026	6.50	350.5	2.18
2027	6.50	344.2	2.01

Source: Cheiron Actuarial Valuation Report dated December 22, 2017 for period ending of 6/30/2017.

Supplemental COLA

Supplemental COLA is a supplemental cost-of-living benefit given to a closed group of retirees who retired on or before June 30, 1982. Pursuant to the Municipal Code, the funding for this benefit is an annual appropriation by the City, however, the City is not required to pay the benefit. The City is invoiced by SDCERS at the beginning of each fiscal year for the full cost of the benefit during that fiscal year. SDCERS has estimated that for Fiscal Year 2018, the cost of the benefit citywide will be approximately \$2.0 million and the General Fund share of this cost will be approximately \$1.5 million. SDCERS maintains Supplemental COLA funding separate from SDCERS assets and no system assets can be used to pay the benefit.

Proposition B (Pension Reform)

Proposition B was approved by voters on June 5, 2012 and implemented by the City in Fiscal Year 2013. Generally, the measure amends the City Charter to provide all new City employees hired on or after July 20, 2012, except sworn police officers, with a 401(a) defined contribution plan instead of a defined benefit plan. The initiative contains other provisions intended to limit pension costs for existing employees by directing the City to seek, through labor negotiations, to limit City employees' compensation used to calculate pension benefits. Effective in Fiscal Year 2014, the City reached agreements with each employee organization that froze pensionable pay and cost of living increases for Fiscal Years 2014 through 2018. All of the

employee organizations negotiated pensionable salary increases as of July 1, 2018, which are described in detail in the “LABOR RELATIONS” section, above.

Proposition B is the subject of ongoing litigation. On February 11, 2013, a California Public Employment Relations Board (“PERB”) administrative law judge (“ALJ”) issued a proposed decision finding that the City violated state labor laws by failing to meet and confer with City labor organizations prior to placing Proposition B on the ballot. The City filed exceptions to the proposed decision. On December 29, 2015, PERB issued Decision No. 2464-M, which affirmed and adopted the ALJ’s proposed decision with minor modifications. On January 25, 2016, the City filed an appeal with the Fourth District Court of Appeal. On April 11, 2017, the Court of Appeal overturned the ruling by the PERB. On July 26, 2017, the California Supreme Court granted petitions for review filed by both PERB and the labor organizations.

The litigation could potentially repeal or unwind the implementation of some or all of the requirements of Proposition B. The City does not have a current estimate of the potential cost to the City in the event that Proposition B is invalidated. In February 2016, Cheiron, at the request of the City, prepared an analysis, as of December 31, 2015, of the cost of adding then-current City employees who are not members of SDCERS to the system. This analysis assumed employees entering the system would receive service credits from their date of hire. Without any transfer of assets into the SDCERS system, such as the defined contributions previously made by the City on behalf of an employee, Cheiron calculated an actuarial liability of approximately \$20.1 million, all of which is unfunded, and an additional ADC of approximately \$8.5 million. The 2016 Proposition B analysis used the actuarial assumptions that were used to develop the June 30, 2015 actuarial valuation, which differ substantially from the current assumptions in the 2017 Actuarial Valuation. Accordingly, the \$20.1 million and \$8.5 million figures could be substantially higher were Cheiron to conduct a current analysis. The number of post-Proposition B employees also has grown since December 31, 2015, which would increase the cost to the City if there are no offsetting employee contributions. In the event that the California Supreme Court overturns the Court of Appeal decision, the City could be required to negotiate the terms under which the Proposition B employees would enter the SDCERS system. Any cost to the City would be the product of those negotiations. Such negotiations could include the use of retirement contributions made by the City, employees, or both to offset the cost to the SDCERS system. All retirement contributions are fully vested in the employees when made. See “SPSP-H Plan” below. Notwithstanding the on-going litigation, the 2017 Actuarial Valuation assumes the validity of Proposition B, that the City has fully implemented its requirements and that the City will comply with those requirements under the terms specified in the initiative unless ordered otherwise by a court of law.

Labor Agreements

The 2017 Actuarial Valuation incorporates a portion of the salary increases negotiated by the City and the POA in December 2017. The 8.3% increase effective July 1, 2018, plus the 5% increase effective January 1, 2019 are reflected in the normal cost portion of the City’s Fiscal Year 2019 ADC. All other increases, including the UAAL impact of the 8.3% and 5% increases effective July 1, 2018 and January 1, 2019, respectively, are incorporated into the ADCs beyond Fiscal Year 2019 as shown above in Table A-10. Finally, in addition to the pay increases, the projected ADCs shown in Table A-10 also assume sworn Police membership growth of 14.4%.

The 2017 Actuarial Valuation does not specifically account for the Fiscal Year 2019 salary increases, effective July 1, 2018, for MEA, AFSCME Local 127, IAFF Local 145, Teamsters Local 911, DCAA and unrepresented employees. Typically, salary increases in excess of the wage inflation assumption are treated as liability experience losses. The Fiscal Year 2019 increases will be recognized in the actuarial valuation as of June 30, 2018, which will serve as the basis for the ADC in Fiscal Year 2020. Under the current methodology, experience losses are amortized over a 15 year period.

OTHER RETIREMENT PLANS

In addition to the defined benefit plan administered by SDCERS, the City offers various defined contribution plans to its employees that include employer contributions. In Fiscal Year 2017, the City contributed approximately \$32 million as an employer match for the plans discussed below.

Supplemental Pension Savings Plan

Pursuant to the City's withdrawal from the federal Social Security system, effective January 8, 1982, the City established its Supplemental Pension Savings Plan ("SPSP"). SPSP is a 401(a) plan. SPSP was previously available to General members, lifeguards and elected officers. SPSP was closed to new General members as of July 1, 2009, lifeguards as of January 1, 2011 and elected officers as of July 20, 2012.

SPSP requires both the City and the employee to contribute an amount equal to 3% of the employee's salary each pay period. Employees hired before July 1, 1986 may voluntarily contribute up to an additional 4.5% of salary and participants hired on or after July 1, 1986 may voluntarily contribute up to an additional 3.05% of salary with the City matching each. City contributions for employees vest at 20% per year and are fully vested after 5 years of employment. Employee mandatory and voluntary contributions have been made on a post-tax basis. Employee mandatory contributions on or after January 1, 2016 are made pre-tax. The voluntary contributions will remain post-tax. The City match has always been and will remain to be made as a pre-tax contribution.

SPSP-H Plan

Pursuant to the City's withdrawal from the federal Social Security system, the City established the Supplemental Pension Savings Plan-H (SPSP-H) for Hourly (no standard hour) employees. These employees contribute a mandatory 3.75%. All bargaining groups except MEA and Local 911 have a City match equal to the employee contribution (3.75%). For MEA and Local 911 the employer contribution is 6%. All contributions are always 100% vested. Employee mandatory contributions on or before December 31, 2015 are made post-tax, Employee mandatory contributions made on or after January 1, 2016 are made pre-tax and the City match remains pre-tax.

Pursuant to Proposition B, newly hired standard hourly employees hired on or after July 20, 2012, except sworn police officers, are not eligible to participate in SDCERS and are provided with a 401(a) plan that is administered along with the SPSP-H Plan but with different contribution rates and employer match. Non-public safety employees and elected officers contribute an amount equal to 9.2% of salary and firefighters, lifeguards, and police recruits contribute 11% of salary on a mandatory basis. The City matches all such contributions and contributions are fully vested immediately upon employment. Police recruits participate in SDCERS when they become sworn. All contributions are always 100% vested. Employee mandatory contributions on or before December 31, 2015 are made post-tax, Employee mandatory contributions on or after January 1, 2016 are made pre-tax and the City match remains pre-tax.

2009 401(a) Plan

The City established a separate 401(a) plan for General employees hired between July 1, 2009 and July 19, 2012. These employees are not eligible for SPSP but are SDCERS members. Employees contribute an amount equal to 1% of salary on a mandatory basis with a matching City contribution. Both employee and City match are made on a pre-tax basis. Voluntary contributions, made on a post-tax basis, are permitted up to IRS limits but there is no City match for voluntary contributions. All contributions are always 100% vested.

The City also provides a variety of other tax-advantaged retirement plans that are funded exclusively through employee contributions and do not require an employer match.

POST-EMPLOYMENT HEALTHCARE BENEFITS

General

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 memoranda of understanding 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”). Plan determination is based on several factors including hire date, termination date, and individual employee election in Fiscal Year 2012. The City’s DB OPEB Plan includes 6,218 retirees and 950 active employees as of June 30, 2017. There are 2,214 retirees and 4,005 active participants in the DC Plan as of June 30, 2017. Both the DB OPEB Plan and the DC Plan are closed to employees hired on or after July 1, 2005 and the election to participate in either plan is irrevocable.

See Note 13, “Other Postemployment Benefits,” in the City’s Fiscal Year 2017 Comprehensive Annual Financial Report for information regarding the City’s OPEB plans.

Actuarial Assumptions and Methods for the DB OPEB Plan

The City commissions an actuarial valuation of its DB OPEB Plan liability annually for the purpose of determining the City’s annual cost in accordance with GASB 45. However, the City does not fund the DB OPEB Plan on an actuarial basis and will not for the foreseeable future. Rather, all payments are made pursuant to the terms of the PEHB MOU. The valuation as of June 30, 2017 (“2017 OPEB Valuation”), dated September 26, 2017, was performed by Conduent Human Resource Services (“Conduent”). The following are the major actuarial assumptions and methods employed by Conduent in performing the 2017 OPEB Valuation:

1. Actuarial Cost Method: Entry Age Normal (see description under San Diego Employees’ Retirement System for more information).
2. Amortization Rate: Level Dollar.
3. Remaining Amortization Period: 20 years in Fiscal Year 2017 (commencing with 23 years in Fiscal Year 2014), closed.
4. Actuarial Asset Valuation Method: Market Value.
5. Discount Rate: 6.73%.
6. Inflation Rate: N/A (benefits are determined based on Health Care Cost Trend Rate).
7. Projected Payroll Increase: N/A (benefits are determined based on Health Care Cost Trend Rate).
8. Health Care Cost Trend: 8.0% for Fiscal Year 2017, grading down 0.5% each year to an ultimate rate of 5.0% in Fiscal Year 2024.
9. Mortality Rates: Base rates from the CalPERS January 2014 experience study, projected 20 years from the 2009 base year using a variation of Scale MP-2015.

The OPEB Valuation uses the actuarial assumptions adopted by the SDCERS Board with respect to assumptions such as termination, disability, and retirement rates because the health-eligible employee and retiree population is very similar to the City’s SDCERS membership.

Funding Status

According to the 2017 OPEB Valuation, at June 30, 2017, the City had a DB OPEB Plan UAAL of \$553.9 million and a funded ratio of 17.3%. The DB OPEB Plan UAAL increased by approximately \$16.1 million over the OPEB UAAL in the 2016 valuation of the DB OPEB Plan, which was \$537.8 million, and the funded ratio decreased from 17.8%.

The City has an agreement with the California Public Employees Retirement System (“CalPERS”) as a participating employer in the California Employers’ Retiree Benefit Trust (“CERBT”) to fund DB OPEB Plan expenses. As of June 30, 2017, the City’s assets invested in CERBT totaled \$115.9 million.

The following table shows the DB OPEB Plan funding progress for Fiscal Years 2013 through 2017. The unfunded actuarial liability as a percentage of covered payroll will continue to increase over time as active employees retire and new employees are not added because the plan is closed.

TABLE A-11
CITY OF SAN DIEGO
SCHEDULE OF FUNDING PROGRESS (DB OPEB PLAN)
Fiscal Years 2013 through 2017
(in thousands except for percentages)
(unaudited)

<i>Fiscal Year Ended June 30</i>	<i>Actuarial Value of Assets</i>	<i>Actuarial Accrued Liability</i>	<i>Unfunded Actuarial Liability</i>	<i>Funded Ratio</i>	<i>Covered Payroll⁽¹⁾</i>	<i>UAAL as % of Covered Payroll</i>
2013	\$113,404	\$557,551	\$444,147	20.34%	\$112,782	393.81%
2014	128,238	607,712	479,474	21.10	98,742	485.58
2015	121,115	658,408	537,293	18.40	87,252	615.79
2016	116,590	654,355	537,765	17.82	74,002	726.69
2017	115,886	669,757	553,871	17.30	61,397	902.11

⁽¹⁾ Represents DB OPEB Plan participation only.

Source: Comprehensive Annual Financial Reports, Comptroller’s Office, City of San Diego.

Citywide and General Fund OPEB Contributions

Pursuant to the PEHB MOU, the City’s total retiree healthcare annual contribution (“MOU Contribution”) is budgeted at \$62.2 million for Fiscal Year 2018, to be distributed among the City’s pay-go contribution to the DB OPEB Plan (“DB OPEB Paygo”) 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 Paygo (“Employee Contributions”). 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. The City funds these payments through its MOU Contribution, Employee Contributions, and withdrawals from the CERBT (“Healthcare Obligations”). In Fiscal Year 2017, the Healthcare Obligations totaled \$70.66 million and were funded by a \$60.71 million MOU Contribution, \$0.72 million from Employee Contributions, and a withdrawal of \$9.23 million from the CERBT. For Fiscal Year 2018, the total City retiree healthcare contribution is budgeted at \$62.2 million, with a General Fund proportionate share of \$40.9 million.

Table A-12 below sets forth the City's DB OPEB ARC and the City's contributions for Fiscal Years 2014 through 2018, as well as the General Fund's share of this contribution. The DB OPEB ARC for Fiscal Year 2018 is approximately \$51.1 million.

TABLE A-12
CITY OF SAN DIEGO
CITY RETIREE HEALTH CONTRIBUTIONS
Fiscal Years 2014 through 2018
(in thousands)

<i>Fiscal Year Ended June 30</i>	<i>DB OPEB ARC</i>	<i>City DB OPEB Contribution⁽¹⁾ (A)</i>	<i>City DC Plan Contribution (B)</i>	<i>Total City Retiree Health Contribution (A+B)</i>	<i>City CERBT Withdrawal⁽³⁾ (C)</i>	<i>Total City Retiree Health Cost (A+B+C)</i>	<i>General Fund Retiree Health Contribution⁽⁴⁾</i>
2014	\$38,097	\$32,143	\$25,639	\$57,782	\$2,634	\$60,416	\$41,383
2015	41,740	31,515	26,267	57,782	6,543	64,325	38,648
2016	46,976	30,362	28,865	59,227	8,030	67,257	39,807
2017	48,475	30,326	30,381	60,707	9,235	69,942	39,025
2018	51,084	TBD ⁽²⁾	TBD ⁽²⁾	62,228	TBD ⁽²⁾	TBD ⁽²⁾	40,894

(1) Includes funding of administrative costs for DB OPEB Plan.

(2) The DB OPEB Contribution, DC Plan Contributions and CERBT Withdrawal will be available at the end of the Fiscal Year.

(3) The City prefunded its DB OPEB Plan by establishing an irrevocable trust with CalPERS and draws from the trust each year to fully fund its DB OPEB costs. As of June 30, 2017 the fair value of the City's investment in the CERBT was approximately \$115.9 million.

(4) Amount presented is based on General Fund operations as defined in the City's budget document.

Source: Risk Management, Financial Management, Comptroller's Office, City of San Diego.

Implementation of GASB Statement No. 75

In June 2015, GASB issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions ("GASB 75"), which applies to state and local government employers who provide other postemployment benefits to employees. GASB 75 requires the liability of employers to be measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees for the DB OPEB that is attributed to those employees' past periods of service (total OPEB liability), less the amount of the OPEB plan's fiduciary net position. GASB 75 requires the recognition of the total OPEB liability in the Statement of Net Position. GASB 75 must be implemented in the City's Fiscal Year 2018 CAFR.

Retiree Medical Trust

In addition to the retiree healthcare plan discussed above, the City created a Retiree Medical Trust for non-Safety City employees hired on or after July 1, 2009. The Retiree Medical Trust contributions are separate from and in addition to the contribution required by the PEHB MOU and the City's obligation is limited to an employer match of 0.25% of the salary of eligible employees. Total Retiree Medical Trust City contribution for Fiscal Year 2017 was \$379,853 (whole dollars) (the General Fund portion of the contribution was approximately \$210,667) and the budgeted contribution for Fiscal Year 2018 is \$415,814 (the General Fund budgeted portion of the contribution is \$217,219).

Southern California Firefighters Benefit Trust

The City and International Association of Firefighters (“IAFF”) Local 145 agreed to amend the PEHB MOU for the purpose of adding a City contribution of \$25 per pay period for each active IAFF Local 145 member (except Fire Recruits) to the Southern California Firefighters Benefit Trust (“Firefighters Benefit Trust”), effective July 1, 2016. The Firefighters Benefit Trust is not managed by the City. The budgeted contribution for Fiscal Year 2018 to the Firefighters Benefit Trust is \$568,542.

RISK MANAGEMENT

Self-Insurance

The City is exposed to various risks of loss related to torts, including theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The City is self-insured for Public Liability, Workers’ Compensation, and Long-Term Disability (“LTD”) claims, and also maintains contracts with various insurance companies to manage additional risks. Public Liability, Workers’ Compensation, and LTD estimated liabilities are determined based on results of independent actuarial valuations and include amounts for claims incurred but not reported (“IBNR”) and loss adjustment expenses (“LAE”). Claims liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts, and other economic and social factors. Estimated liabilities for public liability claims have been recorded in the government-wide financial statements, Sewer Utility Fund, Water Utility Fund, and the Successor Agency Private-Purpose Trust Fund. Estimated liabilities for workers’ compensation claims have been recorded in the government-wide financial statements, the Water Utility Fund, Sewer Utility Fund, Non-major Enterprise Funds, and Internal Service Funds. Estimated liabilities for long-term disability were recorded in the Miscellaneous Internal Service Fund.

Table A-13 presents the public liability expense and the liability premium payments for the General Fund for the years presented. Amounts charged to the General Fund for claims and premiums vary from year to year based on a variety of factors, including distribution of claims among other responsible funds.

TABLE A-13
CITY OF SAN DIEGO
GENERAL FUND LIABILITY CLAIMS AND PREMIUMS
Fiscal Years 2013 through 2017

<i>Fiscal Year</i>	<i>Liability Claims Payments and Settlement Costs⁽¹⁾</i>	<i>Liability Premium Payments⁽²⁾</i>
2013	\$16,027,000	\$3,714,000
2014 ⁽³⁾	40,559,000	5,590,000
2015 ⁽⁴⁾	40,756,000	7,392,000
2016 ⁽⁵⁾	57,371,000	8,478,000
2017	20,662,000	9,151,000

⁽¹⁾ The City’s General Fund portion of settlement and investigation expenses for third party public liability claims, and other litigation expenses.

⁽²⁾ Premiums for various insurance contracts.

⁽³⁾ Higher than typical Liability Claims Payments and Settlement Costs in Fiscal Year 2014 are primarily attributed to the following two large settled claims: Luke Acuna claim in the amount of \$18.5 million and *Lexin v. City of San Diego* in the amount of \$8.8 million.

⁽⁴⁾ Higher than typical Liability Claims Payments and Settlement Costs in Fiscal Year 2015 are primarily attributed to the following two large settled claims paid in full or in part during the fiscal year: *De Anza Cove Homeowners Association, et al. v City of San Diego* in the amount of \$17.6 million and Jane Doe in the amount of \$5.9 million.

⁽⁵⁾ Higher than typical Liability Claims Payments and Settlement Costs in Fiscal Year 2016 are primarily attributed to the following two large settled claims paid in full or in part during the fiscal year: *De Anza Cove Homeowners Association, et*

al. v City of San Diego in the amount of \$14.0 million and *Aglio et al. v City of San Diego, San Diego* in the amount of \$16.8 million.

Source: Risk Management Department, City of San Diego (unaudited).

During Fiscal Year 2017 and to date in Fiscal Year 2018, there were no significant reductions in insurance coverage from the prior year. For each of the past three full Fiscal Years, the settlements have not exceeded the excess public liability insurance coverage the City maintains in collaboration with a statewide joint powers authority risk pool, which is discussed in more detail below. The City can give no assurance that particular losses will be covered or that providers will be able to pay covered losses.

Workers' Compensation and Long-Term Disability

All operating funds of the City participate in both the workers' compensation and LTD programs. Workers' Compensation activity is reported within the General Fund and LTD activity is reported within the Miscellaneous Internal Service Fund. Each operating fund contributes an amount equal to a specified rate multiplied by the gross salaries payable from such fund. These payments are treated as operating expenditures in the contributing funds and operating revenues in the General Fund and Miscellaneous Internal Service Fund. The Five-Year Outlook addresses reserves for the Workers' Compensation Fund. See "Reserves" herein.

Public Liability Insurance

The City's self-insured retention for public liability is \$3,000,000 per occurrence. Above the SIR, the City has a \$2,000,000 individual corridor deductible (annual aggregate). The City maintains excess public liability insurance policies in collaboration with a statewide joint powers authority risk pool, the California State Association of Counties-Excess Insurance Authority (CSAC-EIA) for amounts up to \$50,000,000 per occurrence (inclusive of the \$3,000,000 self-insured retention for public liability). The Five-Year Outlook addresses reserves for the Public Liability Fund. See "Reserves" herein.

Employee Group Health Insurance

The City currently offers a cafeteria-style flexible benefits plan. For MEA, Teamsters 911, and Local 127 represented employees, this plan requires employees to choose a health plan unless covered elsewhere, and also a life insurance plan. It also gives employees the option of obtaining dental and/or vision insurance. For all other employees, the benefits plan is the same, with the exception that \$50,000 of City-paid life insurance is automatically provided outside of the flexible benefit credit. Employees receive flexible benefit dollars as taxable earnings and may use those dollars for medical/dental/vision and childcare reimbursement accounts, as well as contributions to their 401k retirement savings plan.

The City is monitoring legislation as it relates to the Affordable Care Act ("ACA") and will assess any impacts new ACA regulations will have on employee health benefits and flexible benefits. Negotiations with the City's six recognized employee organizations will need to occur prior to determining the impact on City benefit plans.

Property and Flood Insurance

The City participates in the joint purchase of property insurance and flood insurance through the CSAC-EIA pool (the current annual policy term is March 31, 2018 through March 31, 2019), which includes flood coverage for certain components of City property. The City is not required to provide flood insurance for other City property, and in its discretion, may elect to modify the designation of covered properties in the future.

This joint purchase of the City's "all risk" property insurance through the CSAC-EIA pool insures approximately \$4.6 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 \$25,000 deductible. Additional excess limits are available as part of the City's insurance property program through CSAC-EIA where coverage "towers" with designated coverage limits are provided. Coverage towers are groups of properties which are diversified based on occupancy (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" and Flood may be accessible. This limit of insurance includes coverage for business interruption for designated leased properties for various financings. There is no sharing of limits among the City and member counties of the CSAC-EIA 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.

For a discussion of fire and other property insurance for the Leased Property maintained under the Lease, see "SECURITY AND SOURCES OF PAYMENT FOR THE 2018 BONDS — Fire and Extended Coverage Insurance" in the front part of this Official Statement.

Earthquake Insurance

CSAC EIA's insurance property program structure of dedicated tower limits applies also to Earthquake coverage. The City participates in four coverage towers. Earthquake coverage is provided for designated buildings in the amount of \$100 million under primary policies per tower. If tower limits are exhausted, additional coverage may be accessible by any of the towers in the risk pool. The additional coverage limits are shared by all towers in the risk-pool and may not exceed an aggregate amount of \$440 million for all claims made by all towers during the coverage period, including coverage for business interruption caused by earthquake at certain designated locations. Earthquake coverage is subject to a deductible of 2% of total insured values per unit per occurrence, subject to a \$100,000 minimum. The City's earthquake coverage is purchased jointly and limits are shared with the member counties in the CSAC-EIA pool. Due to the potential for geographically concentrated earthquake losses, the CSAC-EIA pool is geographically diverse to minimize any potential sharing of coverage in the case of an earthquake. Depending upon the availability and affordability of earthquake insurance, the City may elect not to purchase such coverage in the future, or the City may elect to increase the deductible or reduce the coverage from present levels.

Except for the San Diego Police Headquarters, none of the Leased Property is insured for earthquake damage. See "RISK FACTORS — Risk Management and Insurance" in the first part of this Official Statement.

Employee Dishonesty and Faithful Performance Insurance

The City is a public agency subject to liability for the dishonest acts, and negligent acts or omissions of its officers and employees acting within the scope of their duty ("employee dishonesty" and "faithful performance"). The City participates in the joint purchase of insurance covering employee dishonesty and faithful performance through the CSAC-EIA pool. Coverage is provided in the amount of \$15 million per occurrence subject to a \$25,000 deductible.

LITIGATION POTENTIALLY ADVERSELY AFFECTING THE GENERAL FUND

No Pending Litigation Regarding the 2018 Bonds

There is no litigation against the City pending or, to the knowledge of the executive officers of the City, threatened in any court or other tribunal of competent jurisdiction, state or federal, in any way (i) restraining or enjoining the issuance, sale or delivery of any of the 2018 Bonds; (ii) questioning or affecting the validity of the 2018 Bonds; or (iii) questioning or affecting the validity of any of the proceedings for the

authorization, sale, execution or delivery of the 2018 Bonds. There are lawsuits and claims pending against the City arising in the ordinary course of the City's activities which, taken individually or in the aggregate, could materially affect the City's finances. Please see Note 17 of the City's CAFR for Fiscal Year 2017 for additional information.

Litigation and Regulatory Actions

The City is a defendant in lawsuits pertaining to various matters, including claims asserted which are incidental to performing routine governmental and other functions. This litigation includes but is not limited to: actions commenced and claims asserted against the City arising out of alleged torts; alleged breaches of contracts; alleged violations of law; and condemnation proceedings. The City received 2,255 notices of claim in Fiscal Year 2017.

The Office of the City Attorney has prepared the following summary of certain pending claims and lawsuits for which, as of the date of the Official Statement, the City Attorney believes, in the event of an unfavorable outcome for the City, the potential loss could exceed \$10 million. The list does not include lawsuits where the liability has already been accrued in the City's financial statements. The list generally does not include cases where the City Attorney has determined that the likelihood of an unfavorable outcome is remote unless the magnitude of a potential loss, even if remote, is particularly significant. All figures provided in this section are preliminary and subject to change. Nothing disclosed herein should be considered an admission by the City. In the event of an adverse ruling, certain pending lawsuits, whether individually disclosed herein or not, may potentially result in an additional material liability to the City. See Notes 18 and 24 of the City's CAFR for Fiscal Year 2017 for additional information regarding the City's contingent liabilities related to litigation. Please note that the information presented in the CAFR includes citywide liabilities and is not limited to the General Fund. Additionally, the City maintains a Public Liability Fund Reserve to pay, in part, claims against the General Fund. See subsection "Public Liability Fund Reserve" under "Reserves" herein. Finally, the *Pay-in-Lieu Program Tax Liability* item is an unasserted claim and the City Attorney has no basis to assess when or if a claim may be asserted. The *Pay-in-Lieu Program Tax Liability* item is a citywide, rather than a General Fund, liability. See "— Pay-in-Lieu Program Tax Liability" below.

Jess Willard Mahon Jr. v City of San Diego, et al.

This is a class action lawsuit in which the plaintiffs, on behalf of all San Diego Gas & Electric (SDG&E) ratepayers in the City of San Diego from March 9, 2014 to the present, challenge the franchise fee differential surcharge listed as a separate line item on City ratepayer SDG&E electric bills. The challenged portion of the 5.78% franchise fee differential surcharge (3.53%) is collected by SDG&E monthly and then an equivalent amount is paid to the City on a quarterly basis to fund the City's program to underground electric utilities (the "Undergrounding Program"). The franchise fees collected for the Undergrounding Program are deposited into a separate fund which is not part of the General Fund. Claimant alleges that this portion of the franchise fee differential surcharge is not a franchise fee, but rather a special tax illegally imposed in violation of the California Constitution.

Claimant seeks to end collection of the disputed portion of the franchise fee differential surcharge and a refund of the challenged portion of the franchise fee differential surcharge collected between March 9, 2014 and the present. The City collected approximately \$225 million during the relevant time period. The City has a balance of approximately \$145 million in the Undergrounding Fund. The claim does not include any other compensation SDG&E pays to the City in exchange for the electric franchise.

In the event of an adverse ruling, the City would be required to pay a judgment from any lawfully available funds, including lawfully available funds in the General Fund.

Vinolo v. City of San Diego

This case involves a cyclist who was struck by a car and paralyzed while riding on Fiesta Island. Plaintiff alleges the road was a dangerous condition because, due to curves, cyclists could not see oncoming traffic. The likely potential exposure to the City is between \$0 and \$25 million.

Pay-in-lieu Program Tax Liability

[TO BE UPDATED]

INVESTMENT OF FUNDS

Investment of Funds

Amounts in the funds and accounts of the General Fund are invested by the City Treasurer in the City Treasurer's Pooled Investment Fund (the "City Pool") described below. The City accounts for such amounts separately from other funds of the City.

City Pool

In accordance with 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 preservation of capital, liquidity and return.

Oversight and Reporting Requirements

The City Treasurer provides a monthly investment report to the Chief Financial Officer, the City Comptroller and the City Council and annually presents the City Treasurer's Investment Policy to the Chief Financial Officer, the City Treasurer's Investment Advisory Committee (the "IAC"), the Budget and Government Efficiency Committee, and the City Council. The IAC is comprised of two City employees, currently the Chief Financial Officer and the Director of Debt Management, and three outside investment professionals and is charged with overseeing the review of the City Treasurer's Investment Policy and 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 services to provide investment portfolio valuations and 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 Office of the Comptroller for review and reconciliation. The Office of the City Treasurer's Accounting program prepares a series of monthly reports, including the portfolio market valuation, and distributes these to the Mayor, City Council, Chief Financial Officer, and other officials.

Authorized Investments

Investments in the City Pool are governed by State law and further restricted by the City Treasurer's Investment Policy. The Investment Policy is prepared with safety of principal being the foremost objective. Permitted investments include, but not limited to, U.S. Treasury securities, U.S. Agency securities, U.S. Agency mortgage backed securities, corporate medium term notes, money market instruments, non-negotiable Federal Deposit Insurance Corporation-insured certificates of deposit and the Local Agency Investment Fund

(California State Pool). Reverse repurchase agreements (“reverse repos”) and securities lending arrangements are restricted to 20% of the base value of the portfolio and are governed by various maturity restrictions as well. The main operating funds of the City are managed in two separate portfolios, the Liquidity and Core portfolios. In its management of the “Liquidity” portfolio, comprising approximately 35% of total funds, the City invests in a variety of debt securities with maturities typically ranging from one day to one year; performance is measured against the Bank of America Merrill Lynch three-to-six month Treasury Bill Index. The remaining 65% of funds are managed in a separate “Core” portfolio that consists of a variety of debt securities ranging from one day to five years; performance is measured against the Bank of America Merrill Lynch one- to three-year U.S. Treasury Index. The 35% Liquidity/65% Core portfolio split serves as a guideline. The actual split may vary due to market conditions or other factors. Safety of principal and liquidity are paramount considerations in the management of both portfolios.

Pool Liquidity and Other Characteristics

The City Pool (including both the “Liquidity” and the “Core” portfolios) is highly liquid. Based on unaudited month-end data as of December 31, 2017, approximately 8% of the City Pool’s investments mature within 62 days, 11% within 92 days, 21% within 184 days, 27% within 1 year, 68% within 2 years, 89% within 3 years, and 100% within 5 years (on a cumulative basis). As of December 31, 2017, the City Pool had a weighted average maturity of 1.60 years (585 days) and its weighted average yield was 1.47%. For purposes of calculating weighted average maturity, the City Treasurer treats investments in the State-wide Local Agency Investment Fund (California State Pool) as maturing within one day. The Liquidity portfolio had a duration of 0.28 years and the Core portfolio had a duration of 1.72 years as of December 31, 2017. Duration is a measure of the price volatility of the portfolio and reflects an estimate of the projected increase or decrease in the value of the portfolio based upon a decrease or increase in interest rates. Accordingly, the Liquidity portfolio should decrease in market value by 0.28% for every 1% increase in market interest rates while the Core portfolio should decrease in market value by 1.72% for every 1% increase in market interest rates. The City Pool’s composition is designed with a goal of having sufficient liquid funds available to meet disbursement requirements. The composition and value of investments under management in the City Treasurer’s Pooled Investment Fund will vary from time to time depending on cash flow needs of the City, maturity or sale of investments, purchase of new securities, and fluctuations in interest rates.

Table A-14 sets forth information concerning the City Pool at December 31, 2017.

TABLE A-14
CITY OF SAN DIEGO POOLED INVESTMENT FUND
At December 31, 2017
(in thousands)
(unaudited)

<i>Investment Instrument</i>	<i>Book Value</i>	<i>Fair Value</i>	<i>Percent of Total⁽¹⁾</i>
U.S. Treasury Notes	\$ 411,767	\$ 407,420	19.00%
Agency Discount Notes	36,029	36,046	1.66
Agency Notes & Bonds	304,130	300,759	14.03
Supranationals ⁽²⁾	100,231	99,113	4.63
Commercial Paper	421,583	422,596	19.45
Corporate Notes & Bonds	491,879	489,804	22.69
Local Agency Investment Fund	60,765	60,765	2.80
Asset Backed Securities	<u>341,136</u>	<u>340,203</u>	<u>15.74</u>
TOTAL INVESTMENTS	\$ 2,167,520	\$ 2,156,705	100.00%

(1) Based on book value.

(2) Supranationals are entities formed by two or more central governments through international treaties. Examples are the International Bank for Reconstruction and Development and the Inter-American Development Bank.

Source: Office of the City Treasurer, City of San Diego.

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.

BONDED AND OTHER INDEBTEDNESS

Issuer Ratings

As of [April 5, 2018], the City had an “Aa2” Issuer Rating from Moody’s Investors Service, Inc., an “AA” Issuer Credit Rating from Standard & Poor’s Rating Services and an “AA” Issuer Default Rating from Fitch Ratings. These ratings are separate from the ratings on the City’s General Fund supported lease obligations and do not reflect the ratings assigned by the rating agencies to the 2018 Bonds. See “RATINGS” in the forepart of the Official Statement.

Long-Term Obligations

Table A-15 provides a schedule, by years, of principal and interest payments required to be made by the City with respect to future obligations, as of June 30, 2017.

TABLE A-15
CITY OF SAN DIEGO
GENERAL FUND LEASE PAYMENTS AND OTHER LEASE OBLIGATIONS⁽¹⁾
As of June 30, 2017
(in thousands)
(Unaudited)

<i>Fiscal Year</i>	<i>General Fund Lease Payments⁽²⁾</i>	<i>Other Lease Obligations⁽³⁾</i>	<i>Total⁽³⁾</i>
2018	\$ 53,036	\$ 20,899	\$ 73,935
2019	53,020	21,651	74,671
2020	52,995	19,454	72,449
2021	52,961	16,336	69,297
2022	52,918	14,633	67,551
Thereafter	<u>\$ 640,562</u>	<u>\$ 156,463</u>	<u>\$ 797,025</u>
Subtotal	\$ 905,492	\$ 249,436	\$ 1,154,928
Less Interest Portion	<u>(326,603)</u>	<u>(83,810)</u>	<u>(410,413)</u>
Total Principal Portion	<u>\$ 578,889</u>	<u>\$ 165,626</u>	<u>\$ 744,515</u>

⁽¹⁾ Reflects actual principal payments to the bondholders. Actual payment may be from a source other than the General Fund.

⁽²⁾ Includes lease payments related to Qualified Energy Conservation Bonds ("QECCBs"), which are partially offset by direct cash subsidy payments from the federal government annually over the life of the bonds. For example, the Fiscal Year 2018 subsidy is \$296,000 resulting in a net lease payment of \$1.07 million after accounting for the subsidy. The amounts above reflect total lease payments.

⁽³⁾ On December 1, 2016, the San Diego Convention Center ("SDCCC") and the City, as co-lessees, executed a \$25.5 million 25-year loan with the California Infrastructure and Economic Development Bank's ("I-Bank") Infrastructure State Revolving Fund Program. SDCCC is to make the annual payments due beginning August 1, 2019; therefore, the City's General Fund is not the expected payment source, and the payments for this loan are not reflected in the table.

Source: Fiscal Year 2017 Comprehensive Annual Financial Report, Comptroller's Office, City of San Diego and Debt Management Department, City of San Diego.

[Remainder of Page Intentionally Left Blank]

Table A-16 provides a summary list of long-term General Fund lease commitments and other General Fund supported obligations outstanding as of June 30, 2017 and March 31, 2018.

TABLE A-16
CITY OF SAN DIEGO
GENERAL FUND SUPPORTED OBLIGATIONS
(in thousands)
(Unaudited)

	<i>Principal Outstanding as of June 30, 2017</i>	<i>Principal Outstanding as of March 31, 2018</i>
General Fund Lease Revenue Bonds⁽¹⁾		
2010A – Master Refunding Bonds ⁽²⁾	\$138,565	\$132,550
2011 – Qualified Energy Conservation Bonds (Broad Spectrum Street Lighting) ⁽³⁾	8,429	7,579
2012A – Convention Center Expansion Refunding Bonds	105,755	105,755
2012A – Deferred Capital Improvement Project Bonds ⁽⁴⁾	66,380	65,690
2012B – Fire and Life Safety Refunding Bonds ⁽⁴⁾	15,555	15,175
2013A – Capital Improvement Projects and Old Town Light Rail Refunding Bonds ⁽⁴⁾	37,600	36,165
2013B – Balboa Park/Mission Bay Park Refunding Bonds ⁽⁴⁾	4,355	3,820
2015A – Capital Improvement Projects Bonds ⁽⁴⁾	62,260	62,260
2015B – Capital Improvement Projects Bonds ⁽⁴⁾	41,705	39,960
2016 – Ballpark Refunding Bonds	98,285	93,650
Total Principal of General Fund Lease Revenue Bonds	\$578,889	\$562,604
Other Lease Obligations⁽⁵⁾		
Essential Equipment, Vehicle, and Technology Leases (3-15 year leases)	44,281	50,337
Civic Center Plaza Capital Lease (20 year lease) ⁽⁶⁾	43,030	42,555
101 Ash Street Capital Lease (20 year lease) ⁽⁶⁾	76,367	74,700
Other Capital Leases	1,948	1,299
Total Other Lease Obligations	165,626	168,891
Sub-Total Principal Outstanding	\$744,515	731,495
Other Obligations (General Fund Backup Support)		
San Diego Convention Center		
California Infrastructure and Economic Development Bank (I-Bank) ⁽⁷⁾	25,500	25,500
Total Principal Outstanding	\$770,015	\$756,995

(1) The Lease Revenue Bonds were issued by two Joint Power Authorities. Bonds are paid from City lease payments made to the Joint Power Authorities from the General Fund, or other sources.

(2) To be refunded with the 2018 Bonds.

(3) Private placement financing.

(4) Bonds outstanding under the 2012 Master Indenture.

(5) Private placement financing or direct loans.

(6) The lease is recognized as a capital lease since the transfer of ownership occurs at the end of the lease term.

(7) On December 1, 2016, SDCCC and the City, as co-lessees, executed a \$25.5 million 25-year loan with the I-Bank Infrastructure State Revolving Fund Program. SDCCC is to make the annual payments due beginning August 1, 2019; therefore, the City's General Fund is not the expected payment source.

Source: Fiscal Year 2017 Comprehensive Annual Financial Report, Comptroller's Office, City of San Diego and Debt Management Department, City of San Diego.

Future Financing Plans

From time to time, the City conducts bond offerings to fund various General Fund capital improvements and projects. The City monitors outstanding General Fund obligations and conducts refundings if economically advantageous.

The City currently expects to issue an estimated \$270 million in General Fund supported lease obligations in as needed amounts between Fiscal Years 2019 and 2023 to continue to address the City's ongoing General Fund capital improvement priorities in streets pavement, public facilities, and the storm drain system. A portion of the estimated \$270 million in funds is anticipated to be financed using commercial paper lease obligations, a short-term financing mechanism that allows for just-in-time, lower cost borrowing based on short-term interest rates instead of issuing a large long-term bond upfront. The commercial paper will be paid off periodically by the City and be replaced with long-term lease obligations. An estimated \$75 million commercial paper program is anticipated to be presented to City Council for approval in the second half of Fiscal Year 2018 to provide as-needed financing proceeds for project spending. The projected annual lease payment costs for the General Fund supported bond program are taken into account in the City's General Fund Five-Year Outlook updates prepared annually. The timing of the individual bond series will be dependent on the actual spend down of the available bond construction funds.

The City Council authorized the issuance of up to \$50 million of General Fund backed lease revenue bonds in December 2016 to fund parking related public improvements to Balboa Park. Repayment of the bonds is expected to be self-supported by annual net parking revenues generated from a new 797-space parking structure. Currently, there is litigation pending, challenging certain aspects of the project and proposed financing. The City anticipates issuing bonds contingent upon receiving a favorable outcome to the legal challenges.

In addition, City enters into capital leases in the form of direct loan arrangements for various essential equipment and real estate purchases. The City anticipates approximately \$80 million in master lease agreements to purchase vehicles, equipment, and a public safety helicopter in Fiscal Years 2018 and 2019.

Short-Term Borrowings

Prior to Fiscal Year 2014, the City had historically issued tax and revenue anticipation notes annually in anticipation of receipt of taxes and other General Fund revenues. The note offerings during Fiscal Years 2008 to 2013 ranged from approximately \$100 million to \$163 million. There were no tax and revenue anticipation notes issued in Fiscal Year 2014 through Fiscal Year 2017.

Overlapping Debt and Debt Ratios

Table A-18 presents a statement of direct and overlapping bonded debt (the "Debt Statement") of the City as of June 30, 2017. The City has issued bonds secured by and payable out of loans and installment sale contracts, in order to provide conduit financing for single and multi-family housing, industrial development, and 501(c)(3) non-profit corporations. These bonds are not secured by City General Fund amounts or revenues.

The Debt Statement is prepared by Avenu Insights & Analytics (MuniServices, LLC) and is included for general information purposes only. The City has not reviewed the Debt Statement for completeness or accuracy and makes no representations in connection therewith. The Debt Statement includes the Series 2010A Bonds which are being refunded with the proceeds of the 2018 Bonds, as described in the front part of this Official Statement. The Debt Statement does not include \$25.5 million of principal outstanding as of June 30, 2017 for the California Infrastructure and Development Bank's Infrastructure State Revolving Fund Program loan under which the City and the San Diego Convention Center Corporation are co-lessees. The Debt Statement generally includes long-term obligations sold in the public credit markets by public agencies

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

The City contains numerous school districts and special purpose districts, such as for water and sanitation, many of which have issued general obligation bonds. Some of the issues may be payable from self-supporting enterprises or revenue sources other than property taxation.

The City periodically issues Special Assessment or Community Facilities District (Mello-Roos) bonds on behalf of petitioning developers or citizens when the City determines that the public facilities to be financed are of a defined extraordinary benefit to the City. These bonds are secured by property owner assessments or special taxes.

[Remainder of Page Intentionally Left Blank]

TABLE A-18
CITY OF SAN DIEGO
STATEMENT OF DIRECT AND OVERLAPPING BONDED DEBT
As of June 30, 2017
(in thousands, except for percentages)
(unaudited)

	Total Debt 6/30/17	% Applicable ⁽¹⁾	City's Share of Debt 6/30/17
OVERLAPPING TAX AND ASSESSMENT DEBT:			
Metropolitan Water District	\$ 74,905	8.551%	\$ 6,405
Palomar Community College District	639,551	23.695	151,542
San Diego Community College District	1,322,160	99.932	1,321,261
Poway Unified School District School Facilities Improvement District Nos. 2002-1 and 2007-1	324,100	55.529, 56.248	181,256
San Diego Unified School District	2,852,868	99.934	2,850,985
San Dieguito Union High School District	316,250	32.916	104,097
San Ysidro School District	127,867	85.220	108,968
Other School, High School and Community College Districts	2,053,075	Various	198,285
Grossmont Healthcare District	263,913	8.046	21,234
Palomar Pomerado Health System	443,466	27.937	123,891
City of San Diego Special Assessment/Special Tax Bonds ⁽²⁾	96,855	100	96,855
Del Mar Unified School District Community Facilities District No. 99-1 & 95-1	24,965	100	24,965
North City West School District Community Facilities District	55,098	100	55,098
Poway Unified School District Community Facilities Districts	355,570	99.609-100	355,530
San Dieguito Union High School District Community Facilities Districts	57,053	81.063-100	52,012
Sweetwater Union High School District Community Facilities Districts	12,550	8.935-100	9,361
Solana Beach School District Community Facilities Districts	31,700	100	31,700
Other Special District 1915 Act Bonds	18,152	Various	6,664
TOTAL NET DIRECT OVERLAPPING TAX AND ASSESSMENT DEBT			\$ 5,700,109
DIRECT AND OVERLAPPING DEBT:			
San Diego County General Fund Obligations	\$ 291,180	47.298%	\$ 137,722
San Diego County Pension Obligation Bonds	605,520	47.298	286,399
San Diego Superintendent of Schools Certificates of Participation	11,800	47.298	5,581
Palomar Community College District General Fund Obligations	12,265	21.029	2,579
Poway Unified School District Certificates of Participation	62,019	64.239	39,840
Sweetwater Union High School District Certificates of Participation	43,565	19.637	8,555
Chula Vista School District General Fund Obligations	158,000	5.141	8,123
San Ysidro School District Certificates of Participation	41,220	85.220	35,128
Other School, High School and Community College District Certificates of Participation	130,865	Various	5,487
City of San Diego Obligations⁽³⁾	796,676	100	796,676
TOTAL NET DIRECT AND OVERLAPPING DEBT			\$ 1,326,090
OVERLAPPING TAX INCREMENT DEBT (Successor Agencies):	\$ 444,621	1.163-100%	\$ 407,443
TOTAL DIRECT DEBT			\$ 796,676
TOTAL GROSS OVERLAPPING DEBT			\$ 6,636,966
TOTAL NET OVERLAPPING DEBT			\$ 6,636,966
GROSS COMBINED TOTAL DEBT⁽⁴⁾			\$ 7,433,642
NET COMBINED TOTAL DEBT			\$ 7,433,642
Ratios to 2016-17 Assessed Valuation (\$221,006,040):			
Overlapping Tax and Assessment Debt.....	2.58%		
Total Direct Debt (\$796,676).....	0.36%		
Gross Combined Total Debt.....	3.36%		
Net Combined Total Debt	3.36%		
Ratios to Redevelopment Successor Agency Incremental Valuation (\$22,269,419):			
Total Overlapping Tax Increment Debt.....	1.83%		

⁽¹⁾ The percentage of overlapping debt applicable to the City is estimated using taxable assessed property value. Applicable percentages were estimated by determining the portion of the overlapping district's assessed value that is within the boundaries of the City divided by the district's total taxable assessed value.

⁽²⁾ Amounts reconcile to Note 19 in the Fiscal Year 2017 CAFR, Total Special Assessment/Special Tax Bonds.

⁽³⁾ Amounts for Total Debt reconcile to Note 5 in the Fiscal Year 2017 CAFR, Total Lease Revenue Bonds, Total QECB Obligations, Total Loans Payable, Section 108 Loans Payable, EVFP Capital Lease Obligations, and Other Capital Lease Obligations. Excludes I-Bank Loan to SDCCC and the City as co-lessees.

⁽⁴⁾ Excludes Tax and Revenue Anticipation Notes, Enterprise Revenue, Mortgage Revenue and Non-Bonded Capital Lease Obligations. Qualified Zone Academy Bonds are included based on principal due at maturity.

Source: Fiscal Year 2017 Comprehensive Annual Financial Report, Comptroller's Office, City of San Diego.

LIMITATIONS ON TAXES, APPROPRIATIONS AND REVENUE

Article XIII A of the California Constitution

Section 1(a) of Article XIII A of the California Constitution limits the maximum ad valorem tax on real property to 1% of full cash value (as defined in Section 2 of Article XIII A), to be collected by each county and apportioned among the county and other public agencies and funds according to law. Section 1(b) of Article XIII A, as enacted in 1978 by Proposition 13, provides that the 1% limitation does not apply to ad valorem taxes to pay interest or redemption charges on indebtedness approved by the voters prior to July 1, 1978. On June 3, 1986, California voters approved an amendment to Article XIII A, which allows for an additional exemption to the 1% tax limitation imposed by Article XIII A. Under this amendment to Article XIII A, local governments and school districts may increase the property tax rate above 1% for the period necessary to retire bonds approved on or after July 1, 1978, if two-thirds of those voting in a local election approve the issuance of such bonds and the money raised through the sale of the bonds is used exclusively to purchase or improve real property. Later amendments allow for property tax increases to pay for certain school district general obligation bonds approved by 55% of those voting in a local election.

Section 2 of Article XIII A defines “full cash value” to mean “the County Assessor’s valuation of real property as shown on the 1975/76 tax bill under full cash value or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment.” The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year or to reflect a reduction in the consumer price index or comparable data for the area under the taxing jurisdiction, or reduced in the event of declining property values caused by substantial damage, destruction, or other factors. Legislation enacted by the State Legislature to implement Article XIII A provides that notwithstanding any other law, local agencies may not levy any ad valorem property tax except to pay debt service on indebtedness approved by the voters as described above.

In addition, legislation enacted by the California Legislature to implement Article XIII A provides that all taxable property is shown at full assessed value as described above. In conformity with this procedure, all taxable property value included in this Official Statement (except as noted) is shown at 100% of assessed value and all general tax rates reflect the \$1 per \$100 of taxable value.

In the June 1990 election, the voters of the State approved amendments to Article XIII A permitting the State Legislature to extend the replacement dwelling provisions applicable to persons over 55 to severely disabled homeowners for a replacement dwelling purchased or newly constructed on or after June 5, 1990, and to exclude from the definition of “newly constructed” improvements to certain dwellings for the purpose of making the dwelling more accessible to severely disabled persons. In the November 2010 election, the voters of the State approved an amendment of Article XIII A to exclude from the definition of “newly constructed” seismic retrofitting improvements to existing structures. Voters have approved several other minor exemptions from the reassessment provisions of Article XIII A.

Article XIII B of the California Constitution

Article XIII B of the California Constitution limits the annual appropriations of the State and of any city, county, school district, authority or other political subdivision of the State to the level of appropriations for the prior Fiscal Year, as adjusted annually for changes in the cost of living, population, and services for which the fiscal responsibility is shifted to or from the governmental entity (the “Gann Limit”). The “base year” for establishing this appropriations limit is the 1978-1979 fiscal year.

Appropriations subject to Article XIII B generally include any authorizations to expend during a Fiscal Year the proceeds of taxes levied by or for the entity, exclusive of certain State subventions, refunds of taxes and benefit payments from retirement, unemployment insurance and disability insurance funds. “Proceeds of Taxes” include, but are not limited to, all tax revenues, most State subventions and the proceeds to the local

government entity from (a) regulatory licenses, user charges, and user fees (to the extent that such proceeds exceed the cost reasonably borne by such entity) and (b) the investment of tax revenues. Article XIII B provides that if a governmental entity's revenues in any year exceed the amounts permitted to be spent, the excess must be returned by revising tax rates or fee schedules over the subsequent two years.

Article XIII B does not limit the appropriation of money to pay debt service on indebtedness existing or authorized as of January 1, 1979, or for bonded indebtedness approved thereafter by a vote of the electors of the issuing entity at an election held for that purpose. Article XIII B allows voters to approve a temporary waiver of a government's Article XIII B limit.

In the June 1990 election, the voters of the State approved Proposition 111, which amended the method of calculating State and local appropriations limits. Proposition 111 made several changes to Article XIII B, three of which are reflected in the City's annual computation of its appropriation limit. First, the term "change in the cost of living" was redefined as the change in the California per capita personal income ("CPCPI") from the preceding year. Previously the lower of the CPCPI or the United States Consumer Price Index was used. Second, the appropriations limit for the Fiscal Year was recomputed by adjusting the Fiscal Year 1987 limit by the CPCPI for the three subsequent years. Third, Proposition 111 excluded from the appropriations limit "all qualified capital outlay projects, as defined by the Legislature."

The City's appropriations limit for Fiscal Year 2018 has been established at \$2.6 billion. Using the Fiscal Year 2018 Budget, the appropriations subject to the limit (i.e., proceeds of taxes, excluding debt service on voter-approved debt and qualified capital outlays) have been calculated to be \$1.0 billion, which is \$1.6 billion lower than the Gann Limit. The impact of the appropriations limit on the City's financial needs in the future is unknown.

Articles XIII C and XIII D (Proposition 218) of the California Constitution

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 and assessments, fees and charges.

Article XIII C

Section 2 of Article XIII C requires majority voter approval for the imposition, extension or increase of general taxes and 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.

Although a portion of the City's General Fund revenues are derived from general taxes purported to be governed by Proposition 218, all of such taxes were either imposed, extended or increased prior to the effective date of Proposition 218 or in accordance with the requirements of Proposition 218. No assurance can be given that the voters of the City will not, in the future, approve an initiative or initiatives which reduce or repeal local taxes, assessments, fees or charges, such as the TOT, Proposition 172 revenues, or storm water fees which support the City's General Fund. TOT and other local taxes, assessments, fees and charges, could be subject to reduction or repeal by initiative under 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 that 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, 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 fees and 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. The Bighorn Decision has been interpreted to mean that ongoing water delivery charges are also property-related fees and charges within the meaning of Article XIID.

In the *Bighorn Decision*, the Supreme Court stated 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.

Article XIIC also removes many of the limitations on the initiative power in matters of reducing or repealing any local tax, assessment, fee or charge. No assurance can be given that the voters of the City will not, in the future, approve an initiative or initiatives which reduce or repeal local taxes, assessments, fees or charges currently comprising a substantial part of the City’s General Fund. “Assessments,” “fees” and “charges” are not defined in Article XIIC, and it is unclear whether these terms are intended to have the same meanings for purposes of Article XIIC as for Article XIID described below. If not, the scope of the initiative power under Article XIIC potentially could include any General Fund local tax, assessment, or fee not received from or imposed by the federal or State government or derived from investment income.

If the City is unable to continue to collect assessment revenues for a particular program, the program might have to be curtailed and/or funded by the City’s General Fund. Given the approval requirements imposed by Article XIID, the City is unable to predict whether it will be able to continue to collect assessment revenues for these programs. If the City chose to fund any such programs from the General Fund instead, the General Fund budget would be affected.

Article XIID

Article XIID defines a “fee” or “charge” as any levy other than an ad valorem tax, special tax, or assessment imposed by an agency 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” herein. Article XIID further provides that

reliance by an agency on any parcel map (including an assessor's parcel map) may be considered a significant factor in determining whether a fee or charge is imposed as an incident of property ownership. In the *Bighorn Decision*, the Supreme Court stated that ongoing water delivery charges are also property-related 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, if and to the extent that a fee or charge imposed by a local government for water service is ultimately determined to be a "fee" or "charge" as defined in Article XIID, 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 (i) revenues derived from the fee or charge shall not exceed the funds required to provide the property-related service; (ii) such revenues shall not be used for any purpose other than that for which the fee or charge was imposed; (iii) 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 (iv) 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.

Depending on the interpretation of what constitutes a "property-related fee" under Article XIID, there could be future restrictions on the ability of the City's General Fund to charge its enterprise funds for various services provided. In the event that fees and charges of enterprise funds cannot be appropriately increased or are reduced pursuant to exercise of the initiative power, the City may have to decide whether to supplement any deficiencies in these enterprise funds with moneys from the General Fund or to curtail service, or both.

The City believes its current water and wastewater rates materially comply with the notice and substantive provisions of Article XIID.

The interpretation and application of Proposition 218 will ultimately be determined by the courts or through implementing legislation with respect to a number of the matters described above, and it is not possible at this time to predict with certainty the outcome of such determination or the nature or scope of any such legislation.

Both Articles XIII A and XIII B, as well as Articles XIIC and XIID described above, were adopted as measures that qualified for the ballot pursuant to California's constitutional initiative process. From time to time other initiative measures could be adopted, affecting the ability of the City to increase revenues and to increase appropriations.

Proposition 1A

On November 2, 2004, California voters approved Proposition 1A, which amends the State Constitution to significantly reduce the State's authority over major local government revenue sources. Under Proposition 1A, the State may not (i) reduce local sales tax rates or alter the method of allocating the revenue generated by such taxes, (ii) shift property taxes from local governments to schools or community colleges, (iii) change how property tax revenues are shared among local governments without two-third approval of both houses of the State Legislature, or (iv) decrease Vehicle License Fees revenues without providing local governments with equal replacement funding. Proposition 1A does allow the State to approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county.

Proposition 1A may, in some circumstances, result in decreased resources being available for State programs. The decreased resources in turn, could affect actions taken by the State to resolve budget difficulties. Such actions have recently included increasing State taxes, and could include decreasing spending on other state programs or other actions, some of which could be adverse to the City. While Proposition 1A provides some protection to the City from the State taking of property tax, sales tax and vehicle license fees, there are certain significant issues that relate to sources of funds not covered by Proposition 1A and to the statutory relationships between the State and San Diego County. Impacts to the City's budget that are controlled by the State and County include property tax administration fees, booking fees and the SB 172 allocation.

Proposition 22

On November 2, 2010, the voters of the State approved Proposition 22, known as "The Local Taxpayer, Public Safety, and Transportation Protection Act" ("Proposition 22"). Proposition 22, among other things, broadens the restrictions established by Proposition 1A. While Proposition 1A permits the State to appropriate or borrow local property tax revenues on a temporary basis during times of severe financial hardship, Proposition 22 amends Article XIII of the California Constitution to prohibit the State from appropriating or borrowing local property tax revenues under any circumstances. The State can no longer borrow local property tax revenues on a temporary basis even during times of severe financial hardship. Proposition 22 also prohibits the State from appropriating or borrowing proceeds derived from any tax levied by a local government solely for the local government's purposes. Furthermore, Proposition 22 restricts the State's ability to redirect redevelopment agency property tax revenues to school districts and other local governments and limits uses of certain other funds. Proposition 22 is intended to stabilize local government revenue sources by restricting the State government's control over local revenues. The City cannot predict whether Proposition 22 will have a beneficial effect on the City's financial condition. See "CITY BUDGET AND RELATED MATTERS – Former Redevelopment Agency" above for a discussion of the dissolution of redevelopment agencies.

Proposition 26

On November 2, 2010, the voters of the State approved Proposition 26, known as the "Supermajority Vote to Pass New Taxes and Fees Act" ("Proposition 26"). Proposition 26, among other things, amends Article XIII C to the California Constitution principally to define what constitutes a "tax" under the limitations and requirements of that provision. Article XIII C imposes limitations on local governments like the City when imposing certain taxes, including a requirement that the local government submit certain taxes to the electorate for its approval. Before Proposition 26, Article XIII C did not define the term "tax." Proposition 26 broadly defines a tax under Article XIII C to include "any levy, charge, or exaction of any kind imposed by a local government." Proposition 26 lists several exceptions to the definition of "tax," which include (a) a charge for a specific benefit or privilege, which does not exceed the reasonable costs of providing the benefit or privilege, (b) a charge for a government service or product, which does not exceed the reasonable costs of providing the service or product, (c) a charge for the reasonable regulatory costs of issuing licenses and permits, performing investigations, inspections, and audits, and the administrative enforcement thereof, (d) a charge for entrance to or use of local government property, or the purchase, rental, or lease of local government property, (e) a fine, penalty, or other monetary charge imposed as a result of a violation of law, (f) a charge imposed as a condition of property development, and (g) assessments and property-related fees imposed in accordance with the provisions of Article XIII D.

It appears that Proposition 26 does not apply retroactively to local government. Thus, even if a fee enacted by the City prior to November 3, 2010 does not fit within any of Proposition 26's exceptions, it will nonetheless remain valid provided that the legislation authorizing it is not amended so as to extend or increase the fee. The City does not believe that it has enacted, extended or increased any fees since passage of Proposition 26 that would not be exempt from Proposition 26 or that would require voter approval pursuant to Proposition 26.

Proposition 30

On November 6, 2012, voters approved the Temporary Taxes to Fund Education, Guaranteed Local Public Safety Funding, Initiative Constitutional Amendment (also known as “Proposition 30”), which temporarily increases the State Sales and Use Tax and personal income tax rates on higher incomes. Proposition 30 temporarily imposed an additional tax on all retailers, at the rate of 0.25% of gross receipts from the sale of all tangible personal property sold in the State from January 1, 2013 to January 1, 2017. Proposition 30 also imposed an additional excise tax on the storage, use, or other consumption in the State of tangible personal property purchased from a retailer on and after January 1, 2013 and before January 1, 2017, for storage, use, or other consumption in the State. This excise tax was levied at a rate of 0.25% of the sales price of the property so purchased. For personal income taxes imposed beginning in the taxable year commencing January 1, 2012 and ending January 1, 2019, Proposition 30 increases the marginal personal income tax rate by: (i) 1% for taxable income over \$250,000 but less than \$300,000 for single filers (over \$340,000 but less than \$408,000 for joint filers), (ii) 2% for taxable income over \$300,000 but less than \$500,000 for single filers (over \$408,000 but less than \$680,000 for joint filers), and (iii) 3% for taxable income over \$500,000 for single filers (over \$608,000 for joint filers).

The California Children’s Education and Health Care Protection Act of 2016 (also known as “Proposition 55”) is a constitutional amendment approved by the voters of the State on November 8, 2016. Proposition 55 extended the increases to personal income tax rates for high-income taxpayers that were approved as part of Proposition 30 through 2030. Proposition 55 did not extend the temporary State Sales and Use Tax rate increase enacted under Proposition 30, which expired as of January 1, 2017.

The revenues generated from the temporary tax increases will be included in the calculation of the minimum funding guarantee for school districts and community college districts contained in the State Constitution. From an accounting perspective, the revenues generated from the temporary tax increases will be deposited into the State account created pursuant to Proposition 30 called the Education Protection Account (the “EPA”). By dedicating the Proposition 30 funds to education, other revenues in the State General Fund are freed up to fund other programs. Proposition 30 also placed into the state Constitution the current statutory provisions transferring 1.0625% of the state sales tax to local governments to fund realignment.

Proposition 64

On November 8, 2016, voters approved Proposition 64 the California Marijuana Legalization Initiative which legalized the use recreational marijuana and allowed for the sale and taxation of recreational marijuana. Two new statewide excised taxes were approved and local governments were authorized to add additional taxes. In addition, on November 8, 2016, San Diego voters passed Measure N, Non-Medical Cannabis Tax, which imposes a gross receipts tax on non-medical cannabis businesses that operate or provide services within the City of San Diego. The Cannabis Business Tax applies to non-medical cannabis business activities including but not limited to, transporting, manufacturing, cultivating, packaging, or retail sales. Businesses will be taxed initially at a rate of 5% of monthly gross receipts and will increase to 8% on July 1, 2019 unless City Council, by ordinance, takes action to set a different tax rate, not to exceed 15% of gross receipts.

The 5-Year Outlook assumes \$155 million in cannabis tax revenue will be received by the city between Fiscal Year 2019 and Fiscal Year 2023. Currently, the City is the only jurisdiction that allows for the recreational sale in San Diego County. The City’s projection does not contemplate potential changes to State, Federal, and local regulations including compliance with respect to non-medical cannabis and the payment of related taxes. As the industry matures and the effect of the change in federal regulations becomes more apparent, the City will continue to monitor and update projections from all cannabis businesses.

Future Initiatives

Articles XIII A, XIII B, XIII C and XIII D and Propositions 1A, 2, 22, 26 and 30 were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time, other initiative measures could be adopted, which may place further limitations on the ability of the State and the City to increase revenues or to increase appropriations which may affect the City's revenues or its ability to expend its revenues. As discussed below, there are currently two such initiatives being circulated in an effort to obtain the required signatures to place the initiatives before voters in November 2018.

The first initiative seeks to repeal the increase in the State gas tax that was implemented through the adoption of the Road Repair and Accountability Act of 2017 ("SB 1"). SB 1 increased the gas tax by 12 cents per gallon, the diesel tax by 20 cents per gallon and raised certain vehicle fees and is projected to raise approximately \$5.4 billion per year for transportation projects. Pursuant to SB 1 a portion of the newly collected funds are allocated to local governments, including the City. In Fiscal Year 2017-18 the City projects that it will receive \$8.0 million pursuant to SB 1 which reflects only a partial year increase in the tax and fees. The City estimates that it will receive approximately \$23.4 million per fiscal year beginning in Fiscal Year 2018-19. The General Fund impact of a repeal is estimated to be \$23.4 million per fiscal year. The City intends to use all of the SB1 monies for slurry seal street repairs which would need to be absorbed by the General Fund if SB 1 funds were no longer available.

The second initiative is known as the Tax Fairness, Transparency and Accountability Act of 2018. If the initiative were to qualify for the ballot and be adopted by voters, it would further restrict the ability of local governments to adopt new taxes and increase fees. The initiative would require a two-thirds vote of the electorate to increase general taxes that are currently approved by a majority vote. It would also narrow the definition of fees and broaden the definition of taxes requiring a vote of the electorate and would require a two-thirds vote of the local governing body to increase charges that still qualify as fees. It also provides that fees approved by a local governing body may be overturned by a vote of the electorate through a referendum. The State Legislative Analyst has stated that the increase in the vote requirement on general taxes to a two-thirds level could result in a substantial reduction in local revenues over time.

APPENDIX B

**DEMOGRAPHIC AND ECONOMIC INFORMATION
REGARDING THE CITY OF SAN DIEGO**

APPENDIX B

DEMOGRAPHIC AND ECONOMIC INFORMATION REGARDING THE CITY OF SAN DIEGO

Set forth below is certain demographic information regarding the City of San Diego (the “City”) and the County of San Diego (the “County”). This information is provided for informational purposes only and general background. The information set forth herein has been obtained from third party sources believed to be reliable, but such information is not guaranteed by the City or the Public Facilities Financing Authority of the City (the “Authority”) as to accuracy or completeness. The information and data within this Appendix B speak only as of the dates indicated and may have changed, perhaps materially, from such time. Neither the delivery of this Official Statement nor any sale thereafter of the securities offered hereby shall under any circumstances create any implication that there has been no change in any information contained in this Appendix B since the date of such information. The 2018 Bonds are not a debt of the City, the County, the State of California (the “State”), or any of its political subdivisions, and none of the City, the County, the State nor any of its political subdivisions is liable thereon.

Introduction

The City, with a total population of approximately 1,406,318 as of January 1, 2017 and a land area of approximately 325 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. In addition to having a favorable climate, 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, the Salk Institute for Biological Studies, and the San Diego Supercomputer Center.

Population

The following Table B-1 sets forth annual population figures for the City, the County and the State for calendar years 2008 through 2017. The City’s population increased by approximately 9.91% between 2008 and 2017, with an average annual increase of approximately 12,681.

[Remainder of Page Intentionally Left Blank]

TABLE B-1
CITY OF SAN DIEGO, COUNTY OF SAN DIEGO, AND STATE OF CALIFORNIA
POPULATION GROWTH
Calendar Years 2008 through 2017

<i>Calendar Year⁽¹⁾</i>	<i>City of San Diego</i>	<i>Annual Growth Rate</i>	<i>County of San Diego</i>	<i>Annual Growth Rate</i>	<i>State of California</i>	<i>Annual Growth Rate</i>
2008	1,279,505	0.99%	3,032,689	1.14%	36,704,375	0.84%
2009	1,294,031	1.14	3,064,436	1.05	36,966,713	0.71
2010	1,304,482	0.81	3,091,579	0.89	37,223,900	0.70
2011	1,311,855	0.57	3,120,688	0.94	37,536,835	0.84
2012	1,325,886	1.07	3,153,951	1.07	37,881,357	0.92
2013	1,345,406	1.47	3,195,215	1.31	38,238,492	0.94
2014	1,361,886	1.22	3,231,651	1.14	38,572,211	0.87
2015	1,380,271	1.35	3,266,192	1.07	38,915,880	0.89
2016	1,390,878	0.77	3,286,717	0.63	39,189,035	0.70
2017	1,406,318	1.11	3,316,192	0.90	39,523,613	0.85

⁽¹⁾ As of January 1 of the calendar year.

Source: State of California Department of Finance, Demographic Research Unit.

[Remainder of Page Intentionally Left Blank]

Employment

The following Table B-2 sets forth information regarding the size of the labor force, employment and unemployment rates for the City, the County, the State and the United States for calendar years 2013 through 2017, and for February 2018 (Preliminary).

TABLE B-2
LABOR FORCE – ESTIMATED AVERAGE ANNUAL EMPLOYMENT AND
UNEMPLOYMENT OF CITY OF SAN DIEGO CIVILIAN LABOR FORCE⁽¹⁾
Calendar Years 2013 through 2017, and February 2018⁽²⁾
(Not Seasonally Adjusted)

	<i>Calendar Year</i>					<i>February 2018⁽²⁾</i>
	<i>2013</i>	<i>2014</i>	<i>2015</i>	<i>2016</i>	<i>2017</i>	
Civilian Labor Force						
City of San Diego						
Employed	640,100	650,000	663,400	673,600	657,400	693,800
Unemployed	51,500	42,400	34,300	31,300	27,100	24,500
Unemployment Rates						
City	7.4%	6.1%	4.9%	4.4%	4.0	3.4%
County	7.8	6.4	5.2	4.7	4.0	3.5
California	8.9	7.5	6.2	5.5	4.8	4.5
United States ⁽³⁾	7.4	6.2	5.3	4.9	4.4	4.1

⁽¹⁾ City, County and State 2013-2017 data based on March 2017 Benchmark Report.

⁽²⁾ Preliminary, subject to change.

⁽³⁾ The United States unemployment rates for calendar years 2013-2017 were generated as of April 4, 2018.

Source: State of California Employment Development Department, Labor Market Information Division; U.S. Department of Labor, Bureau of Labor Statistics.

The State of California Employment Development Department, Labor Market Information Division (the “EDD”), preliminarily estimates that, on a seasonally unadjusted basis, the civilian labor force in the City in February of 2018 was 718,300, of which approximately 24,500 persons were unemployed. Based on preliminary estimates of the EDD as of April 4, 2018, the City’s unemployment rate of 3.4% in February of 2018, on a seasonally unadjusted basis, was below that of the County at 3.5% and was below the unemployment rate of the State, which was 4.5%. The City’s unemployment rate was below the United States, which was 4.1%. The following Table B-3 sets forth estimates of total annual civilian nonfarm employment by number of employees in each major industry category in the County for calendar years 2013 through 2017. Annual industry employment information is not compiled by sector for the City.

[Remainder of Page Intentionally Left Blank]

TABLE B-3
COUNTY OF SAN DIEGO
NONFARM EMPLOYMENT
Calendar Years 2014 through 2018⁽¹⁾⁽⁵⁾
(In Number of Jobs By Industry)

<i>Industry Category</i>	<i>2014</i>	<i>2015</i>	<i>2016</i>	<i>2017</i>	<i>2018⁽⁵⁾</i>
Services ⁽²⁾	663,700	683,800	700,300	787,800	790,100
Government	231,900	236,200	242,200	248,100	252,400
Federal	45,800	46,000	46,800	46,800	46,800
State and Local	186,200	190,200	195,600	201,200	205,600
Trade	188,000	190,800	195,100	196,900	196,100
Wholesale	43,700	44,000	47,600	48,200	48,900
Retail	144,300	146,800	147,500	148,700	147,200
Manufacturing	102,200	106,200	108,000	109,000	111,400
Nondurable Goods	25,100	26,300	27,200	27,600	27,400
Durable Goods	77,100	79,900	80,800	81,300	84,000
Financial Activities ⁽³⁾	69,400	71,200	72,700	74,100	73,800
Construction	63,900	69,900	76,300	79,300	81,800
Transportation, Warehousing & Utilities	27,000	28,400	29,700	31,900	31,600
Mining & Logging	<u>400</u>	<u>300</u>	<u>300</u>	<u>300</u>	<u>300</u>
TOTAL NONFARM⁽⁴⁾	<u>1,346,600</u>	<u>1,386,800</u>	<u>1,424,600</u>	<u>1,453,200</u>	<u>1,463,700</u>

⁽¹⁾ Based on March 2017 Benchmark Report.

⁽²⁾ Includes professional and business, information, educational and health, leisure and hospitality and other services.

⁽³⁾ Includes finance, insurance, and real estate.

⁽⁴⁾ Line items may not add to totals due to independent rounding.

⁽⁵⁾ Preliminary information for February 2018.

Source: State of California Employment Development Department, Labor Market Information Division.

Since the industry employment data referenced above are organized by standard industrial classification codes, employment in the various high tech categories, such as telecommunications, software and biotechnology may not fall into a single employment section alone. For example, some telecommunications firms appear in Manufacturing while others appear in Services.

[Remainder of Page Intentionally Left Blank]

Taxable Sales

The following Table B-4 sets forth taxable transactions in the City for calendar years 2012 through 2016. See APPENDIX A – “CITY GOVERNMENT AND FINANCIAL INFORMATION – CITY BUDGET AND RELATED MATTERS – Major Revenue Sources” for a discussion of the City’s assumptions regarding trends of taxable transactions and sales tax revenues for Fiscal Year 2017 and Fiscal Year 2018.

TABLE B-4
CITY OF SAN DIEGO
TAXABLE TRANSACTIONS
Calendar Years 2012 through 2016⁽¹⁾
(In Thousands)

	<i>2012</i>	<i>2013</i>	<i>2014</i>	<i>2015</i>	<i>2016</i>
Retail and Food Services					
Apparel	\$ 1,719,615	\$ 1,837,605	\$ 1,860,941	\$ 1,876,406	\$ 1,849,752
General Merchandise	1,612,806	1,638,426	1,660,870	1,498,487	1,445,598
Food	950,005	1,007,085	1,057,719	1,124,079	1,045,178
Eating and Drinking	3,168,490	3,305,281	3,534,412	3,871,361	4,133,095
Home Furnishings and Appliances	1,137,855	1,199,791	1,198,020	1,226,012	1,227,499
Building Materials	848,388	904,729	920,113	957,041	1,008,705
Motor Vehicles and Parts	2,124,016	2,293,742	2,422,829	2,580,830	2,734,187
Service Stations	1,916,674	1,916,253	1,939,188	1,593,127	1,437,892
Other Retail Stores	<u>1,549,302</u>	<u>1,634,088</u>	<u>1,668,503</u>	<u>1,714,791</u>	<u>1,749,474</u>
Total Retail and Food Services	\$15,027,152	\$15,737,000	\$16,262,595	\$16,442,138	\$16,631,386
All Other Outlets	<u>5,517,501</u>	<u>5,757,505</u>	<u>6,009,464</u>	<u>6,056,004</u>	<u>6,407,062</u>
TOTAL ALL OUTLETS ⁽¹⁾	<u>\$20,544,652</u>	<u>\$21,494,505</u>	<u>\$22,272,059</u>	<u>\$22,498,142</u>	<u>\$23,038,448</u>

⁽¹⁾ Line items may not add to totals due to independent rounding.

Source: California State Board of Equalization, Research & Statistics Section, Taxable Sales in California.

[Remainder of Page Intentionally Left Blank]

Tourism

The following Table B-5 sets forth total visitor spending in the County for the calendar years 2013 through 2017.

TABLE B-5
COUNTY OF SAN DIEGO
TOTAL VISITOR SPENDING
Calendar Years 2013 through 2017
(In Millions)

<i>Calendar Year</i>	<i>Amount</i>
2013	\$ 8,394
2014	9,209
2015	9,921
2016	10,401
2017	10,828

Source: Visitor Industry Summary compiled by the San Diego Tourism Authority from data prepared by CIC Research, Inc., Oxford Economics.

The following Table B-6 sets forth the City's transient occupancy tax revenues for Fiscal Years 2013 through 2017. See "APPENDIX A – "CITY GOVERNMENT AND FINANCIAL INFORMATION – CITY BUDGET AND RELATED MATTERS – Major Revenue Sources" for a discussion of trends of City transient occupancy tax projected for Fiscal Year 2018.

TABLE B-6
CITY OF SAN DIEGO
TRANSIENT OCCUPANCY TAX⁽¹⁾
Fiscal Years 2013 through 2017
(in thousands)

<i>Fiscal Year</i>	<i>Amount</i>
2013	\$159,494
2014	170,475
2015	186,690
2016	204,559
2017	222,228

⁽¹⁾ Includes both the General Fund portion of TOT (5.5¢ of 10.5¢) and the balance (5¢ of 10.5¢) allocated to Special Promotional Programs. Special Promotional Programs are intended to: advance the City's economy by promoting the City as a visitor destination; develop, maintain, and enhance visitor-related facilities; and support the City's cultural amenities and natural attractions.

Source: Fiscal Year 2017 Comprehensive Annual Financial Report, Comptroller's Office, City of San Diego.

The City is the focal point for tourism in the County. According to the San Diego Tourism Authority in its annual San Diego County Visitor Industry Performance summary, in calendar year 2017, 65.8% of hotel rooms in the County were located within the City. For calendar year 2017, the San Diego Tourism Authority reported that hotel occupancy in the City averaged 79.1%, which is approximately the same as the occupancy level in the prior year.

In addition, most of the County's major tourist attractions, including the world-renowned San Diego Zoo and SeaWorld San Diego, are located in the City. Other attractions located in the City include the Cabrillo

National Monument on Point Loma, the historic Gaslamp Quarter in the downtown area, the Old Town State Park, Balboa Park and a host of other cultural and recreational activities.

Based on information provided by the San Diego Tourism Authority in its annual San Diego County Visitor Industry Summary, in calendar year 2017 there were 35.0 million visitors to San Diego County, and they spent more than \$10.8 billion. About half of the 35.0 million visitors stayed overnight in private homes or hotels. In calendar year 2017, there were 11,067,692 airport arrivals and 872,417 Amtrak arrivals, up 7.3% and up 3.9%, respectively, compared to the same time for the prior year.

In addition to the many permanent attractions available to visitors, the City has also been host to a number of major sporting events. The City annually hosts the Farmers Insurance Open, a Professional Golfers' Association Tour Event played at the world renowned Torrey Pines Golf Course. In addition, the City has annually hosted a post-season contest of elite college football teams at the Holiday Bowl.

The San Diego Convention Center (the "Convention Center") has 2.6 million total gross square feet of buildings, including the parking structure. According to the San Diego Convention Center Corporation Annual Report for Fiscal Year ended June 30, 2017, events in the Convention Center generated over \$1.1 billion in economic impact for the San Diego regional economy through direct attendee spending, tax revenues, and hotel room nights in Fiscal Year 2017.

Military

The information in the first three paragraphs below is taken from the San Diego Military Economic Impact Study released in October 2017 (the "Military Study") prepared by the San Diego Military Advisory Council ("SDMAC"). Neither the Authority nor the City has independently verified the information in the Military Study.

Military and related defense spending are significant factors in the County economy. Military installations include Marine Corps Base Camp Joseph H. Pendleton; the Marine Corps Recruit Depot; Marine Corps Air Station at Miramar; Naval Air Station North Island; Naval Station San Diego; and Naval Submarine Base, San Diego.

There are approximately 140,000 uniformed military personnel and civilians working for the Department of Defense, Department of Homeland Security or the Veterans Administration within in the County, including approximately 108,000 active duty military personnel, 7,600 Reserves and 24,000 full-time civilian workers. These totals are expected to increase to approximately 145,300 in the current federal fiscal year ending September 30, 2018. The estimated direct defense-related spending by the military in the County for the fiscal year ending September 30, 2017 increased approximately 3% to \$25.2 billion from \$24.4 billion for the federal fiscal year ending September 30, 2016.

The direct spending by the military results in additional jobs and spending in the local economy. Approximately 22% (338,000) of the jobs in the County were directly and indirectly related to the military in the fiscal year ended September 30, 2017 and the gross regional product in the County related to the military was estimated at \$50.1 billion, up from \$49.2 billion in the prior federal fiscal year. It is estimated that the military's total impact on the region represents about 22% of the County's total gross regional product.

The Military Study assumed that Fiscal Year 2018 federal defense spending would hold at Fiscal Year 2017. In February, 2018, Congress approved and the President signed legislation approving a two-year spending plan which increases military spending by \$80 billion in the current federal fiscal year and by an additional \$85 billion in the fiscal year ending September 30, 2019.

Top Ten Principal Employers

The following Table B-7 sets forth the top 10 principal employers in the City for Fiscal Year 2017.

TABLE B-7
CITY OF SAN DIEGO
TOP TEN PRINCIPAL EMPLOYERS
Fiscal Year 2017
(unaudited)

<i>Employer</i>	<i>Number of Employees</i>	<i>Percentage of Total Employment⁽¹⁾</i>
Naval Base, San Diego ⁽²⁾	34,185	4.85%
University of California San Diego ⁽³⁾	30,130	4.27
County of San Diego	19,131	2.71
Sharp Healthcare ⁽⁴⁾	17,976	2.55
San Diego Unified School District	13,815	1.96
Qualcomm, Inc. ⁽⁵⁾	11,830	1.68
Scripps Health ⁽⁶⁾	11,807	1.67
City of San Diego ⁽⁷⁾	11,454	1.62
Kaiser Permanente	9,066	1.29
San Diego Community College District ⁽⁸⁾	<u>6,564</u>	<u>0.93</u>
Total Top Employers	165,958	23.53%

(1) Percentage based on total employment of 705,000 for fiscal years 2017 reported by EDD.

(2) Employee count includes Navy, Marine and Civil Services personnel.

(3) Includes full and part time, academic and support staff, and UCSD Medical Center, School of Medicine.

(4) Employee count is countywide.

(5) Excludes temporary employees and interns.

(6) Scripps Health employees within city limits, not including Mercy Hospital in Chula Vista.

(7) Employee count is provided by the City of San Diego, Office of the Comptroller – Payroll Division.

(8) Not including out of state military instructors.

Source: Fiscal Year 2017 Comprehensive Annual Financial Report, Statistical Section (Unaudited), Comptroller's Office, City of San Diego.

[Remainder of Page Intentionally Left Blank]

Personal Income

The following Table B-8 sets forth the per capita personal income in the County, the State and the United States for calendar years 2012 through 2016.

TABLE B-8
COUNTY OF SAN DIEGO, STATE OF CALIFORNIA AND UNITED STATES
PER CAPITA PERSONAL INCOME⁽¹⁾
Calendar Years 2012 through 2016

<i>Calendar Year</i>	<i>County of San Diego</i>	<i>State of California</i>	<i>United States</i>
2012	\$48,004	\$48,369	\$44,282
2013	49,017	48,570	44,493
2014	51,439	51,344	46,494
2015	53,963	54,718	48,451
2016	55,168	56,374	49,246

⁽¹⁾ Amounts for County and State may not be comparable based on different source methodology.
Source: U.S. Bureau of Economic Analysis and Bureau of the Census.

[Remainder of Page Intentionally Left Blank]

Property Value and Construction

Total issued building permits and permit valuation (residential and non-residential) are used as indicators of overall construction activity. Residential and non-residential construction activity has remained consistent since 2013. In Fiscal Year 2017, construction permits valuation increased by 12.4%, or \$331 million, from Fiscal Year 2016.

The following Table B-9 sets forth total City assessed value, building permit valuations and the number of new construction permits issued in the City for Fiscal Years 2013 through 2017.

TABLE B-9
CITY OF SAN DIEGO
Assessed Value and Construction Permit Valuation
Fiscal Years 2013 through 2017
(\$ in thousands)
(unaudited)

<i>Fiscal Year</i>	<i>Residential⁽¹⁾</i>		<i>Non-Residential⁽²⁾</i>		<i>Total Permit Assessed Value Estimate⁽³⁾</i>
	<i>Dwelling Units</i>	<i>Assessed Value⁽³⁾</i>	<i>Permits</i>	<i>Assessed Value⁽³⁾</i>	
2013	4,629	\$ 854,489	111	\$1,162,254	\$2,016,743
2014	4,258	836,074	136	1,487,835	2,323,909
2015	4,379	993,567	137	1,525,798	2,519,365
2016	5,123	1,209,969	141	1,457,414	2,667,383
2017	4,670	1,314,594	178	1,683,737	2,998,331

⁽¹⁾ Residential reflects construction of new structures.

⁽²⁾ Non-residential reflects construction of new structures whose intended use includes commercial, industrial, and other uses. Each permit is a separate structure.

⁽³⁾ Valuation figures only include valuation of newly created structures. These figures do not include minor modification work such as interior remodels, reroofs, etc. Total Permit Assessed Value is an estimate determined at time of permit issuance; actuals may vary.

Source: Permit Tracking System Database, Development Services Department, City of San Diego.

[Remainder of Page Intentionally Left Blank]

APPENDIX C

SUMMARY OF LEGAL DOCUMENTS

APPENDIX C

SUMMARY OF LEGAL DOCUMENTS

The following is a brief summary of the provisions of the Indenture, the Lease, the Site Lease and the MTS Site Lease pertaining to the Series 2018A Bonds that are not summarized elsewhere in this Official Statement. This summary is not intended to be definitive, and is qualified in its entirety by reference to the full terms of such documents.

CERTAIN DEFINITIONS

The following are definitions of certain terms used in the Indenture, the Lease, the Site Lease, the MTS Site Lease and this Official Statement, which are not otherwise defined in this Official Statement. Reference is made to the entire documents for the definitions of all terms used in such documents. The following definitions are equally applicable to both singular and plural forms of any of the terms defined in the Indenture:

“Addition” means the addition of Leased Property to the leasehold of the Lease, and the lease of additional real property and improvements under the Lease from the Authority to the City, as provided in the Lease.

“Additional Bonds” means all bonds of the Authority authorized by and at any time Outstanding pursuant to the Indenture and executed, issued and delivered in accordance with the Indenture.

“Additional Projects” means public capital improvements, including equipment, financed in whole or in part with the proceeds of Additional Bonds.

“Additional Rental” means amounts payable by the City as described under “THE LEASE – Rental Payments – *Rental Payments – Additional Rental*” herein.

“Authorized Representative” means: (a) with respect to the Authority, its Chair, Treasurer or Secretary or any other person designated as an Authorized Representative of the Authority by a Written Certificate of the Authority signed by its Chair, and filed with the City and the Trustee; and (b) with respect to the City, its Chief Operating Officer or its Chief Financial Officer, or any other person duly designated by its Chief Operating Officer or its Chief Financial Officer as an Authorized Representative of the City by a Written Certificate of the Chief Operating Officer or the Chief Financial Officer filed with the City and the Trustee.

“Base Rental Payment Schedule” means the schedule of Base Rental Payments attached to the Lease, as from time to time amended as permitted in the Lease.

“Bond Counsel” means (a) Stradling Yocca Carlson & Rauth, or (b) any other firm of attorneys, designated by the City, of nationally recognized standing in matters pertaining to the exclusion from gross income for federal income tax purposes of interest on obligations issued by states and their political subdivisions, duly admitted to the practice of law before the highest court of any state of the United States of America. Any Opinion of Bond Counsel may be based, insofar as it relates to factual matters, upon information that is in the possession of the City or the Trustee, as applicable, upon a certificate or opinion of, or representation by, an officer or officers of the City, the Trustee or the Authority, unless such Counsel knows, or in the exercise of reasonable care should have known, that the certificate or opinion or representation with respect to the matters upon which their opinion may be based, is erroneous.

“Bond Year” means each twelve-month period extending from April 16 in one calendar year to April 15 of the succeeding calendar year, both dates inclusive; provided that the first Bond Year with respect to the Series 2018A Bonds will commence on the respective Closing Date and end on April 15, 2018.

“Bonds” means the Prior Bonds, the Series 2018A Bonds and any Additional Bonds, authorized by and at any time Outstanding pursuant to the Indenture.

“Business Day” means any day other than (i) a Saturday or Sunday, (ii) a day on which commercial banks in San Diego, California or New York, New York are authorized or required by law to close, or (iii) a day upon which the Trustee is authorized by law to remain closed.

“Closing Date” means, with respect to the Series 2018A Bonds, the date the Series 2018A Bonds are issued and delivered to the initial purchasers thereof.

“Code” means the Internal Revenue Code of 1986, as amended from time to time, or, where pertinent, its statutory predecessor, the Internal Revenue Code of 1954, as amended (the “1954 Code”). References to the Code and Sections of the Code include relevant applicable regulations and proposed regulations under the Indenture and under the 1945 Code, as amended from time to time, and any successor provision to those Sections, regulations or proposed regulations and, in addition, all revenue rulings, announcements, notices, procedures and judicial determinations under the foregoing applicable to the Bonds.

“Continuing Disclosure Certificate” means, with respect to the Series 2018A Bonds, that certain Continuing Disclosure Certificate relating to the Series 2018A Bonds, executed by the City and dated the Closing Date, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

“Costs of Issuance” means all expenses directly or indirectly incurred in connection with the authorization, execution and delivery of the Site Lease, the Lease and the Indenture (including any supplements or amendments) and the Bonds, including but not limited to all compensation, fees and expenses (including but not limited to fees and expenses for legal counsel) of the Authority or the City, initial fees and expenses of the Trustee (including but not limited to fees and expenses for legal counsel), compensation to any financial consultants or Underwriters, legal fees and expenses, filing and recording costs, rating agency fees, costs of preparation, reproduction and publication of documents, out-of-pocket expenses of the Authority or the City, Authority and City staff costs and costs of printing.

“Costs of Issuance Fund” means the fund by that name established and held by the Trustee pursuant to the Indenture.

“Damaged Improvement” shall have the meaning contained in the Lease as described under the subheading “THE LEASE – Damage, Destruction, Title Defect and Condemnation.”

“Debt Service” means, during any period of computation, the amount obtained for such period by totaling the following amounts: (a) the principal amount of all Outstanding Bonds coming due and payable by their terms in such period; and (b) the interest which would be due during such period on the aggregate principal amount of Bonds which would be Outstanding in such period if the Bonds are retired as scheduled, but deducting and excluding from such aggregate amount the amount of Bonds no longer Outstanding.

“Defeasance Obligations” means (a) Federal Securities and Federal Certificates which are fixed rate and not callable for redemption prior to their maturity by any person other than the owner thereof and (b) other Permitted Investments (i) which either are not callable for redemption prior to their maturities by any person other than the owner thereof or for which an option to redeem prior to maturity has previously been irrevocably exercised (or an irrevocable covenant to exercise such option has previously been made by the person entitled to exercise such option) and the redemption date of such securities has thereby been irrevocably

fixed prior to the use of any such securities as Defeasance Obligations, and (ii) which are rated, at the time of their initial deposit with the Trustee as Defeasance Obligations, by S&P and Moody's in their highest Rating Category.

"Event of Default," with respect to the Indenture, means any of the events described under "THE INDENTURE – Events of Default and Remedies – *Events of Default; Notice*" herein and, with respect to the Lease, means any of the events described under "THE LEASE – Default and Remedies – *Default*" herein.

"Expiry Date" means October 15, 2044, except as extended or sooner terminated or extended pursuant to the Lease, or such other date or dates as set forth in an amendment to the Lease.

"Federal Certificates" means evidences of indebtedness or ownership of proportionate interests in future principal and interest payments of Federal Securities, including depository receipts thereof, wherein (i) a bank or trust company acts as custodian and holds the underlying Federal Securities; (ii) the owner of the Federal Certificate is a real party in interest with the right to proceed directly and individually against the obligor of the underlying Federal Securities; and (iii) the underlying Federal Securities are held in trust in a special account, segregated from the custodian's general assets, and are not available to satisfy any claim of the custodian or any person claiming through the custodian, or any person to whom the custodian may be obligated.

"Federal Securities" means: direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury) or evidence of ownership in a portion thereof (which may consist of specified portions of interest thereon and obligations of the Resolution Funding Corporation which constitute interest strips) if held by a custodian on behalf of the Trustee; obligations the principal of and interest on which are unconditionally guaranteed by the United States of America; and prerefunded municipal obligations rated, at the time of purchase, by Moody's and S&P in their highest Rating Category; provided that "structured securities" (including flip notes, range notes, inverse floaters and step-ups) will not be considered Federal Securities; provided further that floaters (based on single, interest rate based indices) and callable securities of the above-enumerated agencies may be treated as Federal Securities.

"Financing Documents" means the Lease, the Site Lease, and the Indenture.

"First Amendment to Facilities Lease" means the First Amendment to Facilities Lease, dated as of July 1, 2013, by and between the Authority, as sublessor, and the City, as sublessee.

"First Amendment to Site Lease" means the First Amendment to Site Lease, dated as of July 1, 2013, by and between the City, as lessor, and the Authority, as lessee.

"First Supplemental Indenture" means the First Supplemental Indenture, dated as of July 1, 2013, by and between the Authority and the Trustee.

"Fiscal Year" means any twelve-month period extending from July 1 in one calendar year to June 30 of the succeeding calendar year, both dates inclusive, or any other twelve-month period selected and designated by the Authority or the City, as applicable, as its official fiscal year period.

"Fourth Amendment to Facilities Lease" means the Fourth Amendment to Facilities Lease, dated as of _____, 2018, by and between the Authority, as sublessor, and the City, as sublessee.

"Fourth Amendment to Site Lease" means the Fourth Amendment to Site Lease, dated as of _____, 2018, by and between the City, as lessor, and the Authority, as lessee.

“Fourth Supplemental Indenture” means the Fourth Supplemental Indenture, dated as of _____, 2018, by and between the Authority and the Trustee.

“Indenture” means the Indenture dated as of July 1, 2012 as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture pursuant to the provisions thereof, including as amended and supplemented by the First Supplemental Indenture, the Second Supplemental Indenture, the Third Supplemental Indenture and the Fourth Supplemental Indenture.

“Independent Accountant” means any certified public accountant or firm of such accountants duly licensed and entitled to practice and practicing as such under the laws of the State or a comparable successor, appointed and paid by the City, and who, or each of whom:

(a) is in fact independent according to the Statement of Auditing Standards No. 1 and not under the domination of the Authority or the City;

(b) does not have a substantial financial interest, direct or indirect, in the operations of the Authority or the City; and

(c) is not connected with the Authority or the City as a member, officer or employee of the Authority or the City, but who may be regularly retained to audit the accounting records of and make reports thereon to the Authority or the City.

“Insurance and Condemnation Fund” means the fund by that name established and held by the Trustee pursuant to the Indenture.

“Insurance Consultant” means an individual or firm retained by the City as an independent insurance consultant, experienced in the field of risk management.

“Interest Account” means the account by that name established in the Revenue Fund pursuant to the Indenture.

“Interest Payment Date” means, with respect to the Series 2018A Bonds, each April 15 and October 15, commencing October 15, 2018, and for any series of Additional Bonds, such dates as shall be specified in the Supplemental Indenture authorizing such Additional Bonds.

“Lease” means that certain Facilities Lease, dated as of July 1, 2012, by and between the Authority, as sublessor, and the City, as sublessee, as originally executed and as it may from time to time be supplemented, modified or amended in accordance with the terms thereof and of the Indenture, including as amended and supplemented by the First Amendment to Facilities Lease, the Second Amendment to Facilities Lease, the Third Amendment to Facilities Lease and the Fourth Amendment to Facilities Lease.

“Leased Property” means the property more particularly described in an exhibit to the Lease.

“Lease Payment Date” means, with respect to the Series 2018A Bonds, April 10 and October 10 of each year commencing October 10, 2018.

“Lease Year” means, with respect to the Series 2018A Bonds, the period from April 16 to and including the following April 15, during the term hereof; except that the initial Lease Year means the period from the respective Closing Date to and including April 15, 2018.

“Master Indenture” means the Indenture, dated as of July 1, 2012, by and between the Authority and the Trustee.

“Mission Bay Site” means that certain portion of the Leased Property described in the Lease.

“MTS” means the San Diego Metropolitan Transit System.

“MTS Property” means the property more particularly described in an exhibit to the MTS Site Lease.

“MTS Site Lease” means the Site Lease, dated as of July 1, 2013, by and between the Authority and MTS, under which MTS leases the MTS Property to the Authority, as originally executed and as it may from time to time be amended or supplemented in accordance with the terms thereof.

“Moody’s” means Moody’s Investors Service, New York, New York, or its successors, and if such organization will for any reason no longer perform the functions of a securities rating agency, “Moody’s” will be deemed to refer to any other nationally recognized securities rating agency designated by the City.

“Net Proceeds” means amounts derived by the City from any policy of casualty insurance with respect to any portion of the Leased Property, or the proceeds of any taking of the Leased Property or any portion thereof in eminent domain proceedings (including sale under threat of such proceedings), to the extent remaining after payment therefrom of all expenses incurred in the collection and administration thereof.

“Office” means, with respect to the Trustee, the designated corporate trust office of the Trustee which is initially located in Los Angeles, California, except that with respect to presentation of Bonds for payment or for registration of transfer and exchange, such term will mean the office or agency of the Trustee at which, at any particular time, its corporate agency business will be conducted.

“Opinion of Counsel” means a written opinion of an attorney or a firm of attorneys (who may be counsel for the City or the Trustee) retained by the City or the Trustee. Any Opinion of Counsel may be based, insofar as it relates to factual matters, upon information that is in the possession of the City or the Trustee, as applicable, upon a certificate or opinion of, or representation by an officer or officers of the City or the Trustee, unless such counsel knows, or in the exercise of reasonable care should have known, that the certificate or opinion or representation with respect to the matters upon which his or her opinion may be based, is erroneous.

“Original Purchaser” means, with respect to the Series 2018A Bonds, the original purchaser(s) of the Series 2018A Bonds upon their delivery by the Trustee on the Closing Date.

“Outstanding,” when used as of any particular time with reference to Bonds, means (subject to the provisions as described under “THE INDENTURE – Defeasance” herein) all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under the Indenture except: (a) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation; (b) Bonds with respect to which all liability of the Authority shall have been discharged in accordance with the Indenture, as described under the subheading “THE INDENTURE – Defeasance – *Deposit of Money or Securities with Trustee to Defeas Bonds*” herein, including Bonds (or portions thereof) described under the subheading “THE INDENTURE – Defeasance” herein; and (c) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Trustee pursuant to the Indenture.

“Owner,” whenever used in the Indenture with respect to a Bond, means the person in whose name the ownership of such Bond is registered on the Registration Books.

“Permitted Encumbrances” means, as of any particular time:

(a) (i) liens for general ad valorem taxes and assessments, if any, not then delinquent, or which the City may, pursuant to the Lease, permit to remain unpaid; (ii) the Lease, the Site Lease, the Indenture and Existing Leases, as each may be amended from time to time pursuant to its terms; (iii) any right or claim of

any mechanic, laborer, materialman, supplier or vendor not filed or perfected in the manner prescribed by law; (iv) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions, which (A) exist as of the date of recordation of the Lease or (B) are established thereafter, including without limitation, in a supplement or amendment to the Lease which adds Added Property or Substituted Property to the Leased Property, which Added Property or Substituted Property is subject to such restriction, and no restriction in (A) and (B) substantially interferes with City's right to use and occupy such real property; and (v) rights granted by the City pursuant to the Lease as described under "SECURITY AND SOURCES OF PAYMENT FOR THE 2018 BONDS – Repair and Maintenance; Taxes and Assessments; Insurance; Modification of the Leased Property" in the front part of this Official Statement; and

(b) in all cases will not result in abatement of Base Rental Payments payable by the City under the Lease.

"Permitted Investments" means any of the following which at the time of investment are legal investments under the laws of the State for the moneys proposed to be invested therein:

(a) Federal Securities or Federal Certificates;

(b) The following listed obligations of government-sponsored agencies which are not backed by the full faith and credit of the United States of America:

(i) Federal Home Loan Mortgage Corporation (FHLMC) senior debt obligations and Participation certificates (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts)

(ii) Farm Credit System (formerly Federal Land Banks, Federal Intermediate Credit Banks and Banks for Cooperatives) consolidated system-wide bonds and notes

(iii) Federal Home Loan Banks (FHL Banks) consolidated debt obligations

(iv) Federal National Mortgage Association (FNMA) senior debt obligations and mortgage-backed securities (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts)

(c) Obligations of any state, territory or commonwealth of the United States of America or any political subdivision thereof or any agency or department of the foregoing, that are rated, at the time of purchase, in the highest Rating Category by two Rating Agencies;

(d) Bonds, notes, debentures or other evidences of indebtedness issued or guaranteed by any corporation which are rated, at the time of purchase, by "A1/P1/F1" by two Rating Agencies or, if the term of such indebtedness is longer than one year, rated in the highest Rating Category by two Rating Agencies;

(e) Taxable commercial paper or tax-exempt commercial paper with a maturity of not more than 270 days, which are rated, at the time of purchase, "A1/P1/F1" by two Rating Agencies;

(f) Deposit accounts or certificates of deposit, whether negotiable or non-negotiable, issued by a state or national bank (including the Trustee) or a state or federal savings and loan association or a state-licensed branch of a foreign bank; provided, however, that such certificates of deposit or deposit accounts will be either (a) continuously insured by the Federal Deposit Insurance Corporation; or (b) have maturities of not more than 365 days (including certificates of deposit) and are issued by any state or national bank or a state or federal savings and loan association, the short-term obligations of which are rated, at the time of purchase, in the highest short term rating by two Rating Agencies;

(g) Bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as bankers acceptances, which bank has short-term obligations outstanding which are rated, at the time of purchase, by two Rating Agencies in the highest short-term Rating Category, and which bankers acceptances mature not later than 365 days from the date of purchase;

(h) Any repurchase agreement: (a) with (i) any bank or trust company organized under the laws of any state of the United States or any national banking association (including the Trustee), or a state-licensed branch of a foreign bank, having a minimum permanent capital of one hundred million dollars (\$100,000,000) and having short-term debt which is rated, at the time of the purchase, by two Rating Agencies in one of the three highest short-term Rating Categories; or (ii) any government bond dealer reporting to, trading with, and recognized as a primary dealer by, the Federal Reserve Bank of New York; and (b) which agreement is secured by any one or more of the securities and obligations described in clause (i) or (ii) of this definition and having maturities equal to or less than 5 years from the date of delivery, which will have a market value (valued at least monthly) not less than 102% of the principal amount of such investment and will be placed with the Trustee or other fiduciary, as custodian for the Trustee, by the bank, trust company, national banking association or bond dealer executing such repurchase agreement. The entity executing each such repurchase agreement required to be so secured will furnish the Trustee with an undertaking satisfactory to the Trustee that the aggregate market value of all such obligations securing each such repurchase agreement (as valued at least monthly) will be an amount equal to 102% the principal amount of such repurchase agreement, and the Trustee will be entitled to rely on each such undertaking;

(i) Any cash sweep or similar account arrangement of or available to the Trustee, the investments of which are limited to investments described in clauses (i), (ii), (iii) and (viii) of this definition and any money market fund, the entire investments of which are limited to investments described in clauses (i), (ii) (iii) and (viii) of this definition and which money market fund is rated, at the time of purchase, by two Rating Agencies in the highest Rating Category;

(j) Any guaranteed investment contract, including forward delivery agreements ("FDAs") and forward purchase agreements ("FPAs"), with a financial institution or insurance company which has (or which is unconditionally guaranteed by a legal entity which has), at the date of execution thereof, an outstanding issue of unsecured, uninsured and unguaranteed debt obligations or a claims-paying ability which is rated, at the time of purchase, by two Rating Agencies in one of two highest long-term Rating Categories. Only Permitted Investments described in clause (i) and (ii) above and having maturities equal to or less than 30 years from their date of delivery will be considered eligible for any collateralization/delivery purposes for guaranteed investment contracts, FDAs or FPAs;

(k) Certificates, notes, warrants, bonds or other evidence of indebtedness of the State or of any political subdivision or public agency thereof which are rated, at the time of purchase, by two Rating Agencies in the highest short-term Rating Category or within one of the three highest long-term Rating Categories, but excluding securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date;

(l) For amounts less than \$100,000, interest-bearing demand or time deposits (including certificates of deposit) in a nationally or state-chartered bank, or a state or federal savings and loan association in the State, fully insured by the Federal Deposit Insurance Corporation, including the Trustee or any affiliate thereof;

(m) Investments in taxable money market funds or portfolios restricted to obligations with an average maturity of one year or less and which funds or portfolios are: (a) rated, at the time of purchase, by two Rating Agencies in one of the two highest Rating Categories; or (b) have or are portfolios guaranteed as to payment of principal and interest by the full faith and credit of the United States of America;

(n) Investments in the City's pooled investment fund;

(o) Investments in the Local Agency Investment Fund created pursuant to Section 16429.1 of the Government Code of the State;

(p) Shares of beneficial interest in diversified management companies investing exclusively in securities and obligations described in clauses (i) through (xiii) of this definition and which companies are: (a) rated, at the time of purchase, by two Rating Agencies in the highest Rating Category; or (b) have an investment advisor registered with the Securities and Exchange Commission with not less than five years' experience investing in such securities and obligations and with assets under management in excess of five hundred million dollars (\$500,000,000);

(q) Shares in a California common law trust established pursuant to Title 1, Division 7, Chapter 5 of the Government Code of the State which consists exclusively of investments permitted by Section 53601 of Title 5, Division 2, Chapter 4 of the Government Code of the State, as it may be amended; and

(r) Any other investment, with confirmation (or other action, satisfactory to the City) from each rating agency that has a current rating on the Bonds at the time of initial purchase thereof, that its rating on the Bonds will not be lowered or withdrawn as a result of such investment.

"Principal Account" means the account by that name established in the Revenue Fund pursuant to the Indenture.

"Prior Bonds" means the Series 2012 Bonds, the Series 2013 Bonds and the Series 2015 Bonds.

"Rating Agency" means Moody's, S&P or Fitch, or any other nationally recognized statistical rating organization.

"Rating Category" means one of the generic categories of rating by a Rating Agency applicable to a Permitted Investment, without regard to any refinement or graduation of such rating category by a plus or minus sign or a numeral.

"Record Date" means, with respect to any Interest Payment Date, the last calendar day of the month preceding such Interest Payment Date, whether or not such day is a Business Day.

"Redemption Fund" means the fund by that name established pursuant to the Indenture.

"Registration Books" means the records maintained by the Trustee pursuant to the Indenture for the registration and transfer of ownership of the Bonds.

"Removal" means the release of all or a portion of the Leased Property from the leasehold as provided in the Lease.

"Revenue Fund" means the fund by that name established and held by the Trustee pursuant to the Indenture and all accounts and funds in the Indenture.

"Revenues" means (a) all Base Rental Payments, prepayments, insurance proceeds and condemnation proceeds with respect to the Leased Property and (b) the Revenue Fund and all interest and other income deposited, pursuant to the Indenture, in the Revenue Fund.

"Second Amendment to Facilities Lease" means the Second Amendment to Facilities Lease, dated as of April 1, 2015, by and between the Authority, as sublessor, and the City, as sublessee.

"Second Amendment to Site Lease" means the Second Amendment to Site Lease, dated as of April 1, 2015, by and between the City, as lessor, and the Authority, as lessee.

“Second Supplemental Indenture” means the Second Supplemental Indenture, dated as of April 1, 2015, by and between the Authority and the Trustee.

“Securities Depositories” means The Depository Trust Company, 55 Water Street, 50th Floor, New York, NY 10041-0099, Attention: Call Notification Department, Fax (212) 855-7232; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other securities depositories as the City may designate in a Written Certificate of the City delivered to the Trustee.

“Series,” or “series” whenever used with respect to Bonds, means all of the Bonds designated as being of the same series, authenticated and delivered in a simultaneous transaction, regardless of variations in maturity, interest rate, redemption and other provisions, and any Bonds thereafter authenticated and delivered upon transfer or exchange or in lieu of or in substitution for (but not to refund) such Bonds as provided in the Indenture.

“Series 2012 Bonds” means, collectively, the Series 2012A Bonds and the Series 2012B Bonds.

“Series 2012A Bonds” means the Authority’s Lease Revenue Bonds, Series 2012A (Capital Improvement Projects).

“Series 2012B Bonds” means the Authority’s Lease Revenue Refunding Bonds, Series 2012B (Fire and Life Safety Facilities Refunding).

“Series 2013 Bonds” means, collectively, the Series 2013A Bonds and the Series 2013B Bonds.

“Series 2013A Bonds” means the Authority’s Lease Revenue Bonds and Lease Revenue Refunding Bonds, Series 2013A (Capital Improvement Projects and Old Town Light Rail Extension Refunding).

“Series 2013B Bonds” means the Authority’s Lease Revenue Refunding Bonds, Series 2013B (Balboa Park/Mission Bay Park Refunding).

“Series 2015 Bonds” means, collectively, the Series 2015A Bonds and the Series 2015B Bonds.

“Series 2015A Bonds” means the Authority’s Lease Revenue Bonds, Series 2015A (Capital Improvement Projects).

“Series 2015B Bonds” means the Authority’s Lease Revenue Bonds, Series 2015B (Capital Improvement Projects).

“Series 2018A Bonds” means the Authority’s Lease Revenue Refunding Bonds, Series 2018A (Federally Taxable).

“Series 2018A Bonds Sinking Account” means the account by that name established and held by the Trustee pursuant to the Indenture.

“Series 2018A Costs of Issuance Fund” means the fund by that name established and held by the Trustee pursuant to the Indenture.

“Site” means the Leased Property more particularly described in exhibits to the Site Lease and the Lease.

“Site Lease” means the Site Lease, dated as of July 1, 2012, by and between the City, as lessor, and the Authority, as lessee, together with any duly authorized and executed amendments thereto, including as

amended and supplemented by the First Amendment to Site Lease, the Second Amendment to Site Lease, the Third Amendment to Site Lease and the Fourth Amendment to Site Lease.

“Substitution” means the release of all or a portion of the Leased Property from the leasehold of the Lease, and the lease of substituted real property and improvements under the Lease as provided in the Lease.

“Supplemental Indenture” means any indenture duly authorized and entered into between the Authority and the Trustee, supplementing, modifying or amending the Indenture; but only if and to the extent that such Supplemental Indenture is specifically authorized under the Indenture.

“Third Amendment to Facilities Lease” means the Third Amendment to Facilities Lease, dated as of April 1, 2015, by and between the Authority, as sublessor, and the City, as sublessee.

“Third Amendment to Site Lease” means the Third Amendment to Site Lease, dated as of April 1, 2015, by and between the City, as lessor, and the Authority, as lessee.

“Third Supplemental Indenture” means the Third Supplemental Indenture, dated as of April 1, 2015, by and between the Authority and the Trustee.

“Term Bonds” means, with respect to the Series 2018A Bonds, the Series 2018A Bonds maturing on October 15, 20__.

“Written Certificate,” “Certificate,” “Written Request,” “Request” and “Written Requisition” of the Authority or the City mean, a written certificate, request or requisition signed in the name of the Authority or the City by its Authorized Representative. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined will be read and construed as a single instrument.

THE INDENTURE

Certain of the provisions of the Indenture are summarized below; this summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Indenture.

Equal Security

In consideration of the acceptance of the Bonds by the Owners thereof, the Indenture will be deemed to be and will constitute a contract between the Authority and the Owners from time to time of the Bonds; and the covenants and agreements set forth in the Indenture to be performed on behalf of the Authority will be for the equal and proportionate benefit, security and protection of all Owners of the Bonds without preference, priority or distinction as to security or otherwise of any of the Bonds over any of the others by reason of the number or date thereof or the time of sale, execution or delivery thereof, or otherwise for any cause whatsoever, except as expressly provided in the Indenture.

Issuance of Bonds

Transfer and Exchange of Bonds

Any Bond may, in accordance with its terms, be transferred on the Registration Books by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form acceptable to the Trustee. Transfer of any Bond will not be permitted by the Trustee during the period established by the Trustee for selection of Bonds for redemption or if such Bond has been selected for redemption pursuant to the Indenture. Whenever any Bond or Bonds will be surrendered for transfer, the Authority will execute and the

Trustee will authenticate and will deliver a new Bond or Bonds for a like aggregate principal amount and of like maturity. The Trustee may require the Bond Owner requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer. The cost of printing Bonds and any services rendered or expenses incurred by the Trustee in connection with any transfer will be paid by the Authority.

Any Bond may be exchanged at the Office of the Trustee for a like aggregate principal amount of Bonds of other authorized denominations and of like maturity. Exchange of any Bond will not be permitted during the period established by the Trustee for selection of Bonds for redemption or if such Bond has been selected for redemption pursuant to the Indenture. The Trustee may require the Bond Owner requesting such exchange to pay any tax or other governmental charge required to be paid with respect to such exchange. The cost of printing Bonds and any services rendered or expenses incurred by the Trustee in connection with any transfer will be paid by the Authority.

Conditions for the Issuance of Additional Bonds

The Authority may at any time issue Additional Bonds pursuant to a Supplemental Indenture, payable from the Revenues as provided in the Indenture and secured by a pledge of and charge and lien upon the Revenues as provided in the Indenture equal to the pledge, charge and lien securing the Outstanding Bonds theretofore issued under the Indenture, and subject to the following specific conditions, which are conditions precedent to the issuance of any such Additional Bonds:

(a) No Event of Default will be continuing after giving effect to the issuance of the Additional Bonds and the application of the proceeds thereof.

(b) The Supplemental Indenture will require that the proceeds of the sale of such Additional Bonds will be applied to finance or refinance capital improvements, or for the refunding or repayment of any Outstanding Bonds or other obligations of the City issued to finance or refinance capital improvements, including the payment of costs and expenses of and incident to the authorization and sale of such Additional Bonds. The Supplemental Indenture may also provide that a portion of such proceeds will be applied to the payment of the interest due or to become due on said Additional Bonds during the estimated period of any construction and for a period of not to exceed twelve (12) months thereafter.

(c) The aggregate principal amount of Bonds issued and at any time Outstanding under the Indenture will not exceed any limit imposed by law, by the Indenture or by any Supplemental Indenture.

(d) The Lease will have been amended, if necessary, so that the Base Rental Payments payable by the City under the Lease in each Fiscal Year will at least equal projected Debt Service, including Debt Service on the Additional Bonds, in each Fiscal Year.

(e) If the additional facilities, if any, to be leased are not situated on Leased Property described in the Lease and the Site Lease, then the Lease and Site Lease will have been amended to add such additional Leased Property.

Nothing in the Indenture will prevent payment of Debt Service on any Series of Additional Bonds from being secured and payable from sources, or by property, instruments or documents, not applicable to the Bonds or any one or more Series of Additional Bonds.

Proceedings for Authorization of Additional Bonds

Whenever the Authority and the City determine to execute and deliver any Additional Bonds pursuant to the Indenture, the Authority and the Trustee will enter into a Supplemental Indenture providing for the issuance of such Additional Bonds, specifying the maximum principal amount of such Additional Bonds and

prescribing the terms and conditions of such Additional Bonds. The Supplemental Indenture will prescribe the form or forms of such Additional Bonds and, subject to the provisions of the Indenture, will provide for the distinctive designation, denominations, method of numbering, dates, interest rates, provisions for redemption (if desired) and places of payment of principal and interest.

Before such Additional Bonds will be issued, the City and the Authority will file or cause to be filed the following documents with the Trustee:

(a) An Opinion of Bond Counsel setting forth (1) that such Bond Counsel has examined the Supplemental Indenture and the amendment to the Lease and to the Site Lease required by the Indenture, as described under the subheading “– *Conditions for the Issuance of Additional Bonds*” herein; (2) that the execution and delivery of the Additional Bonds have been duly authorized by the City and the Authority; and (3) that said amendment to the Lease and to the Site Lease, when duly executed by the City and the Authority, will be a valid and binding obligation of the City and the Authority.

(b) A Certificate of the City that the requirements of the Indenture described herein under the subheading “– *Conditions for the Issuance of Additional Bonds*” have been met.

(c) A Certificate of the City stating that the insurance required by the Lease as described under “THE LEASE – Maintenance; Taxes; Insurance and Other Charges – *Insurance*” herein and “SECURITY AND SOURCES OF PAYMENT FOR THE 2018 BONDS – Fire and Extended Coverage Insurance,” “– Use and Occupancy Insurance” and “– Title Insurance” in the front part of this Official Statement is in effect.

Upon the delivery to the Trustee of the foregoing instruments and upon the Trustee’s receipt of Certificates of the City and of the Authority stating that all applicable provisions of the Indenture have been complied with (so as to permit the execution and delivery of the Additional Bonds in accordance with the Supplemental Indenture then delivered to the Trustee), the Trustee will execute and deliver said Additional Bonds, in the aggregate principal amount specified in such Supplemental Indenture, to, or upon the Written Request of the Authority.

Limitations on the Issuance of Obligations Payable from Revenues

The Authority will not, so long as any of the Bonds are Outstanding, issue any obligations or securities, however denominated, payable in whole or in part from Revenues except the following:

- (a) Bonds of any Series authorized pursuant to the Indenture;
- (b) Obligations which are junior and subordinate to the payment of the Debt Service for the Bonds and any other amounts payable under the Indenture and related to the Bonds; which subordinated obligations are payable as to principal, premium, interest, reserve fund requirements, if any, and other amounts payable under the Indenture, only out of Revenues after the prior payment of all amounts then required to be paid under the Indenture from Revenues for payment of Debt Service for the Bonds and any other amounts payable under the Indenture and related to the Bonds, as the same become due and payable and at the times and in the manner as required in the Indenture.

Application of Proceeds

Establishment and Application of Series 2018A Costs of Issuance Fund

The Trustee will establish, maintain and keep separate and apart from all other funds held by the Trustee a separate fund designated as the “Series 2018A Costs of Issuance Fund.” Notwithstanding any other provision of the Fourth Supplemental Indenture, the Series 2018A Cost of Issuance Fund is not pledged to, nor does it secure, the Bonds.

The moneys in the Series 2018A Costs of Issuance Fund will be used by the Trustee to pay the Costs of Issuance upon submission of Written Requisitions of the City in the form of an exhibit to the Fourth Supplemental Indenture and stating the person to whom payment is to be made, the amount to be paid, the purpose for which the obligation was incurred and that such payment is a proper charge against said fund. Each such Written Requisition will be sufficient evidence to the Trustee of the facts stated therein and the Trustee will have no duty to confirm the accuracy of such facts.

On _____ 1, 2018, or upon the earlier Written Request of the City, all amounts remaining in the Series 2018A Costs of Issuance Fund will be transferred by the Trustee to the Revenue Fund to be used for the payment of interest on the Bonds.

Series 2018A Bonds Sinking Account

The Trustee will establish, maintain and keep separate and apart from all other funds held by the Trustee a separate account within the Principal Account designated as the "Series 2018A Bonds Sinking Account" into which the Trustee will deposit sinking fund payments derived from Base Rental Payments made by the City and from which funds will be applied to the Sinking Fund Redemption of Series 2018A Bonds pursuant to the Fourth Supplemental Indenture.

Validity of Bonds

The validity of the authorization and issuance of the Bonds is not dependent on and will not be affected in any way by any proceedings taken by the Authority or the Trustee with respect to or in connection with the Lease. The recital contained in the Bonds that the same are issued pursuant to the Constitution and laws of the State will be conclusive evidence of their validity and of compliance with the provisions of law in their issuance.

Revenues; Funds and Accounts; Payment of Principal and Interest

Pledge and Assignment; Revenue Fund

(a) Subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture, all of the Revenues including any other amounts (including proceeds of the sale of the Bonds) held in the Revenue Fund are pledged to secure the payment of the principal of, premium, if any, and interest on the Bonds in accordance with their terms and the provisions of the Indenture, and the Revenues will not be used for any other purpose while any of the Bonds will remain Outstanding; provided, however, that out of the Revenues and other moneys there may be applied in such sums and for such purposes as are permitted under the Indenture. This pledge will constitute a pledge of and charge and lien upon the Revenues for the payment of Debt Service on the Bonds in accordance with the terms of the Indenture. Said pledge will constitute a first lien on and security interest in such assets and will attach, be perfected and be valid and binding from and after the Closing Date, without any physical delivery thereof or further act.

(b) The Authority transfers in trust, grants a security interest in and assigns to the Trustee, for the benefit of the Owners from time to time of the Bonds: (i) all of the Revenues and (ii) all of the rights of the Authority in the Lease (except for certain rights to indemnification set forth in the Lease), and in the Site Lease (except for certain rights to indemnification set forth in the Indenture). The Trustee will be entitled to and will collect and receive all of the Revenues, and any Revenues collected or received by the Authority will be deemed to be held, and to have been collected or received, by the Authority as the agent of the Trustee and will forthwith be paid by the Authority to the Trustee. The Trustee also will be entitled to and will, subject to the provisions of the Indenture, take all steps, actions and proceedings which the Trustee determines to be reasonably necessary in its judgment to enforce, either jointly with the Authority or separately, all of the rights of the Authority, all of the obligations of the City under the Lease. The assignment of the Lease and the Site

Lease to the Trustee is solely in its capacity as Trustee under the Indenture and the duties, powers and liabilities of the Trustee in acting under the Indenture will be subject to the provisions of the Indenture. The Trustee will not be responsible for any representations, warranties, covenants or obligations of the Authority.

(c) The Trustee agrees to provide written notice to the City at least five Business Days prior to each Lease Payment Date of the amount, if any, on deposit in the Revenue Fund which will serve as a credit against, and will relieve the City of making, the Base Rental Payments due from the City on such Lease Payment Date.

(d) Subject to the provisions of the Indenture described in “SECURITY AND SOURCES OF PAYMENT FOR THE 2018 BONDS – Investment of Funds Under the Indenture,” in the front part of this Official Statement, all Revenues will be promptly deposited by the Trustee upon receipt thereof in a special fund designated as the “Revenue Fund” which the Trustee will establish, maintain and hold in trust; except that all moneys received by the Trustee and required under the Indenture or under the Lease to be deposited in the Redemption Fund or the Insurance and Condemnation Fund will be promptly deposited in such Funds. Within the Revenue Fund there will be established an Interest Account and a Principal Account. All Revenues deposited with the Trustee will be held, disbursed, allocated and applied by the Trustee only as provided in the Indenture.

Establishment and Maintenance of Accounts for Use of Money in the Revenue Fund

Revenue Fund. All money in the Revenue Fund will be set aside by the Trustee in the following respective special accounts and funds within the Revenue Fund (each of which is created and each of which the Trustee covenants and agrees to cause to be maintained) in the following order of priority:

- (i) Interest Account; and
- (ii) Principal Account.

All money in each of such accounts and funds will be held in trust by the Trustee and will be applied, used and withdrawn only for the purposes under the Indenture.

Interest Account. On or before each Interest Payment Date, and on or before each redemption date, the Trustee will set aside from the Revenue Fund and deposit in the Interest Account that amount of money which is equal to the amount of interest coming due and payable on all Outstanding Bonds on such date.

No deposit need be made in the Interest Account if the amount contained therein is at least equal to the aggregate amount of interest coming due and payable on all Outstanding Bonds on such Interest Payment Date.

All money in the Interest Account will be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Bonds as it will become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity).

Principal Account. On or before each April 15 and October 15, commencing October 15, 2012, the Trustee will set aside from the Revenue Fund and deposit in the Principal Account an amount of money equal to the principal amount (including the payment of principal with respect to any mandatory sinking account payments) of all Outstanding Bonds maturing or subject to mandatory sinking account payments on such April 15 or October 15. On or before each redemption date, the Trustee will transfer from the Revenue Fund and deposit in the Principal Account the principal amount of the Bonds to be redeemed, and premium, if any. No deposit need be made in the Principal Account if the amount contained therein is at least equal to the aggregate amount of the principal of all Outstanding Bonds maturing by their terms on such April 15 or October 15. All money in the Principal Account will be used and withdrawn by the Trustee solely for the

purpose of paying the principal of the Bonds as they will become due and payable, whether at maturity or redemption, and premium, if any.

Redemption Fund

The Trustee will establish and maintain the Redemption Fund, amounts in which will be used and withdrawn by the Trustee solely for the purpose of paying the principal of and premium on the Bonds to be redeemed pursuant to the provisions of the Indenture regarding optional redemption and special mandatory redemption from insurance or condemnation proceeds; provided, however, that at any time prior to the selection of Bonds for redemption, the Trustee may apply such amounts to the purchase of Bonds at public or private sale, in accordance with the provision of the Indenture regarding purchase in lieu of redemption with respect to Term Bonds.

Insurance and Condemnation Fund; Title Insurance

Establishment of Fund. Upon the receipt of any proceeds of insurance or eminent domain with respect to any portion of the Leased Property, the Trustee will establish and maintain an Insurance and Condemnation Fund, to be held and applied under the Indenture as described below.

Application of Insurance Proceeds. Any Net Proceeds of insurance against accident to or destruction of the Leased Property collected by the City in the event of any such accident or destruction will be paid to the Trustee by the City pursuant to the Lease and deposited by the Trustee promptly upon receipt thereof in the Insurance and Condemnation Fund. If the City fails to determine and notify the Trustee in writing of its determination, within forty-five (45) days following the date of such deposit, to replace, repair, restore, modify or improve the Leased Property, then such Net Proceeds will be promptly transferred by the Trustee to the Redemption Fund and applied to the redemption of Bonds as permitted by the Indenture, including pursuant to the provisions of the Indenture described under “THE 2018 BONDS – Redemption Provisions – *Special Mandatory Redemption from Insurance and Condemnation Proceeds*” in the front part of this Official Statement to the extent that such Net Proceeds permit. All proceeds deposited in the Insurance and Condemnation Fund and not so transferred to the Redemption Fund will be applied to the prompt replacement, repair, restoration, modification or improvement of the damaged or destroyed portions of the Leased Property by the City, upon receipt of Written Requisitions of the City, as agent for the Authority, which: (i) states with respect to each payment to be made (A) the requisition number, (B) the name and address of the person to whom payment is due, (C) the amount to be paid and (D) that each obligation mentioned therein has been properly incurred, is a proper charge against the Insurance and Condemnation Fund, has not been the basis of any previous withdrawal; and (ii) specifies in reasonable detail the nature of the obligation. Each such Written Requisition will be sufficient evidence to the Trustee of the facts stated therein and the Trustee will have no duty to confirm the accuracy of such facts. Any balance of the proceeds remaining after such work has been completed as certified by the City to the Trustee will after payment of amounts due the Trustee be paid to the City.

Application of Eminent Domain Proceeds. If all or any part of the Leased Property will be taken by eminent domain proceedings (or sold to a government threatening to exercise the power of eminent domain) the Net Proceeds therefrom will be deposited with the Trustee in the Insurance and Condemnation Fund pursuant to the provisions of the Lease as described under “THE LEASE – Damage, Destruction, Title Defect and Condemnation” herein and will be applied and disbursed by the Trustee as follows:

(a) If the City has not given written notice to the Trustee, within forty-five (45) days following the date on which such Net Proceeds are deposited with the Trustee, of its determination that such Net Proceeds are needed for the replacement of the Leased Property or such portion thereof, the Trustee will transfer such Net Proceeds to the Redemption Fund to be applied towards the redemption of the Bonds as permitted by the Indenture, including pursuant to the provisions of the Indenture described under “THE 2018

BONDS – Redemption Provisions – *Special Mandatory Redemption from Insurance and Condemnation Proceeds*” in the front part of this Official Statement.

(b) If the City has given written notice to the Trustee, within forty-five (45) days following the date on which such Net Proceeds are deposited with the Trustee, of its determination that such Net Proceeds are needed for replacement of the Leased Property or such portion thereof, the Trustee will pay to the City, or to its order, from said proceeds such amounts as the City may expend for such repair or rehabilitation, upon the filing of Written Requisitions of the City as agent for the Authority in the form and containing the provisions of the Indenture described above under “– *Application of Insurance Proceeds*.” Each such Written Requisition will be sufficient evidence to the Trustee of the facts stated therein and the Trustee will have no duty to confirm the accuracy of such facts.

Title Insurance. Proceeds of any policy of title insurance received by the Trustee in respect of the Leased Property or any portion thereof for the benefit of the Owners will be applied and disbursed by the Trustee as follows:

(a) If the City determines that the title defect giving rise to such proceeds has not materially affected the City’s right to the use and possession of the Leased Property and will not result in an abatement of Base Rental Payments by the City under the Lease, upon Written Request of the City such proceeds will, if there is first delivered to the Trustee a Written Certificate of a City Representative to the effect that the annual fair rental value of the Leased Property, notwithstanding the title defect for which the payment was made, is at least equal to the maximum amount of Base Rental Payments becoming due under the Lease in the then current Lease Year or any subsequent Lease Year, be paid to the City to be used for any lawful purpose. If the City cannot deliver the certificate described in the preceding sentence, then such amounts will be transferred to the Redemption Fund and used to redeem Bonds as permitted by the Indenture, including pursuant to the terms of the Indenture as described under “THE 2018 BONDS – Redemption Provisions – *Special Mandatory Redemption from Insurance and Condemnation Proceeds*” in the front part of this Official Statement, unless the City otherwise directs in writing that such amounts are to be transferred to the Rebate Fund.

(b) If any portion of the Leased Property has been affected by such title defect and if the City certifies in writing that such title defect will result in an abatement of Base Rental Payments by the City under the Lease, then upon Written Request of the City: either (A) such insurance proceeds will be used by the City to remove the title defect, or (B) the Trustee will, if not notified in writing by a City Representative within 90 days of the receipt by the Trustee of the insurance proceeds that the City will use the proceeds to remove the title defect, deposit such proceeds in the Redemption Fund and such proceeds will be applied to redeem Bonds in the manner as permitted by the Indenture, including pursuant to the terms of the Indenture as described under “THE 2018 BONDS – Redemption Provisions – *Special Mandatory Redemption from Insurance and Condemnation Proceeds*.”

(c) Any excess proceeds with respect to title insurance remaining after application pursuant to the terms of the Indenture will be paid to the City to be used for any lawful purpose.

Particular Covenants

Punctual Payment

The Authority will punctually pay or cause to be paid the principal of and interest and premium (if any) on all the Bonds in strict conformity with the terms of the Bonds and of the Indenture, according to the true intent and meaning thereof, but only out of Revenues and other assets pledged for such payment as provided in the Indenture.

Against Encumbrances

The Authority will not create, or permit the creation of, any pledge, lien, charge or other encumbrance upon the Revenues and other assets pledged or assigned under the Indenture while any of the Bonds are Outstanding, except the pledge and assignment created by the Indenture. Subject to this limitation, the Authority expressly reserves the right to enter into one or more other indentures for any of its corporate purposes, and reserves the right to issue other obligations for such purposes. Nothing in this section will in any way limit the City's ability (i) to encumber its assets other than Leased Property or (ii) to encumber the Leased Property in accordance with the terms of the Lease.

Power to Issue Bonds and Make Pledge and Assignment

The Authority is duly authorized pursuant to law to issue the Bonds and to enter into the Indenture and to pledge and assign the Revenues and other assets purported to be pledged and assigned, respectively, under the Indenture in the manner and to the extent provided in the Indenture. The Bonds and the provisions of the Indenture are and will be the legal, valid and binding special obligations of the Authority in accordance with their terms, and the Authority and the Trustee will at all times, subject to the provisions of the Indenture and to the extent permitted by law, defend, preserve and protect said pledge and assignment of Revenues and other assets and all the rights of the Bond Owners under the Indenture against all claims and demands of all persons whomsoever.

Accounting Records

The Trustee will at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with corporate trust industry standards, in which complete and accurate entries will be made of all transactions made by it relating to the proceeds of Bonds, the Revenues, the Lease and all funds and accounts established pursuant to the Indenture. Such books of record and account will be available for inspection by the Authority and the City, during business hours and under reasonable circumstances.

Compliance with Indenture

The Trustee will not execute or deliver any Bonds in any manner other than in accordance with the provisions of the Indenture, and the Authority will not suffer or permit any default by it to occur under the Indenture, but will faithfully comply with, keep, observe and perform all the agreements, conditions, covenants and terms of the Indenture required to be complied with, kept, observed and performed by it.

Collection of Amounts Due Under Lease; Amendments

The Trustee will promptly collect all amounts due from the City pursuant to the Lease. Subject to the provisions of the Indenture, the Trustee will enforce, and take all steps, actions and proceedings which the Trustee determines to be reasonably necessary for the enforcement of all of its rights under the Indenture as assignee of the Authority, for the enforcement of all of the obligations of the City under the Lease.

The Authority will not amend, modify or terminate any of the terms of the Lease or the Site Lease, or consent to any such amendment, modification or termination, without the prior written consent of the Trustee. The Trustee will give such written consent only if it determines the requirements of the Lease relating the amendment thereof have been complied with.

Waiver of Laws

The Authority will not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of, any stay or extension of law now or at any time hereafter in force that may affect the

covenants and agreements contained in the Indenture or in the Bonds, and all benefit or advantage of any such law or laws is expressly waived by the Authority to the extent permitted by law.

Further Assurances

The Authority will make, execute and deliver any and all such further indentures, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Indenture and for the better assuring and confirming unto the Owners of the Bonds of the rights and benefits provided in the Indenture.

Events of Default and Remedies

Events of Default; Notice

The following events will be Events of Default under the Indenture:

(a) Default in the due and punctual payment of the principal, redemption premium, if any or sinking fund installments of any Bonds when and as the same will become due and payable, whether at maturity as expressed in the Indenture, by proceedings for redemption (other than with respect to conditional redemption as permitted by the Indenture) or otherwise.

(b) Default in the due and punctual payment of any installment of interest on any Bonds when and as the same will become due and payable.

(c) Default by the Authority in the observance of any of the other covenants, agreements or conditions on its part in the Indenture or in the Bonds contained, if such default will have continued for a period of sixty (60) days after written notice thereof, specifying such default and requiring the same to be remedied, will have been given to the Authority by the Trustee; provided, however, that if in the reasonable opinion of the Authority the default stated in the notice can be corrected, but not within such sixty (60) day period, such default will not constitute an Event of Default under the Indenture if the Authority will commence to cure such default within such sixty (60) day period and thereafter diligently and in good faith cure such failure in a reasonable period of time.

(d) The occurrence and continuation of an event of default under and as defined in the Lease.

If an Event of Default occurs under the Indenture, the Trustee will give notice, at the expense of the City, of such Event of Default to the Owners. Such notice will state that an Event of Default has occurred and will provide a brief description of such Event of Default. The Trustee in its discretion may withhold notice if it deems it in the best interests of the Owners. Such notice provided will be given by first-class mail, postage prepaid, to the Owners within 30 days of the Trustee's receipt of knowledge of the occurrence of such Event of Default.

Remedies Upon Event of Default

(a) Upon the occurrence and continuance of any Event of Default, then and in every such case the Trustee in its discretion may, and upon the written request of the Owners of not less than 50% in principal amount of the Bonds then Outstanding and receipt of indemnity to its satisfaction, and payment of its fees and expenses, including the fees and expenses of its counsel, will in its own name and as the Trustee of an express trust:

(i) by mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the Owners under the Indenture, and require the Authority or the City to carry out any agreements with or for the benefit of the Owners of Bonds and to perform its or their duties under the

Lease and the Indenture, provided that any such remedy may be taken only to the extent permitted under the applicable provisions of the Lease or the Indenture, as the case may be;

(ii) bring suit upon the Bonds;

(iii) by action or suit in equity require the Authority to account as if it were the trustee of an express trust for the Owners of Bonds; or

(iv) by action or suit in equity enjoin any acts or things which may be unlawful or in violation of the rights of the Owners of Bonds under the Indenture.

(b) Upon the occurrence of an Event of Default, the Trustee will be entitled as a matter of right to the appointment of a receiver or receivers for the Revenues, ex parte, and without notice, and the Authority consents to the appointment of such receiver upon the occurrence of an Event of Default. In the case of any receivership, insolvency, bankruptcy, or other judicial proceedings affecting the Authority or the City, the Trustee will be entitled to file such proofs of claims and other documents as may be necessary or advisable in order to have the claims of the Trustee and the Bond Owners allowed in such proceedings, without prejudice, however, to the right of any Bond Owner to file a claim on his or her own behalf; provided, the Trustee will be entitled to compensation and reimbursement for the reasonable fees and expenses of its counsel and indemnity for its reasonable expenses and liability from the Authority, the City or the Bond Owners, as appropriate.

(c) Notwithstanding the foregoing, neither the Indenture nor the Bonds provide for the remedy of acceleration of principal or interest due with respect to the Bonds prior to their stated due dates.

Application of Revenues and Other Funds After Default

If an Event of Default will occur and be continuing, all Revenues and any other funds then held or thereafter received by the Trustee under any of the provisions of the Indenture will be applied by the Trustee as follows and in the following order:

(a) To the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the Owners of the Bonds and payment of reasonable fees, charges and expenses of the Trustee (including reasonable fees and disbursements of its counsel) incurred in and about the performance of its powers and duties under the Indenture;

(b) To the payment of the principal of and interest then due on the Bonds (upon presentation of the Bonds to be paid, and stamping or otherwise noting thereon of the payment if only partially paid, or surrender thereof if fully paid) in accordance with the provisions of the Indenture, as follows:

First: To the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, and, if the amount available will not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the persons entitled thereto of the unpaid principal of any Bonds which will have become due, whether at maturity or by redemption, with interest on the overdue principal at the rate borne by the respective Bonds (to the extent permitted by law), and, if the amount available will not be sufficient to pay in full all the Bonds, together with such interest, then to the payment thereof ratably, according to the amounts of principal due on such date to the persons entitled thereto, without any discrimination or preference.

Trustee to Represent Bond Owners

The Trustee is irrevocably appointed (and the successive respective Owners of the Bonds, by taking and holding the same, will be conclusively deemed to have so appointed the Trustee) as trustee and true and lawful attorney-in-fact of the Owners of the Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Owners under the provisions of the Bonds, the Indenture and applicable provisions of any law. Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Trustee to represent the Bond Owners, the Trustee in its discretion may, and upon the written request of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding, and upon being indemnified to its satisfaction therefor, the Trustee will, proceed to protect or enforce its rights or the rights of such Owners by such appropriate action, suit, mandamus or other proceedings as it will deem most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained in the Indenture, or in aid of the execution of any power in the Indenture granted, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee or in such Owners under the Bonds, the Indenture or any other law; and upon instituting such proceeding, the Trustee will be entitled, as a matter of right, to the appointment of a receiver of the Revenues and other assets pledged under the Indenture, pending such proceedings. All rights of action under the Indenture or the Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee will be brought in the name of the Trustee for the benefit and protection of all the Owners of such Bonds, subject to the provisions of the Indenture.

Bond Owners' Direction of Proceedings

Anything in the Indenture to the contrary notwithstanding, the Owners of a majority in aggregate principal amount of the Bonds then Outstanding will have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, and upon indemnification of the Trustee to its reasonable satisfaction, to direct the method of conducting all remedial proceedings taken by the Trustee under the Indenture, provided that such direction will not be otherwise than in accordance with law and the provisions of the Indenture, and that the Trustee will have the right to decline to follow any such direction which in the opinion of the Trustee would expose it to liability.

Limitation on Bond Owners' Right to Sue

Notwithstanding any other provision of the Indenture, no Owner of any Bonds will have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Indenture, the Lease or any other applicable law with respect to such Bonds, unless (a) such Owner will have given to the Trustee written notice of the occurrence of an Event of Default; (b) the Owners of a majority in aggregate principal amount of the Bonds then Outstanding will have made written request upon the Trustee to exercise the powers granted in the Indenture or to institute such suit, action or proceeding in its own name; (c) such Owner or Owners will have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; (d) the Trustee will have failed to comply with such request for a period of sixty (60) days after such written request will have been received by, and said tender of indemnity will have been made to, the Trustee; and (e) no direction inconsistent with such written request will have been given to the Trustee during such sixty (60) day period by the Owners of a majority in aggregate principal amount of the Bonds then Outstanding.

Such notification, request, tender of indemnity and refusal or omission are declared, in every case, to be conditions precedent to the exercise by any Owner of Bonds of any remedy under the Indenture or under law; it being understood and intended that no one or more Owners of Bonds will have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Indenture or the rights of any other Owners of Bonds, or to enforce any right under the Bonds, the Indenture, the Lease or other applicable law with respect to the Bonds, except in the manner provided in the Indenture, and that all proceedings at law

or in equity to enforce any such right will be instituted, had and maintained in the manner in the Indenture provided and for the benefit and protection of all Owners of the Outstanding Bonds, subject to the provisions of the Indenture.

Absolute Obligation of Authority

Nothing in the Indenture as described herein under the subheading “– Events Of Default And Remedies – *Limitation on Bond Owners’ Right to Sue*” or in any other provision of the Indenture or in the Bonds contained will affect or impair the obligation of the Authority, which is absolute and unconditional, to pay the principal of and interest and premium (if any) on the Bonds to the respective Owners of the Bonds at their respective dates of maturity, or upon call for redemption, as provided in the Indenture, but only out of the Revenues and other assets in the Indenture pledged therefor, or affect or impair the right of such Owners, which is also absolute and unconditional, to enforce such payment by virtue of the contract embodied in the Bonds.

Termination of Proceedings

If any proceedings taken by the Trustee or any one or more Bond Owners on account of any Event of Default shall have been discontinued or abandoned for any reason or will have been determined adversely to the Trustee or the Bond Owners, then the Authority, the Trustee and the Bond Owners, subject to any determination in such proceedings, shall be restored to their former positions and rights under the Indenture, severally and respectively, and all rights, remedies, powers and duties of the Authority, the Trustee and the Bond Owners will continue as though no such proceedings had been taken.

Remedies Not Exclusive

No remedy conferred upon or reserved to the Trustee or the Owners of the Bonds in the Indenture is intended to be exclusive of any other remedy or remedies, and each and every such remedy, to the extent permitted by law, will be cumulative and in addition to any other remedy given under the Indenture or now or hereafter existing at law or in equity or otherwise.

No Waiver of Default

No delay or omission of the Trustee or any Owner of the Bonds to exercise any right or power arising upon the occurrence of any Event of Default will impair any such right or power or will be construed to be a waiver of any such Event of Default or an acquiescence therein; and every power and remedy given by the Indenture to the Trustee or the Owners of the Bonds may be exercised from time to time and as often as may be deemed expedient.

Parties Interested In the Indenture

Nothing in the Indenture expressed or implied is intended or will be construed to confer upon, or to give to, any person or entity, other than the City, the Authority, the Trustee, their officers, employees and agents, and the Owners any right, remedy or claim under or by reason of the Indenture, or any covenant, condition or stipulation of the Indenture, and all covenants, stipulations, promises and agreements in the Indenture contained by and on behalf of the Authority will be for the sole and exclusive benefit of the City, the Authority, the Trustee, their officers, employees and agents, and the Owners.

Remedies Subject to Provisions of Law

All rights, remedies and powers provided by the Indenture may be exercised only to the extent that the exercise thereof does not violate any applicable provision of the City Charter and other applicable law, and all of the provisions of the Indenture are intended to be subject to the City Charter and all other applicable

mandatory provisions of law which may be controlling and to be limited to the extent necessary so that they will not render this instrument or the provisions of the Indenture invalid or unenforceable under the provisions of the City Charter or other applicable law.

Modification or Amendment of the Indenture

Amendments Permitted

(a) The Indenture and any of the rights and obligations of the Authority and of the Owners of the Bonds and of the Trustee may be modified or amended from time to time and at any time by an indenture or indentures supplemental thereto, which the Authority and the Trustee may enter into when the written consents of the Owners of a majority in aggregate principal amount of all Bonds then Outstanding which are affected by the amendment, will have been filed with the Trustee; provided, however, no such modification or amendment without the consent of the Owners of all of the Bonds then Outstanding which would be affected thereby, will (i) extend the fixed maturity of any Bonds, or reduce the amount of principal thereof or extend the time of payment, or change the method of computing the rate of interest thereon, or extend the time of payment of interest thereon, without the consent of the Owner of each Bond so affected, or (ii) reduce the aforesaid percentage of Bonds the consent of the Owners of which is required to effect any such modification or amendment, or (iii) permit the creation of any lien on the Revenues and other assets pledged under the Indenture prior to or on a parity with the lien created by the Indenture except as permitted in the Indenture, or (iv) deprive the Owners of the Bonds of the lien created by the Indenture on such Revenues and other assets (except as expressly provided in the Indenture), without the consent of the Owners of all of the Bonds then Outstanding. It shall not be necessary for the consent of the Bond Owners to approve the particular form of any Supplemental Indenture, but it will be sufficient if such consent will approve the substance thereof. Consent of the Owners may be obtained as provided in the Indenture.

(b) In addition to any Supplemental Indenture authorized pursuant to the Indenture, the Indenture and the rights and obligations of the Authority, of the Trustee and the Owners of the Bonds may also be modified or amended from time to time and at any time by a Supplemental Indenture, which the Authority and the Trustee may enter into without the consent of any Bond Owners, for any one or more of the following purposes:

(i) to add to the covenants and agreements of the Authority in the Indenture contained other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power reserved to or conferred upon the Authority in the Indenture, or to close the Indenture against, or provide limitations and restrictions in addition to the limitations and restrictions contained in the Indenture on, the authentication and delivery of Additional Bonds;

(ii) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Indenture, or in regard to matters or questions arising under the Indenture, as the Authority may deem necessary or desirable;

(iii) to modify, amend or supplement the Indenture in such manner as to permit the qualification of the Indenture under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute; or

(iv) to modify, amend or supplement the Indenture in such manner as to cause interest on the Bonds to remain excludable from gross income under the Code.

(v) to permit the Trustee to comply with any duties imposed upon it by law;

(vi) to provide for the refunding or advance refunding of any Bonds, so long as such amendment is not inconsistent with the provisions of the Indenture relating to the defeasance of Bonds;

(vii) to evidence the appointment of a separate trustee or the succession of a new trustee under the Indenture;

(viii) to make any amendments appropriate or necessary to provide for or facilitate the delivery of credit enhancement for any Bonds; or

(ix) for any other reason, provided such modification or amendment does not, in the judgment of the Trustee, materially adversely affect the interests of the Owners of the Bonds then Outstanding.

(c) The Trustee may in its discretion, but will not be obligated to, enter into any such Supplemental Indenture authorized by paragraphs (a) or (b) under this subheading which materially adversely affects the Trustee's own rights, duties or immunities under the Indenture or otherwise.

(d) Prior to the Trustee entering into any Supplemental Indenture under the Indenture, there will be delivered to the Trustee an opinion of Bond Counsel stating, in substance, that such Supplemental Indenture has been adopted in compliance with the requirements of the Indenture and that the adoption of such Supplemental Indenture will not, in and of itself, adversely affect the exclusion from gross income for purposes of federal income taxes of interest on the Bonds.

(e) Provision of the Indenture described under this subheading are subject to the provisions of the Indenture described under the subheading "Modification or Amendment of the Indenture – *City's Consent to Supplemental Indentures*" herein.

Consent of Owners

(a) If at any time the Authority (or the City on behalf of the Authority) will request the Trustee to enter into any Supplemental Indenture requiring consent of the Owners, the Trustee, upon being satisfactorily indemnified with respect to expenses, will cause notice (unless waived by the affected Owners in their consent) of the proposed Supplemental Agreement to be mailed to each affected Owners, as shown in the Registration Books at the close of business on the 15th day preceding that mailing and at its address as it appears on the Registration Books on that 15th day preceding the mailing. The notice will describe briefly the nature of the proposed amendment and will state that copies thereof are on file at the office of the Trustee designated therein for inspection by all such Owners.

Consent of Owners may also be evidenced: (i) by Bonds being sold to such Owners under an official statement or other offering document which describes the proposed amendment and states that their purchase shall be treated as their consent to such amendment; or (ii) in any other manner acceptable to the Trustee.

If the Supplemental Indenture will not take effect so long as any particular Bonds remain Outstanding, the consent of the Owners of such Bonds will not be required and such Bonds will not be deemed to be Outstanding for the purpose of determining the required consents.

(b) *Disqualified Bonds.* Bonds owned or held by or for the account of the Authority or the City will not be deemed Outstanding for the purpose of any consent or other action or any calculation of Outstanding Bonds provided in the Indenture as described under this subheading "Modification or Amendment of the Indenture", and will not be entitled to consent to or take any other action provided in the Indenture as described under this subheading "– Modification or Amendment of the Indenture"; provided, however, that the Trustee will not be deemed to have knowledge that any Bond is owned or held by or for the account of the

Authority or the City unless the Authority or the City is the registered Owner or the Trustee has received written notice that any other registered Owner is holding for the account of the Authority or City.

(c) The Trustee will not be subject to any liability to any Owner of Bonds by reason of the Trustee's failure to mail, or the failure of any such Owner to receive, the notice required by the Indenture as described under this subheading. Any failure of that nature will not affect the validity of the Supplemental Indenture when there has been consent thereto as provided in the Indenture as described under this subheading.

(d) If the Trustee will receive, within a period not exceeding one year as prescribed by the City upon behalf of the Authority, following the mailing of the notice (unless waived by the affected Owners in their consent), an instrument or document or instruments or documents, in a form or forms to which the Trustee does not object reasonably, purporting to be executed by the Owners of not less than a majority in aggregate principal amount of the affected Outstanding Bonds, but not otherwise, the Trustee will execute and deliver the Supplemental Indenture in substantially the form to which reference is made in the notice, without liability or responsibility to any affected Owner, regardless of whether that Owner will have consented thereto. The instrument or document or instruments or documents described in this paragraph shall refer to the proposed Supplemental Indenture in the form described in the notice and shall consent specifically to the Supplemental Indenture in substantially that form.

(e) At any time after the Owners of the required percentage of the Bonds will have filed their consents with the Trustee to the Supplemental Indenture, the Trustee will make and file with the Authority and City a written statement that the Owners of the required percentage of the Bonds have filed those consents. That written statement will be conclusive evidence that the consents have been so filed. Prior to the Trustee filing such written statement, a consent may be revoked in writing by the Owner who gave the consent or by a subsequent Owner of the Bonds by a written revocation received by the Trustee.

City's Consent to Supplemental Indentures

Anything in the Indenture to the contrary notwithstanding, so long as the City is not in default under the Lease, a Supplemental Indenture under the Indenture will not become effective unless and until the City will have consented in writing to the execution and delivery of such Supplemental Indenture. In this regard, the Trustee will cause notice of the proposed execution and delivery of any Supplemental Indenture, together with a copy of the proposed Supplemental Indenture, to be mailed by first-class mail to the City at least 30 days prior to the proposed date of execution and delivery of any Supplemental Indenture.

Effect of Supplemental Indenture

Upon the execution of any Supplemental Indenture pursuant to the Indenture, the Indenture will be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Indenture of the Authority, the Trustee and all Owners of Bonds Outstanding will thereafter be determined, exercised and enforced under the Indenture subject in all respects to such modification and amendment, and all the terms and conditions of any such Supplemental Indenture will be deemed to be part of the terms and conditions of the Indenture for any and all purposes.

Endorsement of Bonds; Preparation of New Bonds

Bonds delivered after the execution of any Supplemental Indenture pursuant to the Indenture may, and if the Authority so determines will, bear a notation by endorsement or otherwise in form approved by the Authority and the Trustee as to any modification or amendment provided for in such Supplemental Indenture, and, in that case, upon demand on the Owner of any Bonds Outstanding at the time of such execution and presentation of his Bonds for the purpose at the Office of the Trustee or at such additional offices as the Trustee may select and designate for that purpose, a suitable notation will be made on such Bonds. If the Supplemental Indenture will so provide, new Bonds so modified as to conform, in the opinion of the Authority

and the Trustee, to any modification or amendment contained in such Supplemental Indenture, will be prepared and executed by the Authority and authenticated by the Trustee, and upon demand on the Owners of any Bonds then Outstanding will be exchanged at the Office of the Trustee, without cost to any Bond Owner, for Bonds then Outstanding, upon surrender for cancellation of such Bonds, in equal aggregate principal amount of the same series and maturity.

Amendment of Particular Bonds

The provisions of the Indenture as described under this subheading “– Modification or Amendment of the Indenture” shall not prevent any Bond Owner from accepting any amendment as to the particular Bonds held by him.

Defeasance

Discharge of Indenture

(a) Any or all of the Outstanding Bonds may be paid by the Authority in any of the following ways, provided that the Authority also pays or causes to be paid any other sums payable under the Indenture by the Authority:

- (i) by paying or causing to be paid the principal of and interest and premium (if any) on such Bonds, as and when the same become due and payable;
- (ii) by depositing with the Trustee, in trust, at or before maturity, Defeasance Obligations in the necessary amount and in accordance with the terms of the Indenture to pay or redeem such Bonds; or
- (iii) by delivering to the Trustee, for cancellation by it, such Bonds.

If the Authority will also pay or cause to be paid all other sums payable under the Indenture by the Authority, then and in that case, at the election of the Authority evidenced by a Written Certificate of the Authority (or of the City upon behalf of the Authority), filed with the Trustee, signifying the intention of the Authority to discharge all such indebtedness and the Indenture, and notwithstanding that any of such Bonds shall not have been surrendered for payment, the Indenture and the pledge of Revenues and other assets made under the Indenture with respect to such Bonds and all covenants, agreements and other obligations of the Authority under the Indenture with respect to such Bonds will cease, terminate, become void and be completely discharged and satisfied (except for those provisions surviving by reason of those provisions of the Indenture described under paragraph (c) below in the event that the Bonds are deemed to be paid and discharged pursuant to the provisions of the Indenture described under the subheading “–*Deposit of Money or Securities with Trustee to Defeas Bonds*” below). In such event, upon the Written Request of the Authority (or of the City upon behalf of the Authority), the Trustee will execute and deliver to the Authority and City all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee will pay over, transfer, assign or deliver to the City all moneys or securities or other Leased Property held by it pursuant to the Indenture which are not required for the payment or redemption of any of such Bonds not theretofore surrendered for such payment or redemption.

If the Authority will pay or cause to be paid, or there will otherwise be paid, to the Owners of the Outstanding Bonds of a particular Series, or of a particular maturity or particular Bonds within a Series, the Debt Service due or to become due thereon, at the times and in the manner stipulated therein and in the Indenture, such Bonds will cease to be entitled to any lien, pledge, benefit or security under the Indenture, and all covenants, agreements and obligations of the Authority to the Owners of such Bonds will thereupon cease, terminate and become void and be discharged and satisfied (subject to provisions of the Indenture described in paragraph (c) below).

Bonds or interest installments, for the payment or redemption of which moneys will have been set aside and held in trust by the Trustee (through deposit by the City of funds for such payment or redemption or otherwise) at the maturity or redemption date thereof, will be deemed to have been paid within the meaning and with the effect expressed in paragraph (a) under this subheading.

(b) If, in connection with a redemption of all or any part of the Bonds, or in connection with providing for payment of all or any part of the Bonds pursuant to the Indenture as described herein under the subheading “Defeasance”, moneys and/or Defeasance Obligations are deposited with the Trustee sufficient to pay Debt Service on all or a portion of the Bonds being defeased in accordance with the provisions of the Indenture described under the subheading “Deposit of Money or Securities with Trustee to Defeas Bonds” below to any date after the first date on which such Bonds may be redeemed, the City on behalf of the Authority may expressly reserve and retain the right to subsequently change the date on which any such Bonds are to be redeemed. The City may further reserve and retain the right to restructure the moneys and/or Defeasance Obligations held by the Trustee for payment such Bonds as provided in the Indenture as described in paragraphs (c), (d) or (e) under the subheading “– *Deposit of Money or Securities with Trustee to Defeas Bonds*” below, and to apply any of the proceeds, which are available following such restructuring and are not needed to pay Debt Service on the Bonds being defeased, for any lawful purpose.

If the City desires to reserve and retain any such rights, it shall so advise the Trustee at the time of the deposits of such funds with the Trustee and the Trustee will include a statement of such reserved and retained rights in the notice given to Owners pursuant to the Indenture.

(c) Notwithstanding the foregoing, any provisions of the Indenture which relate to:

- (i) the maturity of Bonds;
- (ii) the interest payments and dates thereof;
- (iii) the optional and mandatory redemption provisions;
- (iv) the credits against the mandatory sinking fund requirements;
- (v) the exchange, transfer and registration of Bonds;
- (vi) the replacement of mutilated, destroyed, lost or stolen Bonds;
- (vii) the safekeeping and cancellation of Bonds;
- (viii) the nonpresentment of Bonds;
- (ix) the holding of moneys in trust;
- (x) the repayments to the Authority from the escrow fund;
- (xi) the timely payment of any rebate of arbitrage earnings to the United States and any other provisions which relate to exclusion of interest on the Bonds from gross income for federal income tax purposes; and
- (xii) the duties of the Trustee in connection with all of the foregoing and payment of its fees and expenses;

will remain in effect and will be binding upon the Authority, the Trustee and the Owners, notwithstanding the release, discharge and satisfaction of the Indenture. The provisions of the Indenture described under this paragraph (c) will survive the release, discharge and satisfaction of the Indenture.

Deposit of Money or Securities with Trustee to Defeas Bonds

(a) Whenever in the Indenture it is provided or permitted that there be deposited with or held in trust by the Trustee money or securities in the necessary amount to pay or redeem any Bonds, the money or securities so to be deposited or held may include money or securities held by the Trustee in the funds and accounts established pursuant to the Indenture and available for such purposes.

(b) Subject to the provisions of paragraphs (c) and (d) under this subheading, any Outstanding Bonds shall, prior to the maturity or redemption date thereof, be deemed to have been paid, within the meaning and with the effect expressed in paragraph (a) under the subheading “– *Discharge of Indenture*” above, if:

(i) in case any of said Bonds are to be redeemed on any date prior to their maturity, the City upon behalf of the Authority will have given to the Trustee written instructions, accepted in writing by the Trustee, to mail as provided in the Indenture notice of redemption of such Bonds (other than Bonds which have been purchased or otherwise acquired by the City and delivered to the Trustee as provided in the Indenture prior to the mailing of such notice of redemption);

(ii) there will have been deposited with the Trustee (or another trust company selected by the City which meets the requirements of the Indenture), in trust for the Owners of such Bonds, either moneys in an amount which shall be sufficient, or Defeasance Obligations (including any Defeasance Obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States) the principal of and the interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, will be sufficient (without regard to further investment or reinvestment of either the principal amount thereof or the interest earnings therefrom, which earnings are to be held likewise in trust and so committed, except as provided in the Indenture) to pay when due the Debt Service due and to become due on said Bonds on or prior to the redemption date or maturity date thereof, as the case may be;

(iii) in the event said Bonds are not by their terms subject to redemption within the next succeeding 60 days, the City upon behalf of the Authority will have given written instructions to the Trustee in form satisfactory to it to mail a notice to the Owners of such Bonds, within 15 days of the date on which the Bonds are deemed to be paid and discharged, at their address as it appears on the Registration Books on that date on which such Bonds are deemed to be paid and discharged. The notice will: (1) state the numbers of the Bonds deemed to be paid and discharged, or will state that all Bonds of a particular Series are deemed to be paid and discharged; (2) that the deposit required by (ii) above has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with the terms of the Indenture described under this subheading; and (3) state such maturity or redemption date upon which moneys are expected to be available for the payment of the Debt Service on said Bonds (other than Bonds which have been purchased or otherwise acquired by the City and delivered to the Trustee as provided in the Indenture provided prior to the mailing of the notice of redemption referred to in clause (i) under this subheading);

(iv) the Trustee will have received a report of an independent firm of certified public accountants or a financial consulting firm of recognized standing in the field of municipal bonds to the effect that the amount of principal of and interest when due on the Defeasance Obligations and any money deposited at the same time with the Trustee shall be sufficient to pay when due the Debt Service due and to become due on said Bonds prior to and on the redemption or maturity date thereof, as the case may be; and

(v) if the Bonds deemed paid with Defeasance Obligations were issued as obligations the interest on which was excluded from gross income for federal tax purposes, then the City will furnish to the Trustee an opinion of Bond Counsel to the effect that the provisions for paying such Bonds (assuming compliance by the Authority, the City and the Trustee with their duties under the Indenture and any related escrow agreement) will not, by itself, cause such Bonds to lose such exclusion.

Any notice of redemption mailed pursuant to (i) with respect to Bonds which constitute less than all of the Outstanding Bonds of any maturity within a Series will specify the letter and number or other distinguishing mark of each such Bond.

Defeasance Obligations will consist of securities which are not subject to redemption prior to their maturity other than at the option of the holder thereof, or will consist of securities as to which an irrevocable notice of redemption of such securities on a specified redemption date has been given and such securities are not otherwise subject to redemption prior to such specified date.

(c) The Trustee will, if so directed by the City, (i) prior to the maturity date of Bonds that have been deemed to have been paid in accordance with the provisions of the Indenture described under this subheading (the "Defeased Bonds") which are not to be redeemed prior to their maturity date or (ii) prior to mailing of the notice of redemption referred to in clause (i) above with respect to any Defeased Bonds which are to be redeemed on any date prior to their maturity, apply moneys deposited with the Trustee for such Defeased Bonds and redeem or sell Defeasance Obligations so deposited with the Trustee and apply the proceeds thereof to the purchase of such Defeased Bonds and the Trustee shall immediately thereafter cancel all such Defeased Bonds so purchased; provided, however, that the moneys and Defeasance Obligations remaining on deposit with the Trustee after such purchase and cancellation of such Defeasance Bonds must be determined by the Trustee to be sufficient to pay when due the Debt Service due or to become due on all remaining unpaid Defeased Bonds, in respect of which such moneys and Defeasance Obligations are being held by the Trustee, on or prior to the redemption date or maturity date thereof, as the case may be.

(d) If, at any time (i) prior to the maturity date of Defeased Bonds which are not to be redeemed prior to their maturity date or (ii) prior to the mailing of the notice of redemption referred to in clause (i) with respect to any Defeased Bonds which are to be redeemed on any date prior to their maturity, the City shall purchase or otherwise acquire any such Defeased Bonds and deliver such Defeased Bonds to the Trustee prior to their maturity date or redemption date, as the case may be, the Trustee will immediately cancel all such Defeased Bonds so delivered; and such delivery of Defeased Bonds to the Trustee shall be accompanied by Written Direction from the City to the Trustee as to the manner in which such Defeased Bonds are to be applied against the obligation of the Trustee to pay or redeem Defeased Bonds. Such directions of the City will also specify the portion, if any, of such Defeased Bonds so purchased or delivered and cancelled to be applied against the obligation of the Trustee to pay Defeased Bonds upon their maturity date or dates and the portion, if any, of such Defeased Bonds so purchased or delivered and cancelled to be applied against the obligation of the Trustee to redeem Defeased Bonds on any date or dates prior to their maturity.

(e) If on any date: (i) as a result of any purchases, acquisitions and cancellations of Defeased Bonds as provided in the Indenture as described under this subheading the total amount of moneys and Defeasance Obligations remaining on deposit with the Trustee under the Indenture as described under this subheading is in excess of the total, determined by the Trustee, which would have been required to be deposited with the Trustee on such date in respect of the remaining unpaid Defeased Bonds in order to satisfy paragraph (b)(ii) under this subheading, the Trustee will, if requested by the City in Written Certificate, sell specified Defeasance Obligations and transfer the amount of such excess as directed by the City; or (ii) the City directs the Trustee in Written Certificate to sell and re-invest specified Defeasance Obligations as directed by the City;

then before any such excess is so transferred or any such Defeasance Obligations sold and re-invested, as applicable, the Trustee shall have received a report, of an independent firm of certified public accountants or a

financial consulting firm of recognized standing in the field of municipal bonds, to the effect that the amount of money and the principal of and interest when due on the Defeasance Obligations remaining on deposit with the Trustee after such transfer or sale or re-investment, as applicable, will be sufficient to pay when due the Debt Service due and to become due on said unpaid Defeased Bonds on or prior to the redemption or maturity date thereof, as the case may be.

(f) Except as otherwise provided under this subheading, neither Defeasance Obligations nor moneys deposited with the Trustee pursuant to this subheading nor principal or interest payments on any such Defeasance Obligations will be withdrawn or used for any purpose other than, and will be held in trust by the Trustee solely for, the payment of the Debt Service on the Defeased Bonds; provided that any cash received from such principal or interest payments on such Defeasance Obligations deposited with the Trustee (i) to the extent such cash will not be required at any time for such purpose as determined by the Trustee, will be transferred as directed by the City, and (ii) to the extent such cash will be required for such purpose at a later date, will, to the extent practicable and as directed by the City, be reinvested by the Trustee in Defeasance Obligations maturing at times and in amounts sufficient to pay when due the Debt Service due on said remaining unpaid Defeased Bonds on or prior to such redemption date or maturity date thereof, as the case may be, and interest earned from such reinvestments shall be transferred as directed by the City.

Miscellaneous

Liability of Authority Limited to Revenues

Notwithstanding anything in the Indenture or in the Bonds contained, the Authority will not be required to advance any moneys derived from any source other than the Revenues and other assets pledged under the Indenture for any of the purposes in the Indenture mentioned, whether for the payment of the principal of or interest on the Bonds or for any other purpose of the Indenture. Nevertheless, the Authority may, but will not be required to, advance for any of the purposes of the Indenture any funds of the Authority which may be made available to it for such purposes.

Limitation of Rights to Parties and Bond Owners

Nothing in the Indenture or in the Bonds expressed or implied is intended or will be construed to give to any person other than the Authority, the Trustee, the City and the Owners of the Bonds, any legal or equitable right, remedy or claim under or in respect of the Indenture or any covenant, condition or provision therein or in the Indenture contained; and all such covenants, conditions and provisions are and shall be held to be for the sole and exclusive benefit of the Trustee, the City, the Authority and the Owners of the Bonds.

Unclaimed Funds

Notwithstanding any provisions of the Indenture, and subject to applicable provisions of State law, any moneys held by the Trustee in trust for the payment of the principal of, premium, if any, or interest on, any Bonds and remaining unclaimed for two (2) years after the principal of all of the Bonds has become due and payable (whether at maturity or upon call for redemption as provided in the Indenture), if such moneys were so held at such date, or two (2) years after the date of deposit of such moneys if deposited after said date when all of the Bonds became due and payable, will be repaid to the City free from the trusts created by the Indenture, and all liability of the Trustee with respect to such moneys will thereupon cease; provided, however, that before the repayment of such moneys to the City as aforesaid, the Trustee shall (at the written request and cost of the City) first mail to the Owners of Bonds which have not yet been paid, at the addresses shown on the Registration Books, a notice, in such form as may be deemed appropriate by the Trustee with respect to the Bonds so payable and not presented and with respect to the provisions relating to the repayment to the City of the moneys held for the payment thereof. Thereafter, the Owner of such Bond will look only to the City for payment and then only to the extent of the amount so returned to the City without any interest thereon, and the Trustee will have no responsibility with respect to such money. During any period in which the Trustee holds

such unclaimed money, the Trustee will not be required to invest such money; nonetheless if the Trustee should invest such money any earnings on such amounts shall be remitted to the City as such earnings are realized.

Waiver of Notice; Requirement of Mailed Notice

Whenever in the Indenture the giving of notice by mail or otherwise is required, the giving of such notice may be waived in writing by the person entitled to receive such notice and in any such case the giving or receipt of such notice shall not be a condition precedent to the validity of any action taken in reliance upon such waiver. Whenever in the Indenture any notice shall be required to be given by mail, such requirement shall be satisfied by the deposit of such notice in the United States mail, postage prepaid, by first class mail.

Evidence of Acts of Owners

(a) Any request, direction, consent or other instrument provided to be signed and executed by the Owners may be in any number of concurrent writings of similar tenor and may be signed or executed by such Owners in person or by agent appointed in writing. Proof of the execution of any such request, direction or other instrument or of the writing appointing any such agent and of the ownership of Bonds, if made in the following manner, shall be sufficient for any of the purposes of the Indenture and will be conclusive in favor of the Trustee, Authority and City, with regard to any action taken by them, or either of them, under such request or other instrument, namely:

(i) The fact and date of the execution by any person of any such writing may be proved by the certificate of any officer in any jurisdiction who by law has power to take acknowledgments in such jurisdiction, that the person signing such writing acknowledged before him the execution thereof, or by the affidavit of a witness of such execution; and

(ii) The ownership of Bonds shall be proved by the Registration Books.

Nothing under this subheading will be construed as limiting the Trustee to the proof specified in the Indenture, it being intended that the Trustee may accept any other evidence of the matters stated in the Indenture which it may deem sufficient including, without limitation, an affidavit evidencing beneficial ownership of Bonds while the Bonds are held in book-entry only system.

(b) Any action taken or suffered by the Trustee pursuant to any provision of the Indenture, upon the request or with the assent of any person who at the time is the Owner of any Bond or Bonds, will be conclusive and binding upon all future Owners of the same Bond or Bonds.

(c) Any request, consent, or other instrument or writing of the Owner of any Bond will bind every future Owner of the same Bond and the Owner of every Bond issued in exchange therefor or in lieu thereof, in respect of anything done or suffered to be done by the Trustee or the Authority in accordance therewith or reliance thereon.

Holidays

If the date for making any payment or the last date for performance of any act or the exercising of any right, as provided in the Indenture, will be a legal holiday or a day on which the Authority, the City, the Trustee or banking institutions in the State are authorized by law or otherwise to remain closed, such payment may be made or act performed or right exercised on the next succeeding day not a legal holiday or a day on which the Authority, the City, the Trustee or such banking institutions are authorized by law or otherwise to remain closed, with the same force and effect as if done on the nominal date provided in the Indenture, and no interest shall accrue for the period after such nominal date.

Waiver of Personal Liability

No member, officer, agent or employee of the Authority will be individually or personally liable for the payment of the principal of or interest or premium (if any) on the Bonds or be subject to any personal liability or accountability by reason of the issuance thereof; but nothing in the Indenture contained will relieve any such member, officer, agent or employee from the performance of any official duty provided by law or by the Indenture.

THE LEASE

Certain provisions of the Lease are summarized below. This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the Lease.

The Leased Property

Lease of the Leased Property; Title to Leased Property

The Authority subleases to the City, and the City subleases back from the Authority, the Leased Property, all on the conditions and terms set forth in the Lease. The City agrees and covenants that during the term of the Lease, except as provided in the Lease, it will use the Leased Property for public purposes so as to afford the public the benefits contemplated thereby and so as to permit the Authority to carry out its agreements and covenants contained the Lease and in the Indenture, and the City thereby further agrees and covenants that during the term of the Lease that it will not abandon or vacate the Leased Property.

During the term of the Lease, title to all moveable property (i) that is located on, in or about the Leased Property on the Closing Date, or (ii) that is placed on, in or about Leased Property by the City at any time thereafter during the term of the Lease, will remain the property of the City (or property of the City's tenant, as provided in the lease between the City and such tenant). During the term of the Lease, the Authority will hold leasehold title to the Leased Property and any and all additions which comprise fixtures, repairs, replacements or modifications thereof, except for any items added to the Leased Property by the City pursuant to the terms of the Lease.

If both the Trustee's and the City's estate under the Lease or any other lease relating to the Leased Property or any portion thereof will at any time for any reason become vested in one owner, the Lease and the estate created thereby will not be destroyed or terminated by the doctrine of merger unless the City and the Trustee so elect as evidenced by recording a written declaration so stating; and unless and until the City and the Trustee so elect, the Authority will continue to have and hold a leasehold estate in the Leased Property pursuant to the Site Lease throughout the term thereof and the term of the Lease, and the Lease will be deemed and constitute a sublease of the Leased Property. The City covenants not to permit or consent to any such merger as long as any Bonds are Outstanding.

Quiet Enjoyment

The parties to the Lease mutually covenant that the City, so long as it observes and performs the agreements, conditions, covenants and terms required to be observed or performed by it contained in the Lease and is not in default under the Lease, will at all times during the term of the Lease peaceably and quietly have, hold and enjoy the Leased Property without suit, trouble or hindrance from the Authority.

Right of Entry and Inspection

The Authority will have the right to enter the Leased Property and inspect the Leased Property during reasonable business hours (and in emergencies at all times) for any purpose connected with the Authority's rights or obligations under the Lease and for all other lawful purposes.

Additions and Improvements to Leased Property; Mechanics Liens

The City will have the right during the term of the Lease to make any additions or improvements to the Leased Property, to attach fixtures, structures or signs, and to affix any personal property to the Leased Property, so long as the fair rental value of the Leased Property is not thereby reduced. Title to all fixtures, equipment or personal property, which is placed by the City in or on the Leased Property, will remain in the City to the extent that such items may be removed from the Leased Property without damage thereto. Title to any personal property, improvements or fixtures placed in or on any portion of the Leased Property by any sublessee or licensee of the City shall be controlled by the sublease or license agreement between such sublessee or licensee and the City, which sublease or license agreement will not be inconsistent with the Lease.

In the event the City will at any time during the term of the Lease cause any improvements to the Leased Property to be constructed or materials to be supplied in or upon or attached to the Leased Property, the City shall pay or cause to be paid when due all sums of money that may become due or purporting to be due for any labor, services, materials, supplies or equipment furnished or alleged to have been furnished to or for the City in, upon, about or relating to the Leased Property and will keep the Leased Property free of any and all liens against the Leased Property or the Authority's interest therein, except for Permitted Encumbrances. In the event any such lien attaches to or is filed against the Leased Property or the Authority's interest therein, and the enforcement thereof is not stayed or if so stayed such stay thereafter expires, the City shall cause each such lien to be fully discharged and released at the time the performance of any obligation secured by any such lien matures or becomes due. If any such lien will be reduced to final judgment and such judgment or any process as may be issued for the enforcement thereof is not promptly stayed, or if so stayed and such stay thereafter expires, the City shall forthwith pay and discharge or cause to be paid and discharged such judgment.

Substitution, Removal or Addition of Leased Property

(a) The City and the Authority may amend the Lease and Site Lease to: (i) substitute real property and/or improvements (the "Substituted Property") for all or a portion of the existing Leased Property; (ii) remove all or a portion of real property (including undivided interests therein) or improvements ("Removal") from the definition of Leased Property; or (iii) to add real property and/or improvements (the "Added Property") to the Leased Property, upon compliance with all of the applicable conditions set forth in paragraph (b). After a Substitution or Removal, the part of the Leased Property for which the Substitution or Removal has been effected will be released from the leasehold under the Lease and under the Site Lease.

(b) No Substitution, Addition or Removal shall take place under the Lease and under the Site Lease until the City delivers to the Authority and the Trustee each of the following:

(i) Executed counterparts (in proper recordable form) of amendments to the Site Lease and the Lease, containing: (A) in the event of a Removal, a legal description of all or part of the Leased Property to be released; (B) in the event of a Substitution, a legal description of the Substituted Property to be substituted in its place; and (C) in the case of an Addition, a legal description of the Added Property.

(ii) A certificate of the City, evidencing that the annual fair rental value (which may be based on, but not limited to, the construction or acquisition cost or replacement cost of such Substitution or Addition to the City) of the property that will constitute the Leased Property after such Addition, Substitution or Removal, will be at least equal to 100% of the maximum amount of Base Rental Payments becoming due in the then current Lease Year or in any subsequent Lease Year during term of the Lease. At the sole discretion of the City, in the alternative, in the event of a Substitution only, the certificate of the City may evidence that the annual fair rental value of the new property is at least equal to that of the Substituted Property.

(iii) An Opinion of Counsel to the effect that: (A) the amendments to the Lease and to the Site Lease in connection with such Substitution, Addition or Removal of property have been duly authorized, executed and delivered and constitute the valid and binding obligations of the City and the Authority enforceable in accordance with their terms; and (B) the Substitution, Addition or Removal is authorized or permitted under the Lease.

(iv) With respect to an Addition or Substitution of property, a leasehold owner's title insurance policy or policies or a commitment for such policy or policies or an amendment or endorsement to an existing title insurance policy or policies, resulting in title insurance with respect to the Leased Property after such Addition or Substitution in an amount at least equal to the aggregate principal amount of Bonds Outstanding; each such insurance instrument, when issued, will name the Authority and Trustee as the insured, and shall insure the leasehold estate of the Authority and the Trustee, as assignee of the Authority, in such real property subject only to Permitted Encumbrances.

(v) In the event of a Substitution or Addition, an opinion of the City Attorney of the City to the effect that the exceptions, if any, contained in the title insurance policy referred to in (iv) above (A) constitute Permitted Encumbrances and (B) do not substantially interfere with the use and occupancy of the Substituted Property or Added Property described in such policy by the City for the purposes of leasing or using the Substituted Property or Added Property.

(vi) An Opinion of Bond Counsel that the Substitution, Addition and/or Removal will not, in and of itself, cause the interest on any Bonds to be includable in gross income of the Owners thereof for federal income tax purposes.

(vii) A Certificate of the City stating that the City has complied with the requirements of the Lease pertaining to fire and extended coverage insurance and use and occupancy insurance with respect to the Substituted or Added Property.

(viii) In the event the Added Property is under construction at the time such property is added to the Lease, the following additional conditions will be satisfied: (A) interest on the Additional Bonds issued to finance such property may be capitalized for a period of at least six months past the estimated completion date of the property; and (B) the City will have entered into a construction contract for the Added Property.

(ix) In the event of a Substitution or Addition, a certified copy of a resolution duly adopted by the City Council of the City authorizing the amendments to the Lease and to the Site Lease in connection with such Substitution or Addition.

Term of the Lease

Commencement of the Lease; Term of Lease

The term of the Lease will commence on the Closing Date, and will end on the Expiry Date, unless the Expiry Date is extended or is sooner terminated as provided under the Lease. If on the Expiry Date, the stated rental payable under the Lease will not be fully paid and all Bonds will not be fully paid and defeased as provided under the Indenture, or if the rental payable under the Lease will have been abated at any time or for any reason, then the term of the Lease will be extended until the first Business Day following the day the rental payable under the Lease will be fully paid and all Bonds will be fully paid and defeased as provided under the Indenture; provided, however, that the term of the Lease will be extended until all Bonds have been fully paid and defeased as provided under the Indenture, except the term of the Lease will in no event be extended beyond 10 years after the then existing Expiry Date.

If prior to the Expiry Date, the rental payable under the Lease will be fully paid and all Bonds will have been fully paid or defeased in accordance with the Indenture, the term of the Lease will end immediately upon the City providing written notice from the Trustee to the Authority to the effect that all Bonds have been fully paid or defeased in accordance with the Indenture.

The City will take possession of the Leased Property on the Closing Date, and the obligation of the City to pay Base Rental Payments and Additional Rental will commence on the Closing Date, subject to the limitations of the Lease.

Rental Payments

Rental Payments

The City agrees, subject to the terms of the Lease, to pay to the Trustee, as assignee of the Authority pursuant to the Indenture, without deduction or offset of any kind, as rental for the use and occupancy of the Leased Property, the following amounts at the following times:

Base Rental Payments. The City will pay, from any and all legally available funds, to the Trustee, as assignee of the Authority, the Base Rental Payments with respect to the Leased Property at the times and in the amounts set forth in the Base Rental Payment Schedule attached to the Lease as Exhibit B and incorporated therein. The obligation of the City to pay Base Rental Payments (and Additional Rental) will commence on the Closing Date. Notwithstanding the foregoing, the City will deposit with the Trustee not later than (i) the Lease Payment Date six months preceding each Interest Payment Date and (ii) if principal is payable on other than an Interest Payment Date, the third Business Day preceding each date on which principal is due, the Base Rental Payment due on such date, as the case may be, and the same will be held by the Trustee as security for the Base Rental Payments due on such dates.

If the term of the Lease will have been extended pursuant to the terms thereof, Base Rental Payment installments will continue to be due on the third Business Day preceding any date payment of principal or interest on any Bonds is due, continuing to and including the date of termination of the Lease.

Additional Rental. The City will also pay, as rental under the Lease in addition to the Base Rental Payments, to the Authority or the Trustee, as hereinafter provided, such amounts, if any, in each year as will be required for the payment of all costs and expenses incurred by the Authority in connection with the execution, performance or enforcement of the Site Lease or the Lease or the assignment of the Lease pursuant to the Indenture or the respective interests in the Leased Property and the lease of the Leased Property by the Authority to the City under the Lease, including but not limited to all fees, costs and expenses and all administrative costs of the Authority relating to the Leased Property including, without limiting the generality of the foregoing, salaries and wages of employees, overhead, insurance premiums, taxes and assessments (if any), expenses, compensation and indemnification of the Trustee (to the extent not paid or otherwise provided for out of the proceeds of the sale of the Bonds), fees of auditors, accountants, attorneys or engineers, insurance premiums, rebate amounts payable to the United States pursuant to the Tax Certificate, and all other reasonable and necessary administrative costs of the Authority or charges required to be paid by it to comply with the terms of the Bonds or the Indenture, or otherwise incurred in connection with the administration of the Lease or of the Indenture.

(a) The foregoing Additional Rental, if any, will be billed to the City by the Authority or the Trustee from time to time, together with a statement certifying that the amount billed has been incurred or paid by the Authority, the Trustee or the Trustee on behalf of the Authority, for one or more of the items above described, or that such amount is then so payable for such items. Amounts so billed will be paid by the City not later than the latest time as such amounts may be paid without penalty or, if no penalty is associated with a late payment of such amounts, within 30 days after receipt of a bill by the City for such amounts.

(b) The Authority may issue bonds and may enter into leases to finance facilities other than the Leased Property. The administrative costs of the Authority will be allocated among said facilities and the Leased Property, as hereinafter in this paragraph provided. Any taxes levied against the Authority with respect to the Leased Property, the fees of the Trustee, and any other expenses directly attributable to the Leased Property will be included in the Additional Rental payable under the Lease. Any taxes levied against the Authority with respect to real property other than the Leased Property, the fees of any trustee or paying agent under any resolution securing other bonds of the Authority or any trust agreement or indenture other than the Indenture, and any other expenses directly attributable to any facilities other than the Leased Property, will not be included in the administrative costs of the Leased Property and will not be paid from the Additional Rental payable under the Lease. Any expenses of the Authority not directly attributable to any particular project of the Authority will be equitably allocated among all such projects, including the Leased Property, in accordance with sound accounting practice. In the event of any question or dispute as to such allocation, the written opinion of an independent firm of certified public accountants, employed by the Authority to consider the question and render an opinion thereon, shall be final and conclusive determination as to such allocation. The Trustee may conclusively rely upon a certificate of the Authority in making any determination that costs are payable as Additional Rental under the Lease, and will not be required to make any investigation as to whether or not the items so requested to be paid are expenses of operation of the Leased Property.

Consideration for Leasehold Estate and Fair Rental Value. Payments of Base Rental Payments and Additional Rental for each Lease Year or portion thereof during the term of the Lease will constitute the total rental for such Lease Year or portion thereof and will be paid or payable by the City from funds of the City lawfully available therefor for and in consideration of the right of the use and occupancy of, and the continued quiet use and enjoyment of, the Leased Property by the City for and during such Lease Year.

The City has determined and certified to the Trustee and the Authority on the Closing Date that such total rental in any Lease Year is not in excess of the total fair rental value of the Leased Property for such Lease Year. In making such determination, the City has considered a variety of factors including: (i) the uses and purposes served by the Leased Property and the benefits therefrom that will accrue to the City by reason of the Lease and to the general public by reason of the City's use and occupancy of the Leased Property, including the general public's use of portions of the Leased Property; (ii) the replacement costs of the existing improvements on the Leased Property; (iii) third-party or City appraisals; and (iv) upon payment of all rental due under the Lease and the termination of the Lease and the Site Lease, the transfer by the Authority to the City, pursuant to of the Site Lease and without any additional payment or consideration by the City, of all of the Authority's right, title and interest with respect to the Leased Property.

The parties acknowledge under the Lease that the parties may amend the Lease from time to time to increase the Base Rental Payments payable under the Lease so that Additional Bonds may be executed and delivered pursuant to the provisions of the Lease and of the Indenture. Notwithstanding anything to the contrary contained in the Lease, the Lease may not be amended in a manner such that the sum of Base Rental Payments (including Base Rental Payments payable pursuant to such amendment) and Additional Rental with respect to Outstanding Bonds and Additional Bonds, in any Lease Year is in excess of the annual fair rental value of the Leased Property and other land and improvements leased to the City under the Lease for such Lease Year, after giving effect to the application of proceeds of any Additional Bonds executed and delivered in connection therewith.

Application of Rental Payments

All rental payments received will be applied: first to the Base Rental Payments due under the Lease (including any prepayment premium components); and thereafter to all Additional Rental due under the Lease, but no such application of any payments which are less than the total rental due and owing will be deemed a waiver of any default under the Lease.

Rental Abatement

(a) Except to the extent of (i) amounts held by the Trustee in the Interest Account or Principal Account of the Revenue Fund, (ii) amounts received in respect of use and occupancy insurance, and (iii) amounts, if any, otherwise legally available to the Trustee for payments in respect of the Bonds, during any period in which, by reason of material damage, destruction, title defect or condemnation, there is substantial interference with the use and occupancy by the City of any portion of the Leased Property, rental payments due under the Lease with respect to the Leased Property shall be abated to the extent that the annual fair rental value of the portion of the Leased Property in respect of which there is no substantial interference is less than the annual Base Rental Payments and Additional Rental, in which case rental payments shall be abated only by an amount equal to the difference. In the case of abatement relating to the Leased Property, the amount of annual rental abatement will be such that the resulting Base Rental Payments in any Lease Year during which such interference continues, excluding any amounts described in clauses (i), (ii), (iii) above, do not exceed the annual fair rental value for each Lease Year of the portions of the Leased Property with respect to which there has not been substantial interference, as evidenced by a certificate of an Authorized Representative of the City. Such abatement will continue for the period commencing with the date of such damage, destruction, title defect or condemnation and ending with the restoration of the Leased Property or portion thereof to tenantable condition or correction of title defect or substantial completion of the work of repair or replacement of the portions of the Leased Property so damaged, destroyed, defective or condemned.

In the event the City will assign, transfer or sublease any or all of the Leased Property or other rights under the Lease, as permitted by the Lease, for purposes of determining the annual fair rental value available to pay Base Rental Payments and Additional Rental, annual fair rental value of the Leased Property will first be allocated to the Lease as described under “SECURITY AND SOURCES OF PAYMENT FOR THE 2018 BONDS – Repair and Maintenance; Taxes and Assessments; Insurance; Modification of the Leased Property” in the front part of this Official Statement.

(b) Any abatement of rental payments pursuant to the Lease as described under this subheading will not be considered an Event of Default as defined in the Lease, but will result in the extension of the Expiry Date by a period equal to the period of abatement for which Base Rental Payment has not been paid in full (but in no event later than 10 years after the then existing Expiry Date), and Base Rental Payment for such extension period will be equal to the unpaid Base Rental Payments during the period of abatement but without interest thereon. The City waives the benefits of California Civil Code Sections 1932(1), 1932(2) and 1933(4) and any and all other rights to terminate the Lease by virtue of any such interference and the Lease shall continue in full force and effect.

(c) In the event that rental is abated, in whole or in part, pursuant to the Lease as described under this subheading due to damage, destruction, title defect or condemnation of any part of the Leased Property and the City is unable to repair, replace or rebuild the Leased Property from the Net Proceeds, if any, the City agrees to apply for and to use its best efforts to obtain any appropriate state and/or federal disaster relief in order to obtain funds to repair, replace or rebuild the Leased Property.

(d) The City acknowledges and agrees under the Lease that during any period of abatement with respect to all or any part of the Leased Property, the Trustee on behalf of the City will use the proceeds of use and occupancy insurance to make payments of principal and interest on the Bonds.

(e) The City has the option, but not the obligation, to deliver Substituted Property for all or a portion of the Leased Property pursuant to the Lease during any period of abatement.

Prepayment of Base Rental Payments

The Authority grants an option to the City to prepay the principal component of the Base Rental Payments in full, or in part, without premium.

Said option will be exercised by the City by giving written notice to the Authority and the Trustee of the exercise of such option at least forty five (45) days prior to the due date of such Base Rental Payment. Such option will be exercised in the event of prepayment in full, by depositing with said notice cash in an amount, which, together with amounts then on deposit in the Insurance and Condemnation Fund and the Revenue Fund, will be sufficient to pay the aggregate unpaid Base Rental Payments on said due date as set forth in Exhibit B to the Lease, together with any Base Rental Payments then due but unpaid, or, in the event of prepayment in part, by depositing with said notice cash equal to the amount desired to be prepaid (the principal component of which shall be an amount divisible by \$5,000) together with any Base Rental Payments then due but unpaid. In the event of prepayment in part, the partial prepayment will be applied against Base Rental Payments in such manner as the City will determine and if the City will fail to make such determination, starting with the next succeeding payment dates. Base Rental Payments due after any such partial prepayment shall be in the amounts set forth in a revised Base Rental Payment Schedule which shall be provided by, or caused to be provided by, the City to the Trustee and which will represent an adjustment to the schedule set forth in Exhibit B attached to the Lease taking into account said partial prepayment.

Obligation to Make Rental Payments

The agreements and covenants on the part of the City contained in the Lease will be deemed to be and will be construed to be duties imposed by law and it will be the duty of each and every public official of the City to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the City to carry out and perform the agreements and covenants contained in the Lease agreed to be carried out and performed by the City.

THE OBLIGATION OF THE CITY OF SAN DIEGO TO MAKE BASE RENTAL PAYMENTS DOES NOT CONSTITUTE AN OBLIGATION OF THE CITY FOR WHICH THE CITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. NEITHER THE BONDS NOR THE OBLIGATION TO MAKE BASE RENTAL PAYMENTS CONSTITUTES AN INDEBTEDNESS OF THE CITY, THE COUNTY OF SAN DIEGO, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

Additional Bonds

In addition to the Prior Bonds and the Series 2018A Bonds to be executed and delivered under the Indenture, the Authority may, from time to time at the request of the City, but only upon satisfaction of the conditions to the execution and delivery of Additional Bonds set forth in the Indenture, enter into a Supplemental Indenture to authorize Additional Bonds the proceeds of which may be used as provided in the Indenture and as provided in the Supplemental Indenture; provided that prior to or concurrently with the execution and delivery of the Additional Bonds, the City and the Authority will have entered into an amendment to the Lease providing for an increase in the Base Rental Payments to be made under the Lease to pay Debt Service on such Additional Bonds, subject to the limitations set forth in the Lease pertaining to fair rental value.

Maintenance; Taxes; Insurance and Other Charges

Insurance

(a) The City will adjust all moneys which may become due and payable under any policies contemplated by the Lease as described under “SECURITY AND SOURCES OF PAYMENT FOR THE 2018 BONDS – Fire and Extended Coverage Insurance” and “– Use and Occupancy Insurance” in the front part of this Official Statement, may compromise any and all claims thereunder and will cause the deposit of the Net Proceeds with the Trustee for application as provided in the Lease or in the Indenture. The Trustee will not be responsible for the sufficiency of any insurance required under the Lease. The Trustee will be fully protected in accepting payment on account of such insurance or any adjustment, compromise or settlement of any loss agreed to by the City.

(b) Any insurance policy issued pursuant to the Lease as described under “SECURITY AND SOURCES OF PAYMENT FOR THE 2018 BONDS – Fire and Extended Coverage Insurance” in the front part of this Official Statement will be so written or endorsed as to make losses, if any, payable to the City, the Authority and the Trustee as their respective interests may appear and the Net Proceeds of such insurance will be applied as provided in the Lease as described herein under “– Damage, Destruction, Title Defect and Condemnation.” The Net Proceeds, if any, of such insurance policy shall, to the extent that such proceeds are paid on account of loss or damage to the Leased Property, be payable to the Trustee and deposited in the Insurance and Condemnation Fund and applied as described in the Indenture. The Net Proceeds, if any, of the insurance policy described in “SECURITY AND SOURCES OF PAYMENT FOR THE 2018 BONDS – Use and Occupancy Insurance” in the front part of this Official Statement will, to the extent that such proceeds relate to the use and occupancy of the Leased Property, be payable to the Trustee and deposited in the Revenue Fund. Each insurance policy provided for in the Lease shall contain a provision to the effect that the insurance company will not cancel the policy or modify it materially and adversely to the interests of the Authority and the Trustee without first giving written notice thereof to the Authority and the Trustee at least 60 days in advance of such intended cancellation or modification. If the insurance carrier cannot include this notice provision, the policy will require the insurance company to so notify the Authority and the Trustee.

(c) By the date each year that is 30 days after the effective date of the insurance policies, the City’s Insurance Consultant will certify to the City that the type of insurance required by the Lease is in place, subject to subsequent confirmation of the certificates and endorsements. The City will file a certificate with the Trustee not later than nine months following the effective date of the insurance policies each year, commencing in 2012, certifying that the insurance required by the Lease is in full force and effect and that the Trustee and the Authority are named as loss payees on each insurance policy which the Lease requires to be so endorsed.

(d) As an alternative to providing the insurance required under the Lease as described under “SECURITY AND SOURCES OF PAYMENT FOR THE 2018 BONDS – Fire and Extended Coverage Insurance” in the front part of this Official Statement, or any portion thereof, through a commercial insurance policy, the City may provide a self-insurance method or plan of protection if and to the extent such self-insurance method or plan of protection shall afford reasonable coverage for the risks required to be insured against, in light of all circumstances, giving consideration to cost, availability and similar plans or methods of protection adopted by public entities in the State other than the City. Before such self-insurance method or plan may be provided by the City, and annually thereafter on or before April 1 of each year so long as such method or plan is being provided to satisfy the requirements of the Lease, the City will file with the Trustee:

(i) a Written Certificate of the City describing such self-insurance method or plan;

(ii) a Written Certificate of an Insurance Consultant stating that, in the opinion of the signer, such self-insurance method or plan is in accordance with the requirements of this Section and, when effective, will afford reasonable coverage for the risks required to be insured against under the

Lease as described under “SECURITY AND SOURCES OF PAYMENT FOR THE 2018 BONDS – Fire and Extended Coverage Insurance” in the front part of this Official Statement; and

(iii) a Written Certificate of City stating that, during the time such method or plan is in effect and all of the risks described in the provisions of the Lease relating to fire and extended coverage insurance are not covered by policies of insurance, the policies of use and occupancy insurance required by the Lease will remain in effect.

In the event of loss covered by any such self-insurance method or plan, the liability of the City with respect to the damaged portion of the Leased Property will be limited to the amounts in the self-insurance reserve fund or funds created under such method or plan.

Advances

In the event the City will fail to maintain the full insurance coverage required by the Lease or will fail to keep the Leased Property in good repair and operating condition, the Authority may (but shall be under no obligation to) purchase the required policies of insurance and pay the premiums on the same or may make such repairs or replacements as are necessary and provide for payment thereof; and all amounts so advanced therefor by the Authority will become Additional Rental, which amounts the City agrees to pay within 30 days of a written request therefor, together with interest thereon at the maximum rate allowed by law.

Damage, Destruction, Title Defect and Condemnation

Damage, Destruction, Title Defect and Condemnation; Use of Net Proceeds

(a) If prior to the termination of the term of the Lease, (i) the Leased Property or any improvements in or on the Leased Property are damaged (each of which is hereinafter called “Damaged Improvements”) by a peril covered by a policy of insurance described the Lease as described under “SECURITY AND SOURCES OF PAYMENT FOR THE 2018 BONDS – Fire and Extended Coverage Insurance” in the front part of this Official Statement (an “Insured Peril”); or (ii) title to, or the temporary use of, the Leased Property or any portion thereof or the estate of the City or the Authority in the Leased Property or any portion thereof is defective or shall be taken under the exercise of the power of eminent domain by any governmental body or by any person or firm or corporation acting under governmental authority, then the City and the Authority will cause the Net Proceeds of any insurance claim (other than use and occupancy insurance as described under “SECURITY AND SOURCES OF PAYMENT FOR THE 2018 BONDS – Use and Occupancy Insurance” which shall be directly transferred to the Trustee for deposit in the Revenue Fund pursuant to the Lease) or condemnation award to be transferred to the Trustee for deposit in the Insurance and Condemnation Fund established pursuant to the Indenture and applied by the Trustee as follows:

(i) *Net Proceeds Exceeding Costs.* Within 120 days of the date of said Insured Peril, the City will obtain a written estimate(s) of the (i) cost of the repair, replacement and reconstruction of the Damaged Improvements (collectively referred to herein as the “Reconstruction”); and (ii) Net Proceeds available to pay such costs. Copies of such estimate(s) will be made available to the Trustee at the Trustee’s request. If the 120 day period is insufficient to obtain said estimates, the period shall be reasonably extended by the Authorized Representative of the City. If the Net Proceeds (not including proceeds of any policy of title insurance or condemnation award received by the Trustee in respect of the Leased Property) exceed the estimated costs of Reconstruction, the Damaged Improvements will be repaired, replaced and reconstructed to the same or better quality as existed before the damage occurred. The City will commence and manage the Reconstruction and will complete the Reconstruction as soon as reasonably possible after the occurrence of such damage. Any balance of Net Proceeds remaining after the Reconstruction has been completed will be transferred by the Trustee to the Redemption Fund established under the Indenture and applied, as directed by the City, to redeem Outstanding Bonds in the manner provided by the Indenture as described under “THE

2018 BONDS – Redemption Provisions – *Special Mandatory Redemption from Insurance and Condemnation Proceeds*” in the front part of this Official Statement.

(ii) *Costs Exceeding Net Proceeds.* If the estimated costs of Reconstruction exceed the Net Proceeds (not including proceeds of any policy of title insurance or condemnation award received by the Trustee in respect of the Leased Property), the City, in its sole discretion, may elect to budget and appropriate to the Reconstruction the amount of such excess, whether the same is greater or less than the estimated excess, and to manage the Reconstruction as set forth in paragraph (a)(5) under this subheading. The City will exercise this election by written notice thereof delivered to the Trustee within 30 days after the City obtains said written estimate(s).

(iii) *Net Proceeds Sufficient to Redeem All Bonds.* If the City does not exercise the election to reconstruct pursuant to paragraph (a)(2) above and Net Proceeds are at least sufficient to redeem all Outstanding Bonds pursuant to the Indenture as described under “THE 2018 BONDS – Redemption Provisions – *Special Mandatory Redemption from Insurance and Condemnation Proceeds*” in the front part of this Official Statement, such Net Proceeds will be transferred by the Trustee to the Redemption Fund established under the Indenture and used to redeem all Outstanding Bonds in the manner provided by the Indenture as described under “THE 2018 BONDS – Redemption Provisions – *Special Mandatory Redemption from Insurance and Condemnation Proceeds*” in the front part of this Official Statement. If the Net Proceeds (not including proceeds of any policy of title insurance or condemnation award received by the Trustee in respect of the Leased Property) exceed the amount necessary to redeem all Outstanding Bonds, the City will be entitled to the amount of proceeds remaining after redemption of all Outstanding Bonds (“Excess Proceeds”) and will have the option (i) to distribute the Excess Proceeds to the Reconstruction and to manage the Reconstruction pursuant to paragraph (a)(5) below; or (ii) if required by law or if the City so elects, to demolish any remaining improvements on the Leased Property and remove all debris from the Leased Property.

(iv) *Net Proceeds Insufficient to Redeem All Bonds.* If the City does not exercise the election to reconstruct pursuant to paragraph (a)(2) above and Net Proceeds are insufficient to redeem all Outstanding Bonds pursuant to the Indenture as described under “THE 2018 BONDS – Redemption Provisions – *Special Mandatory Redemption from Insurance and Condemnation Proceeds*” in the front part of this Official Statement, the City, in its sole discretion, may elect to budget and appropriate funds to cause the redemption of the remaining Outstanding Bonds and the Net Proceeds, together with such funds, will be transferred to the Trustee with directions to apply the proceeds to the Redemption Fund established under the Indenture to redeem all Outstanding Bonds in the manner by the Indenture described under “THE 2018 BONDS – Redemption Provisions – *Special Mandatory Redemption from Insurance and Condemnation Proceeds*” in the front part of this Official Statement; provided, that if the City elects not to appropriate funds for the redemption of the remaining Outstanding Bonds, the City will apply Net Proceeds (not including proceeds of any policy of title insurance or condemnation award received by the Trustee in respect of the Leased Property) to the Reconstruction. If the City, in its sole discretion, elects to budget or appropriate funds for the redemption of the remaining Outstanding Bonds, the City will transfer such funds to the Trustee for deposit in the Redemption Fund established pursuant to the Indenture.

(v) *Management of Reconstruction.* If the Leased Property or any part thereof becomes Damaged Improvements, the City will promptly cause, manage and supervise the Reconstruction. Nothing described under this subheading will be construed to preclude the City from agreeing to issue a joint contract for, or otherwise cooperating in, the Reconstruction of any of the Damaged Improvements.

(b) The proceeds of any policy of title insurance or condemnation award received by the Trustee in respect of the Leased Property will be applied in accordance with the Indenture as described under “THE

INDENTURE – Revenues; Funds and Accounts; Payment of Principal and Interest – *Insurance and Condemnation Fund; Title Insurance – Application of Insurance Proceeds*” above.

Disclaimer of Warranties; Use of the Leased Property

Disclaimer of Warranties

THE AUTHORITY MAKES NO AGREEMENT, WARRANTY OR REPRESENTATION, EITHER EXPRESS OR IMPLIED, AS TO THE VALUE, DESIGN, CONDITION, MERCHANTABILITY OR FITNESS FOR PARTICULAR PURPOSE OR FITNESS FOR USE OF THE LEASED PROPERTY, OR WARRANTY WITH RESPECT THERETO. THE CITY ACKNOWLEDGES THAT THE AUTHORITY IS NOT A MANUFACTURER OF ANY PORTION OF THE LEASED PROPERTY OR A DEALER THEREIN, THAT THE CITY LEASES THE LEASED PROPERTY AS-IS, IT BEING AGREED THAT ALL OF THE AFOREMENTIONED RISKS ARE TO BE BORNE BY THE CITY. In no event will the Authority or its assigns be liable for any incidental, indirect, special or consequential damage in connection with or arising out of the Lease or the existence, furnishing, functioning or the City’s use of the Leased Property as provided by the Lease.

Use of the Leased Property

The City will not use, operate or maintain the Leased Property in violation of any applicable law or in a manner contrary to that contemplated by the Lease. The City will provide all permits and licenses, if any, necessary for the use of the Leased Property. In addition, the City agrees to comply in all respects (including, without limitation, with respect to the use, maintenance and operation of each portion of the Leased Property) with all laws of the jurisdictions in which its operations involving any portion of the Leased Property may extend and any legislative, executive, administrative or judicial body exercising any power or jurisdiction over the Leased Property; provided, that the City may contest in good faith the validity or application of any such law or rule in any reasonable manner which does not, in the opinion of the City adversely affect the leasehold estate of the Authority in and to the Leased Property or its interest or rights under the Lease.

Assignment

Assignment by Authority

The parties understand that certain of the rights of the Authority under the Lease will be assigned to the Trustee pursuant to the Indenture and accordingly the City agrees to make all payments due under the Lease to the Trustee, notwithstanding any claim, defense, setoff or counterclaim whatsoever (whether arising from a breach of the Lease or otherwise) that the City may from time to time have against the Authority. The City agrees to execute all documents, including notices of assignment and chattel mortgages or financing statements, which may be reasonably requested by the Authority or the Trustee to protect their interests in the Leased Property during the term of the Lease.

Assignment by City

The Lease and the interest of the City in the Leased Property may not be assigned or encumbered by the City except as permitted by the Lease as described under “SECURITY AND SOURCES OF PAYMENT FOR THE 2018 BONDS – Repair and Maintenance; Taxes and Assessments; Insurance; Modification of the Leased Property” in the front part of this Official Statement.

Default and Remedies

Default

The following events will be “Events of Default” under the Lease and the terms “Event of Default” and “Default” will mean, whenever they are used in the Lease, any one or more of the following events:

(i) the City will fail to deposit with the Trustee any Base Rental Payment required to be so deposited by the close of business on the day such deposit is required pursuant to the Lease, provided, that the failure to deposit any Base Rental Payments abated pursuant to the Lease shall not constitute an Event of Default; or

(ii) subject to the provisions of the Lease described in paragraph (c) below, the City will fail to pay any item of Additional Rental when the same will become due and payable pursuant to the Lease; or

(iii) the City will breach any other terms, covenants or conditions contained in the Lease or in the Indenture, and will (i) fail to remedy any such breach with all reasonable dispatch within a period of 60 days after written notice thereof from the Trustee to the City; or (ii) if the failure stated in the notice cannot be corrected within such period, the City will fail to institute corrective action within such 60-day period and diligently pursue the same to completion; or

(iv) the City’s interest in the Lease or any part thereof be assigned, sublet or transferred without the written consent of the Trustee (except as otherwise permitted by the Lease), either voluntarily or by operation of law; or

(v) the City or any assignee will file any petition or institute any proceedings under any act or acts, state or federal, dealing with or relating to the subject of bankruptcy or insolvency or under any amendment of such act or acts, either as a bankrupt or as an insolvent or as a debtor or in any similar capacity, wherein or whereby the City asks or seeks or prays to be adjudicated a bankrupt, or is to be discharged from any or all of its debts or obligations, or offers to its creditors to effect a composition or extension of time to pay its debts, or asks, seeks or prays for a reorganization or to effect a plan of reorganization or for a readjustment of its debts or for any other similar relief, or if the City shall make a general or any assignment for the benefit of its creditors; or

(vi) the City will abandon or vacate the Leased Property or any portion thereof (except as permitted by the Lease).

Upon the happening of any Event of Default, the Trustee, as assignee of the rights of the Authority pursuant to the Indenture, may exercise those remedies granted to it pursuant to law or under the Lease, subject to the terms of the Lease. The Trustee, in addition to all other rights and remedies it may have at law, will have the option to do any of the following:

(i) To terminate the Lease in the manner provided in the Lease on account of default by the City, notwithstanding any retaking of possession or re-letting of the Leased Property as hereinafter provided for in the paragraph below, and to retake possession of the Leased Property (other than the Ground Lease Sites). In the event of such termination, the City agrees to surrender immediately possession of the Leased Property (other than the Ground Lease Sites), without let or hindrance, and to pay the Trustee all damages recoverable at law that the Trustee may incur by reason of default by the City, including, without limitation, any costs, loss or damage whatsoever arising out of, in connection with, or incident to any such retaking possession of the Leased Property. Neither notice to pay rent nor to deliver up possession of the Leased Property given pursuant to law nor any proceeding in unlawful detainer, or otherwise, brought by the Trustee for the purpose of obtaining possession of the Leased Property nor the appointment of a receiver upon initiative of the Trustee to protect the

Trustee's interest under the Lease shall of itself operate to terminate the Lease, and no termination of the Lease on account of default by the City shall be or become effective by operation of law or acts of the parties to the Lease, unless and until the Trustee will have given written notice to the City of the election on the part of the Trustee to terminate the Lease.

(ii) Without terminating the Lease, (i) to collect each installment of rent as it becomes due and enforce any other term or provision of the Lease to be kept or performed by the City, and/or (ii) to exercise any and all rights to re-enter upon the Leased Property (other than the Ground Lease Sites). In the event the Trustee does not elect to terminate the Lease in the manner provided for under the Lease, the City shall remain liable and agrees to keep or perform all covenants and conditions contained in the Lease to be kept or performed by the City and to pay the rent to the end of the term of the Lease or, in the event that the Leased Property (other than the Ground Lease Sites) is re-let, to pay any deficiency in rent that results therefrom; and further agrees to pay said rent and/or rent deficiency punctually at the same time and in the same manner as provided in the Lease as described above for the payment of rent under the Lease (without acceleration), notwithstanding the fact that the Trustee may have received in previous years or may receive thereafter in subsequent years rental in excess of the rental specified in the Lease and notwithstanding any retaking of possession of the Leased Property (other than the Ground Lease Sites) by the Trustee or suit in unlawful detainer, or otherwise, brought by the Trustee for the purpose of obtaining possession of the Leased Property (other than the Ground Lease Sites). Should the Trustee elect to retake possession of the Leased Property (other than the Ground Lease Sites) as provided in the Lease, the City irrevocably appoints the Trustee as the agent and attorney-in-fact of the City to re-let the Leased Property (other than the Ground Lease Sites), or any items thereof, from time to time, either in the Trustee's name or otherwise, upon such terms and conditions and for such use and period as the Trustee may deem advisable and the City indemnifies and agrees to save harmless the Trustee from any costs, loss or damage whatsoever arising out of, in connection with, or incident to any retaking of possession of and re-letting of the Leased Property (other than the Ground Lease Sites) by the Trustee or its duly authorized agents in accordance with the provisions contained in the Lease. The City agrees that the terms of the Lease constitute full and sufficient notice of the right of the Trustee to re-let the Leased Property (other than the Ground Lease Sites) in the event of such reentry without effecting a surrender of the Lease, and further agrees that no acts of the Trustee in effecting such re-letting shall constitute a surrender of termination of the Lease irrespective of the use or the term for which such re-letting is made or the terms and conditions of such re-letting, or otherwise, but that on the contrary, in the event of such default by the City, the right to terminate the Lease shall vest in the Trustee to be effected in the sole and exclusive manner provided for in subparagraph (1). The City further waives the right to rental obtained by the Trustee in excess of the rental specified in the Lease and conveys and releases such excess to the Trustee as compensation to the Trustee for its services in re-letting the Leased Property (other than the Ground Lease Sites) or any items thereof.

(iii) To collect and receive ground rent and other income derived by the City from the Existing Leases in an amount not to exceed the lesser of (i) Base Rental Payments due and owing and attributable to each Ground Lease Site as set forth in the Lease, and (ii) ground rent and other income from the Existing Leases actually received by the City.

The City waives any and all claims for damages caused or which may be caused by the Trustee in taking possession of the Leased Property as provided in the Lease and all claims for damages that may result from the destruction of or injury to the Leased Property and all claims for damages to or loss of any property belonging to the City, or any other person, that may be on or about the Leased Property. Notwithstanding anything to the contrary contained in the Lease, the Trustee shall not re-enter or re-let the Leased Property upon an Event of Default unless the Trustee or its sublessee agrees to perform the City's obligations under any then existing sublease, license, management contract, or other agreement substantially relating to the Leased Property, unless the other party to such sublease, license, management contract, or other agreement is in default thereunder. The Authority expressly waives the right to receive any amount from the City pursuant to

Section 1951.2(a)(3) of the California Civil Code. The City and Authority and its successors and assigns shall honor the exclusive rights of the City under the Lease to use the Leased Property, subject to the exercise of any and all rights to retake possession of the Leased Property upon the happening of any Event of Default pursuant to the Lease.

The Authority acknowledges and agrees for itself and the Trustee that its rights with respect to the Ground Lease Sites are expressly subject to the Existing Leases and the rights of the lessees and their successors and assigns thereunder. The Trustee will not re-enter or re-let the Ground Lease Sites. **Notwithstanding anything to the contrary in the Lease or the Indenture, the Authority and the Trustee must not disturb the peaceful possession of the lessees and their successors and assigns to which they are entitled under the Existing Leases.**

Each and all of the remedies given to the Trustee under the Lease or by any law now or hereafter enacted are cumulative, and the single or partial exercise of any right, power, or privilege under the Lease shall not impair the right of the Trustee to other or further exercise thereof or the exercise of any or all other rights, powers, or privileges. If the City Charter, any statute or rule of law shall limit the remedies given to the Trustee under the Lease, the Trustee nevertheless will be entitled to whatever remedies are allowable under the City Charter, any statute or rule of law, except those specifically waived in the Lease. All rights, remedies and powers provided by under the provisions of the Lease relating to default may be exercised only to the extent that the exercise thereof does not violate any applicable provision of the City Charter or law, and all of the provisions of the Lease relating to default are intended to be subject to all applicable mandatory provisions of the City Charter and law which may be controlling and to be limited to the extent necessary so that they will not render the Lease or the provisions of the Lease invalid or unenforceable under the provisions of the City Charter and any applicable law.

Notwithstanding any other provision of the Lease or the Indenture, in no event will the Trustee have the right to accelerate the payment of any Base Rental Payment under the Lease and, without limiting the generality of the foregoing, the Trustee specifically waives its rights under Section 1951.2 of the California Civil Code to accelerate payment of any Base Rental Payment in the event of default by the City. In the event the Trustee shall prevail in any action brought to enforce any of the terms and provisions of the Lease, the City agrees to pay a reasonable amount as and for attorney's fees incurred by the Trustee in attempting to enforce any of the remedies available to the Trustee under the Lease. All damages and other payments received by the Trustee as described under this subheading shall be applied in the manner set forth in the Indenture as described under "THE INDENTURE – Events of Default and Remedies – *Application of Revenues and Other Funds After Default*" herein.

Waiver

Failure of the Trustee to take advantage of any default on the part of the City will not be, or be construed as, a waiver thereof, nor will any custom or practice that may grow up between the parties in the course of administering this instrument be construed to waive or to lessen the right of the Trustee to insist upon performance by the City of any term, covenant, or condition of the Lease, or to exercise any rights given the Trustee on account of such default. A waiver of a particular default will not be deemed to be a waiver of the same or any subsequent default. The acceptance of rental payments under the Lease shall not be, or be construed to be, a waiver of any term, covenant, or condition of the Lease.

Miscellaneous

Net Lease

The Lease is a triple net lease. It is the purpose and intent of the Authority and the City that lease payments under the Lease will be absolutely net to the Authority so that the Lease will yield to the Authority the lease payments, free of any charges, assessments or impositions of any kind charged, assessed or imposed

on or against the Leased Property, and without counterclaim, deduction, defense, deferment or set-off by the City except as specifically otherwise provided in the Lease. The Authority will not be expected or required to pay any such charge, assessment or imposition, or be under any obligation or liability under the Lease except as expressly set forth in the Lease, and all costs, expenses and obligations of any kind relating to the maintenance and operation of the Leased Property which may arise or become due during the term of the Lease shall be paid by the City.

Amendments to the Lease

The Lease may be amended in writing as may be mutually agreed by the Authority and the City, subject to the written approval of the Trustee; provided, however, that no such amendment which materially adversely affects the rights of the Owners will be effective unless it shall have been consented to by the Owners of more than 50% in principal amount of the affected Bonds Outstanding; and provided further that no such amendment shall (i) extend the payment date of any Base Rental Payment, or reduce the interest, principal or prepayment premium component of any Base Rental Payment (except a reduction to reflect prepayment or defeasance of any Bonds pursuant to the Indenture, so long as the remaining Base Rental Payments are at least sufficient to pay Debt Service on Outstanding Bonds), without the prior written consent of the Owner of each Series of Bonds so affected; or (ii) reduce the percentage of the value of the Bonds Outstanding, the consent of the Owners of which is required for the execution of any amendment of the Lease.

The Lease and the rights and obligations of the Authority and the City under the Lease may also be amended or supplemented at any time by an amendment of the Lease or supplement to the Lease which shall become binding upon execution without the written consents of any Owners, but only to the extent permitted by law and only for any one or more of the following purposes:

- (a) to add to the agreements, conditions, covenants and terms required by the Authority or the City to be observed or performed in the Lease and other agreements, conditions, covenants and terms thereafter to be observed or performed by the Authority or the City, or to surrender any right or power reserved in the Lease to or conferred in the Lease on the Authority or the City, and which in either case shall not, in the judgment of the Trustee, materially adversely affect the interests of the Owners;
- (b) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained in the Lease or in regard to questions arising under the Lease which the Authority or the City may deem desirable or necessary and not inconsistent herewith, and which shall not, in the judgment of the Trustee, materially adversely affect the interests of the Owners;
- (c) to effect a Substitution, Addition or Removal in accordance with the Lease; and
- (d) to facilitate the issuance of Additional Bonds;
- (e) after prepayment or defeasance of any Bond, to revise Base Rental Payment Schedule to be sufficient to pay Debt Service on Bonds then Outstanding; and
- (f) to make any other addition, amendment or deletion which does not, in the judgment of the Trustee, materially adversely affect the interests of the Owners.

Discharge of City

Upon the payment to the Owners of all Outstanding Bonds in accordance with the provisions of the Indenture described herein under the subheading "THE INDENTURE – Defeasance," all of the obligations of the City under the Lease shall thereupon cease, terminate and become void and shall be discharged and satisfied.

THE SITE LEASE

Certain provisions of the Site Lease are summarized below. This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the Site Lease.

Lease of the Leased Property

The City leases to the Authority and the Authority rents from the City, on the terms and conditions set forth in the Site Lease, the Leased Property including, but not limited to, the right, upon the occurrence of an Event of Default under the Lease, to receive rent and other income derived by the City from the Existing Leases to the extent set forth in the Lease. The Authority acknowledges the existing encumbrances on the Leased Property, including, but not limited to, with respect to the Ground Lease Sites, the Existing Leases and restrictions relating to the grant of the Hilton Resort Site to the City by the State in trust for the uses and purposes and upon the express conditions as provided in an act of legislature approved April 27, 1945 Statutes of California Chapter 143 and the rights therein reserved to the people of the State.

Term

The term of the Site Lease will commence on the Closing Date and will end on the Expiry Date, unless such term is extended or sooner terminated, all as provided in the Lease. If prior to the Expiry Date, all rental payable under the Lease shall have been paid and all Bonds have been fully paid or defeased in accordance with the Indenture, the term of the Site Lease will end immediately upon the City providing written notice from the Trustee to the Authority to the effect that all Bonds have been fully paid or defeased in accordance with the Indenture. The term of the Site Lease will not be extended beyond the Expiry Date, except as otherwise provided in the Lease.

Rent

The Authority will pay to the City an advance rent of \$1.00 as full consideration for the Site Lease over its term. The Authority hereby waives any right that it may have under the laws of the State of California to receive a rebate of such rent in full or in part in the event there is a substantial interference with the use and right of possession by the Authority of the Leased Property or portion thereof as a result of material damage, destruction or condemnation.

Purpose

The Authority will use the Leased Property solely for the purpose of subleasing the same to the City pursuant to the Lease and the City leases the Leased Property to the Authority expressly on said condition; provided, however, that in the event of default by the City under the Lease, the Authority may exercise the remedies provided in the Lease; provided further, however, that any Leased Property that is dedicated parkland shall be used exclusively for park and recreation purposes pursuant to City Charter Section 55.

Owner in Fee

The City covenants that it has the right to lease the Leased Property under the Site Lease free and clear of all liens, claims or encumbrances, except Permitted Encumbrances.

Assignments and Subleases

The Authority will not assign its rights under the Site Lease or sublet the Leased Property, except as provided in the Lease and the Indenture and as security for the Bonds.

Right of Entry

The City reserves the right for any of its duly authorized representatives to enter upon the Leased Property at any reasonable time: to inspect the same; to make any repairs, improvements or changes necessary for the preservation thereof; to perform any of its other duties; or exercise any of its other rights, as contemplated under the Lease.

Default

In the event the Authority will be in default in the performance of any obligation on its part to be performed under the terms of the Site Lease, which default continues for thirty (30) days following notice and demand by the City for correction thereof to the Authority, the City may exercise any and all remedies granted by law, except that no merger of the Site Lease and the Lease shall be deemed to occur as a result thereof; provided, however, prior to the Expiry Date, the City will have no power to terminate the Site Lease by reason of any default on the part of the Authority, if such termination would affect or impair any assignment of the Lease then in effect between the Authority and the Trustee.

Quiet Enjoyment

The Authority at all times during the term of the Site Lease will peaceably and quietly have, hold and enjoy the Leased Property without suit, trouble or hindrance from the City.

Eminent Domain

In the event the whole or any portion of the Leased Property is taken by eminent domain proceedings, any interests of the Authority shall be recognized in accordance with the provisions of the Lease described under “THE LEASE – Damage, Destruction, Title Defect and Condemnation; Use of Net Proceeds”.

Observance and Performance under the Indenture

The City agrees and covenants that during the term of the Site Lease and so long as the Indenture remains in effect, it will observe and perform the agreements, conditions, covenants and terms required to be observed or performed by it contained in the Indenture.

Amendments

The Site Lease may be amended: (a) for the purpose of effecting an Addition, Substitution or Removal, as provided in the Lease, and (b) for any other purpose subject to the same requirements provided in the Lease for amendments to the Lease.

MTS SITE LEASE

Certain provisions of the MTS Site Lease are summarized below. This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the MTS Site Lease.

Lease of MTS Property

Lease of the MTS Property

MTS leases to the Authority and the Authority rents from MTS, on the terms and conditions set forth in the MTS Site Lease, the MTS Property.

Term

The term of the MTS Site Lease will commence on the Closing Date and will end on October 15, 2022 (the “Termination Date”), unless such term is extended or sooner terminated upon written agreement by the MTS and the Authority. Notwithstanding provisions of the Lease relating to substitution, removal or addition of Leased Property, on the Termination Date, the MTS Property will be released from the provisions of the Lease and the MTS Site Lease and no longer part of the Leased Property.

Termination

The Authority agrees, upon the termination of the MTS Site Lease, to quit and surrender the MTS Property in the same good order and condition as the same was in at the time of commencement of the term of the MTS Site Lease, reasonable wear and tear excepted, and agrees that any additions, improvements or alterations to the MTS Property at the time of the termination shall remain thereon and title will vest in MTS.

Rent

The Authority shall pay to MTS an advance rent of \$1.00 as full consideration for the MTS Site Lease over its term. The Authority waives any right that it may have under the laws of the State of California to receive a rebate of such rent in full or in part in the event there is a substantial interference with the use and right of possession by the Authority of the MTS Property or portion thereof as a result of material damage, destruction or condemnation.

Purpose

The Authority shall use the MTS Property solely for the purpose of leasing the same to the City pursuant to the Lease and MTS leases the MTS Property to the Authority expressly on said condition and subject to the retained rights of MTS as described in the MTS Site Lease; provided, however, that in the event of default by the City under the Lease, the Authority may exercise the remedies provided in the Lease.

Owner in Fee

MTS covenants that it has the right to lease the MTS Property free and clear of all liens, claims or encumbrances, except Permitted Encumbrances.

Assignments and Subleases

The Authority shall not assign its rights hereunder or sublet the MTS Property, except as provided in the Lease and the Indenture and as security for the Bonds.

Quiet Enjoyment

The Authority at all times during the term of the MTS Site Lease will peaceably and quietly have, hold and enjoy the MTS Property without suit, trouble or hindrance from MTS.

City’s Access to the MTS Property

MTS agrees that the City will have the right during MTS’ normal working hours on MTS’ normal working days to examine and inspect the MTS Property for the purpose of assuring that the MTS Property is being properly maintained, preserved, and kept in good repair, working order and condition. MTS further agrees that the City will have such rights of access to the MTS Property as may be reasonably necessary to cause the proper maintenance of the MTS Property in the event of failure by MTS to perform its obligations under the MTS Site Lease.

Manufacturer's Warranties

MTS expressly acknowledges that neither the City nor the Authority makes, or has made, any representation or warranty whatsoever as to the existence or availability of warranties of the manufacturer or supplier of any item to be incorporated in the MTS Property.

Tax Covenant

MTS covenants with the Authority that it will make no use of the proceeds of the Bonds, or the MTS Property or of any income attributable thereto, which would cause the Bonds to be "arbitrage bonds" subject to federal income taxation by reason of Section 148 of the Internal Revenue Code of 1986, as amended, to be "private activity bonds" within the meaning of Section 141 of such Code, or otherwise cause the Bonds to not be excludable from gross income under Section 103 of the Code.

Eminent Domain

In the event the whole or any portion of the MTS Property is taken by eminent domain proceedings, any interests of the Authority shall be recognized in accordance with the provisions of the Lease described under "THE LEASE – Damage, Destruction, Title Defect and Condemnation; Use of Net Proceeds."

Retained Rights and Obligations of MTS

MTS Right of Entry

MTS reserves the right to continue to perform, maintain and manage its operations, on, in and through the MTS Property and for any of its duly authorized representatives, employees and agents to enter upon the MTS Property at any reasonable time: to inspect the same; to operate, make any repairs, improvements or changes necessary for the preservation thereof, including maintenance of the MTS Property as described below; to perform any of its other duties; or exercise any of its other rights, as contemplated by the MTS Site Lease.

Maintenance of Property by MTS

MTS agrees that at all times during the term of the MTS Site Lease, MTS will, at MTS' own cost and expense, maintain, preserve and keep the MTS Property in good repair, working order and condition, and that MTS will from time to time make or cause to be made all necessary and proper repairs, replacements and renewals thereto. MTS will at its own expense, provide or cause to be provided all security service, custodial service, power, gas, telephone, light, heating and water, and all other public utility services for the MTS Property.

Additions and Improvements

MTS shall have the right during the term of the MTS Site Lease to make any additions or improvements to the MTS Property, to attach fixtures, structures or signs, and to affix any personal property to the improvements on the MTS Property, provided the use of the MTS Property for the purposes contemplated in the MTS Site Lease is not impaired and provided the value of the MTS Property is not impaired. MTS will have the right in its discretion and without the approval of the City or the Authority to acquire, construct, install and provide for the financing of additional improvements and facilities with respect to the MTS Property and provided the value of the MTS Property is not impaired. Title to all personal property which is part of the MTS Property shall remain in the name of MTS. The title to any personal property, improvements or fixtures placed on the MTS Property by MTS shall remain in the name of MTS.

Taxes, Other Governmental and Utility Charges

MTS will pay during the term of the MTS Site Lease, as the same respectively come due, all taxes and governmental charges of any kind whatsoever that may at any time be lawfully assessed or levied against or with respect to the MTS Property, as well as all utility and other charges incurred in the operation, maintenance, use, occupancy and upkeep of the MTS Property; provided that, with respect to any governmental charges that may lawfully be paid in installments over a period of years, MTS will be obligated to pay only such installments as have accrued during the time the MTS Site Lease is in effect.

Insurance

MTS shall maintain, or cause to be maintained, the same policies of insurance with respect to the MTS Property as the policies of insurance required to be maintained with respect to the Leased Property under the Lease.

Release and Indemnification of the City, the Trustee and the Authority

To the extent permitted by law, MTS will defend, protect, hold harmless and indemnify the City, the Authority, the Trustee, and the employees, directors and officers of each from and against any and all liability, obligations, claims and damages whatsoever, regardless of cause thereof, and expenses in connection therewith, including, without limitation, counsel fees and expenses, penalties and interest arising out of or as the result of the entering into of the MTS Site Lease, the ownership of the MTS Property, the ordering, acquisition, use, operation, condition, purchase, delivery, rejection, storage or return of any item of equipment, or any accident in connection with any of the foregoing resulting in damage to property or injury to or death of any person. However, MTS will not hold harmless or indemnify the Authority, the Trustee or any employee, director or officer of each for any losses which are caused by the bad faith or willful misconduct of such party.

Liens

During the term of the MTS Site Lease, MTS will not, directly or indirectly, create, incur, assume or suffer to exist any mortgage, pledge, lien, charge, encumbrance or claim on or with respect to the MTS Property, other than the Permitted Encumbrances. MTS may construct alterations, refurbishment and improvements to the Maintenance Yard Portion (as described in the MTS Site Lease) so long as such work does not reduce the fair rental value thereof below the amount of Lease Payments attributable to the Maintenance Yard Portion which are in excess of the Lease Payments comprising the fair rental value of the Right-of-Way Portion. MTS will promptly pay or cause to be paid all sums of money that may become due for any labor, services, materials, supplies or equipment alleged to have been furnished to or for, in, upon or about the MTS Property and which may be secured by any mechanic's, materialman's or other lien against the MTS Property, or the interests of the City and the Authority therein, and shall cause each such lien to be fully discharged and released; provided, however, that the City or the Authority may (i) contest any such claim or lien without payment thereof so long as such nonpayment and contest stays execution or enforcement of the lien, but if such lien is reduced to final judgment and such judgment or such process as may be issued for the enforcement thereof is not stayed, or if stayed and the stay thereafter expires, then and in any such event MTS shall forthwith pay and discharge such judgment or lien; or (ii) delay payment without contest so long as and to the extent that such delay will not result in the imposition of any penalty; unless, in the opinion of Bond Counsel, by nonpayment of any such items, the interest of the City in the MTS Property will be materially endangered or the MTS Property or any part thereof will be subject to loss or forfeiture, in which event MTS will be required promptly to pay such taxes, assessments or charges or provide the City and the Authority with full security against any loss which may result from nonpayment satisfactory to MTS, the City, the Authority and the Trustee.

Use of the MTS Property

MTS will not install, use, operate or maintain the MTS Property improperly, carelessly, in violation of any applicable law or in a manner contrary to that contemplated by the MTS Site Lease. MTS shall provide all permits and licenses, if any, necessary for the acquisition, construction, installation and operation of the MTS Property. In addition, MTS agrees to comply in all respects (including, without limitation, with respect to the use, maintenance and operation of the MTS Property) with all laws of the jurisdictions in which its operations involving the MTS Property may extend and with all regulations, orders and decrees of any legislative, executive, administrative or judicial body exercising any power or jurisdiction over the MTS Property; provided, however, that MTS may contest in good faith the validity or application of any such law or rule in any reasonable manner which does not adversely affect the estate of the Authority or the City in and to the MTS Property or either of their interest or rights under the Lease.

Substitution of MTS Property

MTS may request the Authority substitute or remove property for all or part of the MTS Property subject to the MTS Site Lease, but only upon compliance by MTS, at its sole expense, with all requirements for the substitution of property by the City under the Lease. The City may consent to such substitution, such consent not to be unreasonably withheld.

Assignments by MTS

Neither the MTS Site Lease nor any interest of MTS under the MTS Site Lease will, at any time after the date hereof, be mortgaged, pledged, assigned or transferred by MTS by voluntary act or by operation of law, or otherwise, except as specifically provided herein, in the Lease or pursuant to the Indenture. MTS will at all times remain liable for the performance of the covenants and conditions on its part to be performed.

Default

Default by Authority

In the event the Authority shall be in default in the performance of any obligation on its part to be performed under the terms of the MTS Site Lease, which default continues for thirty (30) days following notice and demand by MTS for correction thereof to the Authority, MTS may exercise any and all remedies granted by law, except that no merger of the MTS Site Lease and the Lease will be deemed to occur as a result thereof; provided, however, prior to the Termination Date, MTS shall have no power to terminate the MTS Site Lease by reason of any default on the part of the Authority, if such termination would affect or impair the City's rights under the Lease.

Default by MTS

In the event MTS will be in default in the performance of any obligation on its part to be performed under the terms of the MTS Site Lease, which default continues for thirty (30) days following notice and demand by the City, the Authority or its assignee for correction thereof to MTS, the Authority may exercise any and all remedies granted by law, except that no merger of the MTS Site Lease and the Lease will be deemed to occur as a result thereof; provided, however, that the City, the Authority or its assignee may, upon written request of MTS prior to the expiration of such thirty (30) day period, consent to an extension of such time in order to cure such failure if corrective action has been instituted by MTS and is being diligently pursued and will, in the judgment of the City, the Authority or its assignee, be diligently pursued until the default is corrected.

Amendments

The MTS Site Lease will not be waived, altered, modified, supplemented or amended in any manner whatsoever except by written instrument signed by MTS and the Authority or their successors in interest.

[Remainder of Page Intentionally Left Blank]

APPENDIX D

FORM OF BOND COUNSEL OPINION

_____, 2018

Public Facilities Financing Authority of the City of San Diego
San Diego, California 92101

City of San Diego
San Diego, California 92101

Re: \$_____ *Public Facilities Financing Authority of the City of San Diego Lease
Revenue Refunding Bonds Series 2018A (Series 2010A Refunding) (Federally Taxable)*

Ladies and Gentlemen:

We have acted as Bond Counsel to the City of San Diego (the “City”) and the Public Facilities Financing Authority of the City of San Diego (the “Authority”) in connection with the issuance by the Authority of its \$_____ Lease Revenue Refunding Bonds, Series 2018A (Series 2010A Refunding) (Federally Taxable) (the “Bonds”).

The Authority is a California joint exercise of powers authority established pursuant to the Third Amended and Restated Joint Exercise of Powers Agreement, dated as of January 1, 2013 (the “JPA Agreement”), 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 and the Housing Authority of the City of San Diego. The JPA Agreement was entered into pursuant to Articles 1, 2, 3 and 4 of Chapter 5 of Division 7 of Title 1 of the California Government Code).

We have examined the Constitution and the laws of the State of California, a certified record of the proceedings of the City and the Authority taken in connection with the issuance by the Authority of the Bonds and have reviewed: (i) the Site Lease, dated as of July 1, 2012 (the “Master Site Lease”), as amended and supplemented by the First Amendment to Site Lease, dated as of July 1, 2013 (the “First Amendment to Site Lease”), the Second Amendment to Site Lease, dated as of April 1, 2015 (the “Second Amendment to Site Lease”), the Third Amendment to Site Lease, dated as of April 1, 2015 (the “Third Amendment to Site Lease”), and the Fourth Amendment to Site Lease, dated as of _____, 2018 (the “Fourth Amendment to Site Lease” and, together with the Master Site Lease, the First Amendment to Site Lease, the Second Amendment to Site Lease and the Third Amendment to Site Lease, the “Site Lease”), each by and between the City and the Authority; (ii) the Facilities Lease, dated as of July 1, 2012 (the “Master Facilities Lease”), as amended and supplemented by the First Amendment to Facilities Lease, dated as of July 1, 2013 (the “First Amendment to Facilities Lease”), the Second Amendment to Facilities Lease, dated as of April 1, 2015 (the “Second Amendment to Facilities Lease”), the Third Amendment to Facilities Lease, dated as of April 1, 2015 (the “Third Amendment to Facilities Lease”), and the Fourth Amendment to Facilities Lease, dated as of _____, 2018 (the “Fourth Amendment to Facilities Lease” and, together with the Master Facilities Lease, the First Amendment to Facilities Lease, the Second Amendment to Facilities Lease and the Third Amendment to Facilities Lease, the “Lease”), each by and between the Authority and the City; (iii) the MTS Site Lease, dated as of July 1, 2013, by and between the San Diego Metropolitan Transit System and the Authority; (iv) the Indenture, dated as of July 1, 2012 (the “Master Indenture”), as amended and supplemented by the First Supplemental Indenture, dated as of July 1, 2013 (the “First Supplemental Indenture”), the Second Supplemental Indenture, dated as of

April 1, 2015 (the “Second Supplemental Indenture”), the Third Supplemental Indenture, dated as of April 1, 2015 (the “Third Supplemental Indenture”), and the Fourth Supplemental Indenture, dated as of _____, 2018 (the “Fourth Supplemental Indenture” and, together with the First Supplemental Indenture, the Second Supplemental Indenture, the Third Supplemental Indenture and the Master Indenture, the “Indenture”), each by and between the Authority and Wells Fargo Bank, National Association, as trustee (the “Trustee”); (v) opinions of the City Attorney, as counsel to the City and the Authority, and counsel to the Trustee; (vi) certificates of the City, the Trustee, the Authority and others; and (vii) such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture and the Lease.

We have assumed the genuineness of all documents and signatures presented to us, the authenticity of documents submitted as originals and the conformity to originals of documents submitted as copies. We have not undertaken to verify independently, and have assumed, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions referred to in the preceding paragraphs of this opinion. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture, the Lease, the Site Lease and the MTS Site Lease. We call attention to the fact that the rights and obligations under the Bonds, the Indenture, the Site Lease, the MTS Site Lease, and the Lease may be limited by bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors’ rights, by the application of equitable principles and the exercise of judicial discretion in appropriate cases and by the limitations on legal remedies against cities and public agencies in the State of California.

We express no opinion herein with respect to any indemnification, contribution, choice of law, choice of forum, penalty or waiver provisions contained in the Bonds, the Indenture, the Site Lease or the Lease; nor do we express any opinion with respect to the state or quality of title to any of the real or personal property described in the Site Lease, the MTS Site Lease and the Lease, or the accuracy or sufficiency of the description contained therein, or the remedies available to enforce liens on, any such property contained therein.

The Bonds have been issued pursuant to the Marks Roos Local Bond Pooling Act of 1985, as amended (Article 4 of Chapter 5 of Division 7 of Title 1 of the California Government Code) (the “Act”) and the Indenture. The Bonds are dated as of their date of delivery and mature on the dates and in the amounts set forth in the Indenture. Interest on the Bonds is payable on the dates and at the rates per annum set forth in the Indenture. The Bonds are registered bonds in the form set forth in the Indenture and are redeemable in the amounts, at the times and in the manner set forth in the Indenture.

All terms not defined herein have the meaning ascribed to those terms in the Indenture.

Based upon our examination of the foregoing, and in reliance thereon and on all matters of fact as we deem relevant under the circumstances, and upon consideration of applicable laws, we are of the opinion that:

1. The Bonds have been duly and validly authorized by the Authority and are legal, valid and binding limited obligations of the Authority, enforceable in accordance with their terms and the terms of the Indenture.

2. The Fourth Supplemental Indenture has been duly executed and delivered by the Authority. The Indenture creates a valid pledge of the Revenues and the amounts on deposit in certain funds and accounts established under the Indenture to secure the Bonds and the other bonds outstanding

thereunder, as and to the extent provided in the Indenture. The Indenture constitutes the valid and binding agreement of the Authority and is enforceable in accordance with its terms.

3. The Fourth Amendment to Facilities Lease has been duly authorized and executed by the City and the Authority and the Lease constitutes the valid and binding agreement of the City and the Authority and is enforceable in accordance with its terms.

4. Interest on the Bonds is not excluded from gross income for federal income tax purposes but is exempt from State of California personal income tax.

5. The difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of the same series and maturity is to be sold to the public) and the stated redemption price at maturity (to the extent that such issue price is lower than the stated redemption price at maturity) with respect to such Bond constitutes original issue discount. Original issue discount accrues under a constant yield method. The amount of original issue discount deemed received by the Bond owner will increase the Bond owner's basis in the Bond.

6. The amount by which a Bond owner's original basis for determining loss on sale or exchange in the applicable Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable Bond premium, which may at the election of such owner of the Bonds be amortized under Section 171 of the Internal Revenue Code of 1986, as amended (the "Code"). Such amortizable bond premium reduces the owner's basis in the applicable Bond (and the amount of taxable interest received) and is deductible for federal income tax purposes. The basis reduction as a result of the amortization of Bond premium may result in a Bond owner realizing a taxable gain when a Bond is sold by the owner for an amount equal to or less (under certain circumstances) than the original cost of the Bond to the owner.

Except as set forth in paragraphs 4 through 6 above, we express no opinion as to any tax consequences related to the Bonds. Other provisions of the Code may give rise to adverse federal income tax consequences to particular Bondholders. The scope of this opinion is limited to matters addressed above and no opinion is expressed hereby regarding other federal tax consequences that may arise due to ownership of the Bonds. Before purchasing any of the Bonds, all potential purchasers should consult their independent tax advisors with respect to the tax consequences relating to the Bonds and the taxpayer's particular circumstances.

Our opinion is limited to matters governed by the laws of the State of California and federal income tax law. We assume no responsibility with respect to the applicability or the effect of the laws of any other jurisdiction.

The opinions expressed herein are based upon our analysis and interpretation of existing laws, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities.

The opinions expressed herein may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Our engagement as Bond Counsel with respect to the Bonds terminates upon the issuance of the Bonds and we have not undertaken to determine, or to inform any person, whether any such actions or events are taken (or not taken) or do occur (or do not occur).

We express no opinion herein as to the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Bonds and expressly disclaim any duty to advise the owners of the Bonds with respect to matters contained in the Official Statement or other offering material.

Respectfully submitted,

APPENDIX E

DTC AND THE BOOK-ENTRY ONLY SYSTEM

None of the City, the Authority, the Trustee or the Underwriters can or do give any assurances that DTC, the Participants or others will distribute payments of principal of or interest on the 2018 Bonds paid to DTC or its nominee as the registered owner, or will distribute any prepayment notices or other notices, to the Beneficial Owners, or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. None of the City, the Authority, the Trustee or the Underwriters are responsible or liable for the failure of DTC or any Participant to make any payment or give any notice to a Beneficial Owner with respect to the 2018 Bonds or an error or delay relating thereto.

The following information concerning The Depository Trust Company, New York, New York (“DTC”) and DTC’s book-entry system has been obtained from sources that the City, the Authority and the Underwriters believe to be reliable, but none of the City, the Authority or the Underwriters takes responsibility for the accuracy thereof. Capitalized terms used herein and not otherwise defined herein shall have the meanings set forth in this Official Statement and in APPENDIX C — “SUMMARY OF LEGAL DOCUMENTS.”

DTC will act as securities depository for the 2018 Bonds. The 2018 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 Bond certificate will be issued for each maturity of the 2018 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. DTC holds and provides asset servicing for over 3.6 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 an S&P Global Ratings rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of 2018 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2018 Bonds on DTC’s records. The ownership interest of each actual purchaser of each 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 2018 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 2018 Bonds, except in the event that use of the book-entry system for the 2018 Bonds is discontinued.

To facilitate subsequent transfers, all 2018 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 2018 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 2018 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2018 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 2018 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2018 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of 2018 Bonds may wish to ascertain that the nominee holding the 2018 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 notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2018 Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to 2018 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 City, as the issuer of the 2018 Bonds, 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 2018 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the 2018 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 City or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or 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 2018 Bonds at any time by giving reasonable notice to the City, the Authority or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, certificates for the 2018 Bonds are required to be printed and delivered in such principal amount or amounts, in authorized denominations, and registered in whatever name or names DTC shall designate.

The Authority may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, certificates for the 2018 Bonds will be printed and delivered in such principal amount or amounts, in authorized denominations, and registered in whatever name or names DTC shall designate.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City and the Authority believe to be reliable, but neither the City nor the Authority take any responsibility for the accuracy thereof.

Risks Regarding the Book-Entry Only System

AS LONG AS CEDE & CO. OR ITS SUCCESSOR IS THE REGISTERED HOLDER OF THE 2018 BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE REGISTERED HOLDERS OF THE 2018 BONDS SHALL MEAN CEDE & CO., AS AFORESAID, AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE 2018 BONDS. ANY FAILURE OF DTC TO ADVISE ANY PARTICIPANT, OR OF ANY PARTICIPANT TO NOTIFY ANY BENEFICIAL OWNER, OF ANY NOTICE AND ITS CONTEXT OR EFFECT WILL NOT AFFECT THE VALIDITY OR SUFFICIENCY OF THE PROCEEDINGS RELATING TO THE REDEMPTION OF THE 2018 BONDS CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE. Each person for whom a Participant acquires an interest in the 2018 Bonds, as nominee, may desire to make arrangements with such Participant to receive a credit balance in the records of such Participant, and may desire to make arrangements with such Participant to have all notices of redemption or other communications to DTC, which may affect such person, forwarded in writing by such Participant and to receive notification of all interest payments.

NONE OF THE CITY, THE AUTHORITY, THE TRUSTEE OR THE UNDERWRITERS WILL HAVE ANY RESPONSIBILITY OR OBLIGATION WITH RESPECT TO THE PAYMENTS TO THE DIRECT PARTICIPANTS, ANY INDIRECT PARTICIPANTS OR THE BENEFICIAL OWNERS, THE SELECTION OF THE BENEFICIAL INTERESTS IN THE 2018 BONDS TO BE REDEEMED IN THE EVENT OF REDEMPTION OF LESS THAN ALL 2018 BONDS OF A PARTICULAR MATURITY OR THE PROVISION OF NOTICE TO THE DIRECT PARTICIPANTS, ANY INDIRECT PARTICIPANTS OR THE BENEFICIAL OWNERS WITH RESPECT TO THE 2018 BONDS. NO ASSURANCE CAN BE GIVEN BY THE CITY, THE AUTHORITY THE TRUSTEE OR THE UNDERWRITERS THAT DTC, DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS OR OTHER NOMINEES OF THE BENEFICIAL OWNERS WILL MAKE PROMPT TRANSFER OF PAYMENTS TO THE BENEFICIAL OWNERS, THAT THEY WILL DISTRIBUTE NOTICES, INCLUDING REDEMPTION NOTICES (REFERRED TO ABOVE), RECEIVED AS THE REGISTERED OWNER OF THE 2018 BONDS TO THE BENEFICIAL OWNERS, THAT THEY WILL DO SO ON A TIMELY BASIS, OR THAT DTC WILL ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT.

In the event the Authority determines not to continue the book-entry system or DTC determines to discontinue its services with respect to the 2018 Bonds, and the Authority does not select another qualified securities depository, the Authority shall deliver one or more 2018 Bonds in such principal amount or amounts, in authorized denominations, and registered in whatever name or names, as DTC shall designate. In such event, transfer and exchanges of 2018 Bonds will be governed by the provisions of the Indenture.

[Remainder of Page Intentionally Left Blank]

APPENDIX F

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (this “Certificate”) is executed and delivered by the City of San Diego (the “City”) as of _____, 2018 in connection with \$_____ aggregate principal amount of Public Facilities Financing Authority of the City of San Diego Lease Revenue Refunding Bonds, Series 2018A (Series 2010A Refunding) (Federally Taxable) (the “2018 Bonds”). The 2018 Bonds are being issued pursuant to the terms of the Indenture (as defined herein). The City hereby covenants and agrees as follows:

1. Purpose of Certificate. This Certificate is being executed and delivered by the City on behalf of the Authority for the benefit of the Bondowners and Beneficial Owners of the 2018 Bonds and in order to assist the Participating Underwriters in complying with the Rule (as defined below). The City is the only Obligated Person (as defined in the Rule) for the 2018 Bonds.

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

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

“*Authority*” means the Public Facilities Financing Authority of the City of San Diego.

“*Beneficial Owner*” means any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any 2018 Bonds (including persons holding 2018 Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any 2018 Bonds for federal income tax purposes.

“*Commission*” means the Securities and Exchange Commission.

“*Dissemination Agent*” means the City and any Person designated by the City to serve as Dissemination Agent.

“*Indenture*” means the Indenture, dated as of July 1, 2012, by and between the Authority and the Trustee, as it may from time to time be supplemented, modified or amended by any Supplemental Indenture pursuant to the provisions thereof, including as amended and supplemented by the First Supplemental Indenture, dated of July 1, 2013, the Second Supplemental Indenture, dated as of April 1, 2015, the Third Supplemental Indenture, dated as of April 1, 2015, and the Fourth Supplemental Indenture, dated as of _____, 2018.

“*MSRB*” means the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access system.

“*Notice Event*” means any of the events listed in Sections 5(a), (b) and (c) of this Certificate.

“*Participating Underwriters*” means any of the original purchasers of the 2018 Bonds required to comply with the Rule in connection with the offering of the 2018 Bonds.

“*Official Statement*” means the Official Statement dated _____, 2018, prepared and distributed in connection with the initial sale of the 2018 Bonds.

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

“*Rule*” means Rule 15c2-12 adopted by the 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.

“*Trustee*” means Wells Fargo Bank, National Association, or any successor trust under the Indenture.

3. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent (if other than the City) to, not later than each April 10 (or the next succeeding business day if April 10 is not a business day) after the end of the City’s fiscal year (which currently ends June 30th), commencing with the report for the fiscal year ending June 30, 2018 (the “Filing Date”), provide to the MSRB, in a format prescribed by the MSRB, copies of an Annual Report which is consistent with the requirements of Section 4 of this Certificate. As of the date of this Certificate, the format prescribed by the MSRB is the Electronic Municipal Market Access (“EMMA”) system. Information regarding requirement for submissions to EMMA is available at emma.msrb.org.

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 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 date required above for the filing of the Annual Report if they are not available by that date. If the City’s fiscal year changes, it shall give notice of such change in the same manner as for a Notice Event under subsection 5(c).

(b) Not later than 15 Business Days prior to the 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 in an electronic format as prescribed by 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 pursuant to this Certificate, stating the date it was provided to the MSRB.

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

(a) The audited financial statements of the City for the fiscal year most recently ended, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the City's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to subsection 3(a) of this Certificate, 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) To the extent not included in the financial statements, the following types of information will be provided in one or more reports:

(i) An update to the information generally in the form presented in Table A-3 (titled "City of San Diego General Fund Operating Budget Summary") of Appendix A to the Official Statement for the most recently completed Fiscal Year.

(ii) An update to the information generally in the form presented in Table A-4 (titled "Assessed Valuation") of Appendix A to the Official Statement for the most recently completed Fiscal Year.

(iii) An update to the information generally in the form presented in Table A-5 (titled "Secured Tax Levies and Collections") of Appendix A to the Official Statement for the most recently completed Fiscal Year.

(iv) An update of the information generally in the form presented in Table A-8 (titled "City of San Diego Schedule of Funding Progress") of Appendix A to the Official Statement for the most recently completed Fiscal Year.

(v) An update for the information generally in the form presented in Table A-9 (titled "City of San Diego Pension Contribution") of Appendix A to the Official Statement for the most recently completed Fiscal Year.

(vi) An update to the information generally in the form presented in Table A-11 (titled "Schedule of Funding Progress (DB OPEB Plan)") of Appendix A to the Official Statement for the most recently completed Fiscal Year.

(vii) An update to the information generally in the form presented in Table A-15 (titled "City of San Diego General Fund Lease Payments") of Appendix A to the Official Statement for the most recently completed Fiscal Year.

(viii) An update to the information generally in the form presented in Table A-16 (titled "City of San Diego General Fund Supported Obligations") of Appendix A to the Official Statement for the most recently completed Fiscal Year.

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.

5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the 2018 Bonds, in a timely manner not in excess of 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 difficulties¹;
- (iii) unscheduled draws on credit enhancements reflecting financial difficulties²;
- (iv) substitution of credit or liquidity providers, or their failure to perform²;
- (v) adverse tax opinions or the issuance by the Internal Revenue Service of proposed or final determinations of taxability or Notices of Proposed Issue (IRS Form 5701-TEB);
- (vi) tender offers;
- (vii) defeasances;
- (viii) rating changes³; and
- (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 government 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

¹ Without limiting its reporting obligation, the City advises that it has not established a debt service reserve fund for the 2018 Bonds.

² Without limiting its reporting obligation, the City advises that it has not obtained or provided any credit enhancements or credit or liquidity providers for the 2018 Bonds.

³ Does not include rating changes related to credit enhancement added by a bondholder. In addition, the City's obligation to provide notice of any rating change shall be deemed to be satisfied if the applicable rating agency files such change with EMMA pursuant to the "automated data feeds" that have been established by the MSRB.

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).

(b) Pursuant to the provisions of this Section 5, the City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the 2018 Bonds, if material, in a timely manner not in excess of ten (10) Business Days after the occurrence of such Notice Event to the MSRB through EMMA:

- (i) non-payment related defaults;
- (ii) unless described in Section 5(a)(v), other notices or determinations with respect to the tax status of the 2018 Bonds, or other events affecting the tax status of the 2018 Bonds;
- (iii) modifications to rights of the holders of the 2018 Bonds;
- (iv) bond calls⁴;
- (v) release, substitution or sale of property securing repayment of the 2018 Bonds;
- (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; and
- (vii) appointment of a successor or additional trustee or the change of name of a trustee.

(c) If the City determines that knowledge of the occurrence of a Notice Event under subsection (b) above 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 Event described in subsection (b)(iv) above need not be given under this subsection (c) any earlier than the notice, if any, of the underlying event is given to Owners of affected Bonds pursuant to the Indenture.

6. Termination of Reporting Obligation. The City's obligations under this Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the 2018 Bonds. If such termination occurs prior to the final maturity of the 2018 Bonds, the City shall give notice of such termination in the same manner as for a Notice Event under subsection 5(c).

7. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligation under this Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent, if other than the City, shall not be responsible in any manner for

⁴ Any scheduled redemption of 2018 Bonds pursuant to mandatory sinking fund redemption requirements does not constitute a Notice Event within the meaning of the Rule.

the content of any notice or report prepared by the City pursuant to this Certificate. The initial Dissemination Agent shall be the City.

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

(a) If the amendment or waiver relates to the provisions of subsection 3(a), Section 4, or subsection 5, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the 2018 Bonds, or the type of business conducted;

(b) The undertakings, as amended or taking into 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 issuance of the 2018 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 either (i) is approved by the Owners majority of outstanding principal amount of the 2018 Bonds, in the same manner as provided in the Indenture for amendments to the Indenture with the consent of the Bondowners, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Bondowners or Beneficial Owners of the 2018 Bonds.

In the event of any amendment or waiver of a provision of this 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 shall 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.

9. Additional Information. Nothing in this Certificate shall be deemed to prevent the City from disseminating any other information, including the information then contained in Appendix A to the City's official statements relating to debt issuances, using the means of dissemination set forth in this 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 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 Certificate, the City shall have no obligation under this Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Notice Event.

10. Default. In the event of a failure of the City to comply with any provision of this Certificate, any Bondowner or Beneficial Owner of the 2018 Bonds may commence an action in a court of competent jurisdiction in San Diego, California, seeking mandamus or specific performance by court order, to cause the City to comply with its obligations under this Certificate; provided that any Beneficial Owner seeking to require the City to comply with this Certificate shall first provide at

least 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 30 days to comply. A default under this Certificate shall not be deemed an Event of Default under the Indenture with respect to the 2018 Bonds, and the sole remedy under this Certificate in the event of any failure of the City to comply with this Certificate shall be an action to compel performance, and no person or entity shall be entitled to recover monetary damages under this Certificate.

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

12. Beneficiaries. This Certificate shall inure solely to the benefit of the City, the Dissemination Agent the Bondowners and Beneficial Owners from time to time of the 2018 Bonds, and shall create no rights in any other person or entity.

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

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

CITY OF SAN DIEGO

By: _____
Authorized Signatory

[Signature page of Continuing Disclosure Certificate]

DOCKET SUPPORTING INFORMATION
CITY OF SAN DIEGO
EQUAL OPPORTUNITY CONTRACTING PROGRAM EVALUATION

DATE:
February 27, 2018

SUBJECT: Authorization for the City of San Diego Public Facilities Financing Authority Lease Revenue Refunding Bonds, Series 2018A Preliminary Official Statement (POS)

GENERAL CONTRACT INFORMATION

Recommended Contractor:	KNN Public Finance, LLC (Not Certified, M Cauc.)
Amount of this Action:	\$52,500.00 (Not to Exceed)
Recommended Contractor:	Stradling Yocca Carlson & Rauth (Not Certified, M Cauc.)
Amount of this Action:	\$70,000.00 (Not to Exceed)
Recommended Contractor:	Wells Fargo National Association (Not Certified, M Cauc.)
Amount of this Action:	\$6,500.00 (Not to Exceed)
Recommended Contractor:	Citigroup Global Markets, Inc. (Not Certified, M Cauc.)
Amount of this Action:	TBD
Recommended Contractor:	Wells Fargo Securities (Not Certified, M Cauc.)
Amount of this Action:	TBD
Recommended Contractor:	Hutchinson, Shockey, Erley & Co. (Not Certified, M Cauc.)
Amount of this Action:	TBD
Recommended Contractor:	Blaylock Van, LLC (Not Certified, M Cauc.)
Amount of this Action:	TBD
Funding Source:	Public Facilities Financing Authority of the City of San Diego Lease Revenue Refunding Bonds, Series 2018 Bond Proceeds
Goal:	N/A

KNN Public Finance, LLC

SUBCONTRACTOR PARTICIPATION

There is no subcontractor participation associated with this action.

EQUAL EMPLOYMENT OPPORTUNITY COMPLIANCE

Equal Opportunity: Required

KNN Public Finance, LLC submitted a Work Force Report for their Alameda County employees dated November 17, 2017 indicating 20 employees in their Administrative Work Force.

The Administrative Work Force indicates under representations in the following categories:

Female in Management and Financial
Latino and Female in Professional

This agreement is subject to the City's Equal 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).

Stradling Yocca Carlson & Rauth

SUBCONTRACTOR PARTICIPATION

There is no subcontractor participation associated with this action.

EQUAL EMPLOYMENT OPPORTUNITY COMPLIANCE

Equal Opportunity: Required

Stradling Yocca Carlson & Rauth submitted a Work Force Report for their Orange County employees dated December 22, 2017 indicating 151 employees in their Administrative Work Force.

The Administrative Work Force indicates under representations in the following categories:

African-American, Latino, Asian and Female in Professional
Latino in Administrative Support

This agreement is subject to the City's Equal 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).

Wells Fargo National Association

SUBCONTRACTOR PARTICIPATION

There is no subcontractor participation associated with this action.

EQUAL EMPLOYMENT OPPORTUNITY COMPLIANCE

Equal Opportunity: Required

Wells Fargo National Association submitted a Work Force Report for their Los Angeles County employees dated October 18, 2017 indicating 10,765 employees in their Administrative Work Force.

The Administrative Work Force indicates under representations in the following categories:

African-American, Asian and American Indian in Management and Financial
African-American, Latino, American Indian and Female in Professional
African-American, Latino, Asian and Female in Technical
African-American, Latino, American Indian and Female in Sales
African-American, Asian, American Indian and Female in Administrative Support
Latino and Female in Operative Workers

Based on the under representations in the workforce noted above, staff has requested an Equal Employment Opportunity (EEO) Plan which describes the firm's EEO policies and practices. Once approved, staff will continue to monitor the firm's efforts to implement their EEO plan.

This agreement is subject to the City's Equal 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).

Citigroup Global Markets, Inc.

SUBCONTRACTOR PARTICIPATION

There is no subcontractor participation associated with this action.

EQUAL EMPLOYMENT OPPORTUNITY COMPLIANCE

Equal Opportunity: Required

Citigroup Global Markets, Inc. submitted a Work Force Report for their New York County employees dated January 9, 2018 indicating 5,240 employees in their Administrative Work Force.

The Administrative Work Force indicates under representations in the following categories:

African-American, Latino and Female in Management and Financial and Professional
Asian in Technical

African-American, Latino, American Indian and Female in Sales and Administrative Support

Based on the under representations in the workforce noted above, staff has an approved Equal Employment Opportunity (EEO) Plan on file as of June 7, 2017. Staff will continue to monitor the firm's efforts to implement their EEO Plan.

This agreement is subject to the City's Equal 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).

Wells Fargo Securities

SUBCONTRACTOR PARTICIPATION

There is no subcontractor participation associated with this action.

EQUAL EMPLOYMENT OPPORTUNITY COMPLIANCE

Equal Opportunity: Required

Wells Fargo Securities submitted a Work Force Report for their Los Angeles County employees dated January 5, 2018 indicating 9 employees in their Administrative Work Force.

The firm has fewer than 15 employees and is therefore exempt from the employment category goals.

This agreement is subject to the City's Equal 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).

Hutchinson, Shockey, Erley & Co.

SUBCONTRACTOR PARTICIPATION

There is no subcontractor participation associated with this action.

EQUAL EMPLOYMENT OPPORTUNITY COMPLIANCE

Equal Opportunity: Required

Hutchinson, Shockey, Erley & Co. submitted a Work Force Report for their Cook County employees dated January 10, 2018 indicating 30 employees in their Administrative Work Force.

The Administrative Work Force indicates under representations in the following categories:

Latino, Asian and Female in Management and Financial
African-American in Sales

This agreement is subject to the City's Equal 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).

Blaylock Van, LLC

SUBCONTRACTOR PARTICIPATION

There is no subcontractor participation associated with this action.

EQUAL EMPLOYMENT OPPORTUNITY COMPLIANCE

Equal Opportunity: Required

Blaylock Van, LLC submitted a Work Force Report for their New York County employees dated January 9, 2018 indicating 19 employees in their Administrative Work Force.

The Administrative Work Force indicates under representations in the following categories:

Female in Professional
Latino and Female in Administrative Support

This agreement is subject to the City's Equal 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).

ADDITIONAL COMMENTS

TC



The City of San Diego
Item Approvals

Item Subject: Approval of Preliminary Official Statement and Authorization to Distribute Preliminary and Final Official Statements for PFFA Lease Revenue Refunding Bonds, Series 2018A

Approving Authority	Approver	Approval Date
OFFICE OF THE CITY ATTORNEY DEPARTMENT APPROVER	SINGER, SANNA	04/11/2018