



The City of San Diego

Staff Report

DATE ISSUED: 3/2/2021

TO: Public Facilities Financing Authority

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

SUBJECT: Approval of Preliminary Official Statement and Authorization to Distribute Preliminary and Final Official Statements for PFFA Lease Revenue Refunding Bonds, Series 2021A.

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

Council District(s): Citywide

OVERVIEW:

This resolution will approve the forms and authorize the distribution of the Preliminary Official Statement and final Official Statement for the PFFA Lease Revenue Refunding Bonds, Series 2021A.

PROPOSED ACTIONS:

A resolution of the Authority approving the form and authorizing the distribution of the Preliminary Official Statement and final Official Statement for the Authority's Lease Revenue Refunding Bonds, Series 2021A.

DISCUSSION OF ITEM:

Please see Staff Report to companion City Council item dated March 2, 2021.

Previous San Diego City Council and/or Committee Actions:

Please see Staff Report to companion City Council item dated March 2, 2021.

David Powell
Deputy General Counsel

PUBLIC FACILITIES FINANCING AUTHORITY
OF THE CITY OF SAN DIEGO

RESOLUTION NUMBER FA-2021-2

ADOPTED ON MARCH 16, 2021

RESOLUTION OF THE COMMISSION 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 BONDS; AND APPROVING OTHER ACTIONS IN CONNECTION THEREWITH

WHEREAS, the City of San Diego (the “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 (the “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. O-21277 (the “Bond Ordinance”) requested the Authority to issue lease revenue bonds in one or more series (the “2021 Bonds”), in a total aggregate principal amount not to exceed \$146,000,000 to finance the costs of the acquisition, design, construction, installation, improvement, replacement and equipping of

certain capital improvement projects of the City, including through the payment of the Lease Revenue Commercial Paper Notes, Series A issued to finance certain of such projects; 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 2021 Bonds will be issued under the Indenture as Additional Bonds (as defined in the Indenture) secured on a parity with the Prior Bonds; and

WHEREAS, the Authority previously adopted its Resolution No. FA-2021-1 which authorized the issuance of the 2021 Bonds pursuant to the Indenture; and

WHEREAS, there has been presented to this meeting a proposed form of Preliminary Official Statement relating to the 2021 Bonds (the “Preliminary Official Statement”), a copy of which is on file in the office of the City Clerk and will be used in marketing the 2021 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 Commission 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 the Chair, Vice Chair or Treasurer 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 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 2021 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 2021 Bonds is hereby authorized and approved. Each Authorized Signatory 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 2021 Bonds; or (ii) the Preliminary Official Statement, are hereby approved, confirmed and ratified. Any Authorized Signatory, the Secretary of the Authority, the San Diego City Attorney as General Counsel to the Authority and other officers, employees, agents and directors of the Authority are, and each of the foregoing or 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, conforming any of the documents to be executed with respect to the 2021 Bonds to the terms of the Preliminary Official Statement and Official Statement, paying necessary and appropriate fees and expenses, and executing and delivering 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 16th day of March 2021, by the following vote:

AYES: _____

NAYS: _____

ABSENT: _____

VACANT: _____

ABSTAIN: _____

PUBLIC FACILITIES FINANCING AUTHORITY
OF THE CITY OF SAN DIEGO

Jennifer Campbell, Council President
Chair of the Authority

Attest:

Secretary

PRELIMINARY OFFICIAL STATEMENT DATED MARCH __, 2021

NEW ISSUE — FULL BOOK-ENTRY-ONLY

Fitch: “___” (___ Outlook)
S&P: “___” (___ Outlook)
See “RATINGS”

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation (“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 (and original issue discount) on the 2021 Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals. In the further opinion of Bond Counsel, interest (and original issue discount) on the 2021 Bonds 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 BONDS
SERIES 2021A
(CAPITAL IMPROVEMENT PROJECTS)**

Dated: Date of Delivery

Due: October 15, as shown on the inside cover

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 Bonds, Series 2021A (Capital Improvement Projects) (the “2021 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”), the Fourth Supplemental Indenture, dated as of June 1, 2018 (the “Fourth Supplemental Indenture”), the Fifth Supplemental Indenture, dated as of June 1, 2020 (the “Fifth Supplemental Indenture”), and the Sixth Supplemental Indenture, dated as of ___ 1, 2021 (the “Sixth Supplemental Indenture” and, together with the First Supplemental Indenture, the Second Supplemental Indenture, the Third Supplemental Indenture, the Fourth Supplemental Indenture, the Fifth 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 2021 Bonds are being issued to (i) pay the Authority’s outstanding Lease Revenue Commercial Paper Notes, Series A (the “Commercial Paper Notes”); (ii) finance the costs of the acquisition, design, construction, installation, improvement, replacement and equipping of certain capital improvement projects of the City of San Diego (the “City”) and (iii) pay costs of issuance incurred in connection with the issuance of the 2021 Bonds. See “PLAN OF FINANCE.”

The 2021 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 2021 Bonds will be made in book-entry form only, in the principal amount of \$5,000 or any multiple thereof. Interest on the 2021 Bonds will be payable on April 15 and October 15 of each year, commencing October 15, 2021. See “THE 2021 BONDS.”

The 2021 Bonds are payable from Revenues (as defined herein) and the amounts in certain funds and accounts pledged under the Indenture, including certain insurance and condemnation awards, if any, payable under the Lease (as defined herein) to the Trustee, all as set forth in the Indenture. The 2021 Bonds are payable on a parity with eight series of bonds currently outstanding under the Master Indenture and any additional bonds issued under the Indenture in the future. The Revenues consist primarily of Base Rental Payments paid by the City for the use and occupancy of the Leased Property (each as defined in the Lease) as long as the City has use and occupancy of the Leased Property. The Base Rental Payments are subject to abatement under certain circumstances. There is no debt service reserve fund for the 2021 Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2021 BONDS” and “CERTAIN RISK FACTORS.”

The 2021 Bonds are subject to optional, mandatory sinking fund, and special mandatory redemption, as more fully set forth herein. See “THE 2021 BONDS – Redemption Provisions.”

THE 2021 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 2021 BONDS. THE AUTHORITY HAS NO TAXING POWER. THE 2021 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 2021 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, Orrick, Herrington & Sutcliffe LLP. It is anticipated that the 2021 Bonds will be available for delivery through the facilities of DTC in book-entry form on or about March __, 2021.

Citigroup

UBS

Ramirez & Co., Inc.

Wells Fargo Securities

* Preliminary, subject to change.

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

Dated: March __, 2021

MATURITY SCHEDULE

\$ _____*
PUBLIC FACILITIES FINANCING AUTHORITY
OF THE CITY OF SAN DIEGO
LEASE REVENUE BONDS
SERIES 2021A
(CAPITAL IMPROVEMENT PROJECTS)

(BASE CUSIP NUMBER: 797299)¹

<i>Maturity Date (October 15)</i>	<i>Principal Amount</i>	<i>Interest Rate</i>	<i>Price</i>	<i>CUSIP¹</i>
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\$ _____ % Term Bond due October 15, 20 __, Price: _____; CUSIP¹

* Preliminary, subject to change.

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© 2021 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 or the Municipal Advisor assume any responsibility for the accuracy of such numbers. The CUSIP number for a specific maturity is subject to being changed after the issuance of the 2021 Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the 2021 Bonds.

CITY OF SAN DIEGO

MAYOR
Todd Gloria

CITY COUNCIL

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

Joe LaCava	<i>(District 1)</i>	Marni Von Wilpert	<i>(District 5)</i>
Jennifer Campbell	<i>(District 2)</i>	Chris Cate	<i>(District 6)</i>
City Council President			
Stephen Whitburn	<i>(District 3)</i>	Raul Campillo	<i>(District 7)</i>
City Council President Pro Tem			
Monica Montgomery Steppe	<i>(District 4)</i>	Vivian Moreno	<i>(District 8)</i>
		Sean Elo-Rivera	<i>(District 9)</i>

CITY ATTORNEY

Mara W. Elliott

CITY OFFICIALS

Jay M. Goldstone, *Chief Operating Officer*
Matthew Vespi, *Chief Financial Officer*
Elizabeth Correia, *City Treasurer*
Andy Hanau, *City Auditor*
Rolando Charvel, *Department of Finance Director and 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

Public Resources Advisory Group

TRUSTEE

Wells Fargo Bank, National Association

No dealer, broker, salesperson or other person has been authorized by the Authority or the City to give any information or to make any representations other than those contained herein, and if given or made, such other information or representation must not be relied upon as having been authorized by the Authority or the City. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the 2021 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 2021 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 2021 Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose, unless authorized in writing by the City. All summaries of documents and laws are made subject to the provisions thereof and do not purport to be complete statements of any or all such documents and laws.

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

This Preliminary Official Statement is deemed to be final (except for permitted omissions) by the Authority and the City for purposes of complying with Rule 15c2-12 of the Securities and Exchange Commission.

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OFFICIAL STATEMENT

\$ _____ *

**PUBLIC FACILITIES FINANCING AUTHORITY
OF THE CITY OF SAN DIEGO
LEASE REVENUE BONDS
SERIES 2021A
(CAPITAL IMPROVEMENT PROJECTS)**

INTRODUCTION

This Introduction contains only a brief summary of certain terms of the 2021 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 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 Bonds, Series 2021A (Capital Improvement Projects) (the “2021 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 2021 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. The 2021 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”), the Fourth Supplemental Indenture, dated as of June 1, 2018 (the “Fourth Supplemental Indenture”), the Fifth Supplemental Indenture, dated as of June 1, 2020 (the “Fifth Supplemental Indenture”), and the Sixth Supplemental Indenture, dated as of _____, 2021 (the “Sixth Supplemental Indenture” and, together with the Master Indenture, the First Supplemental Indenture, the Second Supplemental Indenture, the Third Supplemental Indenture, the Fourth Supplemental Indenture and the Fifth Supplemental Indenture, the “Indenture”), each by and between the Authority and Wells Fargo Bank, National Association, as trustee (the “Trustee”).

The 2021 Bonds are being issued to (i) pay the Authority’s outstanding Lease Revenue Commercial Paper Notes, Series A (the “Commercial Paper Notes”); (ii) finance the costs of the acquisition, design, construction, installation, improvement, replacement and equipping of certain capital improvement projects of The City of San Diego (the “City”); and (iii) pay costs of issuance incurred in connection with the issuance of the 2021 Bonds. See “PLAN OF FINANCE.”

* Preliminary, subject to change.

Pursuant to the Master Indenture, the Authority previously issued eight series of Lease Revenue Bonds, which as of March 1, 2021 were outstanding in the aggregate principal amount of \$316,305,000 (the “Prior Bonds”). The Prior Bonds, the 2021 Bonds and any Additional Bonds (hereinafter defined) issued pursuant to a Supplemental Indenture are collectively referred to herein as the “Bonds.” The Prior Bonds and any Additional Bonds will be payable on a parity with the 2021 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).

The Leased Property and Base Rental Payments

General. 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 2021 Bonds, will lease additional real property (collectively, the “City Property”) to the Authority pursuant to the Site Lease, dated as of July 1, 2012 (the “Master Site Lease”), as amended 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”), the Fourth Amendment to Site Lease, dated as of June 1, 2018 (the “Fourth Amendment to Site Lease”) and the Fifth Amendment to Site Lease, dated as of _____ 1, 2021 (the “Fifth Amendment to Site Lease” and, together with the Master Site Lease, 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, the “Site Lease”), each by and between the City and the Authority. The City Property and the MTS Property (as defined below) (collectively, the “Leased Property”) has been leased to the City pursuant to the Facilities Lease, dated as of July 1, 2012 (the “Master Facilities Lease”), as amended 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”), the Fourth Amendment to Facilities Lease, dated as of June 1, 2018 (the “Fourth Amendment to Facilities Lease”), the Fifth Amendment to Facilities Lease, dated as of June 1, 2020 (the “Fifth Amendment to Facilities Lease”) and the Sixth Amendment to Facilities Lease, dated as of _____ 1, 2021 (the “Sixth Amendment to Facilities Lease” and, together with the Master Facilities Lease, the First Amendment to Facilities Lease, the Second Amendment to Facilities Lease, the Third Amendment to Facilities Lease, the Fourth Amendment to Facilities Lease and the Fifth Amendment to Facilities Lease, the “Lease”), each by and between the Authority and the City. See “THE LEASED PROPERTY.” Additionally, there may be substitutions, removal and additions to the Leased Property under the Lease, the Site Lease and the MTS Site Lease (as defined below). See “SECURITY AND SOURCES OF PAYMENT FOR THE 2021 BONDS — Substitution, Removal or Addition of Leased Property.”

The Leased Property consists of 22 separate sites and, except for certain ground leases, the improvements thereon. Twenty-one of these properties are the City Property and one is the MTS Property. Five of the properties are owned by the City which the City has ground leased to other entities both public and private (the “Ground Lease Sites”). The Lease provisions are different in certain respects for the Ground Lease Sites since the City does not own or occupy the improvements on the Ground Lease Sites. In the event of a default under the Lease there is no right to re-enter or re-let the Ground Lease Sites and there is no requirement for property insurance or use and occupancy insurance on the Ground Lease Sites. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2021 BONDS — Fire and Extended Coverage Insurance” “--Ground Lease Sites” and “CERTAIN RISK FACTORS-- Limited Recourse on Default; Re-Letting of Leased Property.”

MTS Property. In 2013, the Authority issued a series of Prior Bonds to finance facilities of the San Diego Metropolitan Transit System (“MTS”). In connection with that issuance, the Authority leased from the 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 portion of Prior Bonds that financed these facilities of MTS are scheduled to be fully paid on October 15, 2022, after which the City expects that the MTS Property will be released from the provisions of the Lease and MTS Site Lease in accordance with the terms of those documents.

Lease 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 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. The Base Rental Payments under the Lease, if paid as scheduled, will be sufficient to pay the principal of and interest on the 2021 Bonds and the Prior Bonds, when due. 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 2021 Bonds, are not secured by any security interest in or mortgage on the Leased Property or any other real property.

Abatement

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. Although one portion of the Leased Property currently is not available for use and occupancy due to its ongoing renovation, the City has determined that no abatement will result during the renovation period. See “THE LEASED PROPERTY—Other Facilities.”

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 2021 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; No Reserve Fund

The Bonds, including the 2021 Bonds, are limited obligations of the Authority secured under the Indenture solely by a pledge of Revenues (defined below) and moneys held in the Revenue 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 of Base Rental Payments, 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, and without the consent of the Owners of the Bonds, 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 2021 BONDS – Additional Bonds.”

COVID-19 Related Impacts on the City

The coronavirus respiratory disease (“COVID-19”) pandemic has significantly impacted the City and the local economy in various ways. Since mid-March 2020, based on guidance and directives from the State and public health agencies, the City has undergone varying degrees of closure and limited reopening of City public buildings and businesses such as retail, logistics and manufacturing, offices and limited personal services. The COVID-19-related closures and health directives in response thereto led to significant declines in the City General Fund’s major revenue sources in Fiscal Year 2020 and the effects are currently projected to continue through at least the end of Fiscal Year 2021. See APPENDIX A— “CITY GOVERNMENT AND FINANCIAL INFORMATION—“COVID-19” and “CITY BUDGET AND RELATED MATTERS” on information related to the Fiscal Year 2020 year-end financial projections and Fiscal Year 2021 Budget, “CERTAIN RISK FACTORS — Impacts and Potential Impacts of COVID-19 on the City” for additional potential impacts of COVID-19 to the City.

Bondholders’ Risks

There are a number of risks associated with the purchase of the 2021 Bonds. See “APPENDIX A— “CITY GOVERNMENT AND FINANCIAL INFORMATION—“COVID-19” and “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 2021) 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 2020, which includes the City’s audited basic financial statements as of and for the fiscal year ended June 30, 2020. The CAFR is available through the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access system (“EMMA”) at <https://emma.msrb.org/P11454214-P11127460-P11538958.pdf>, and is incorporated by reference herein and constitutes a part of this Official Statement.

Brief descriptions of the 2021 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 2021 BONDS

General Terms

The 2021 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, calculated on the basis of a 360-day year of twelve 30-day months. Interest on the 2021 Bonds will be payable on April 15 and October 15 of each year, commencing October 15, 2021 (each, an “Interest Payment Date”), to the person whose name appears on the registration books maintained by the Trustee as of the Record Date. The Record Date is the last calendar day of the month preceding each Interest Payment Date, whether or not such day is a Business Day.

DTC and the Book-Entry Only System

The Depository Trust Company, New York, New York (“DTC”) will act as securities depository for the 2021 Bonds. The 2021 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 2021 Bonds will not receive physical certificates representing their interest in the 2021 Bonds. So long as the 2021 Bonds are registered in the name of Cede & Co., as nominee of DTC, references herein to the Owners of the 2021 Bonds will mean Cede & Co., and will not mean the Beneficial Owners of the 2021 Bonds. Payments by the Trustee of the principal of and interest on the 2021 Bonds and any notice with respect to any 2021 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 2021 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.”

Redemption Provisions^{*}

Optional Redemption. The 2021 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 Authority or the City, at a redemption price equal to the principal amount of the 2021 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 in integral multiples of \$5,000).

^{*} Preliminary, subject to change.

Mandatory Sinking Fund Redemption. The 2021 Bonds maturing on October 15, 20__ (the “Term Bonds”) are also subject to mandatory redemption prior to their stated maturity, in part by lot, from sinking account payments deposited in the 2021A Bonds Sinking Account, on each sinking fund redemption date for the Term 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, and shall be paid at maturity according to the following schedule:

<i>Sinking Fund Redemption Date (October 15, 20__)</i>	<i>Principal Amount to be Redeemed</i>
	\$

*

* Maturity date.

Provided, however, that if some but not all of the Term Bonds have been optionally redeemed, as described above, or redeemed from insurance or condemnation proceeds as described below, the total amount of all future sinking account payments with respect to such redeemed Term Bonds will be reduced by the aggregate principal amount of such Term Bonds so redeemed, to be allocated among the sinking account payments for such 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 2021 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. If less than all of the 2021 Bonds of a particular maturity are to be redeemed, the Trustee will select the 2021 Bonds to be redeemed from all 2021 Bonds of such maturity or such given portion thereof not previously called for redemption, by lot in any manner which the Trustee in its sole discretion will deem appropriate. For purposes of such selection, the Trustee will treat each 2021 Bond as consisting of separate \$5,000 portions and each such portion will be subject to redemption as if such portion were a separate 2021 Bond. If less than all Outstanding Bonds are called for redemption from proceeds of eminent domain or insurance at any one time, the Authority will designate a principal amount in each maturity to be redeemed, which, to the extent practicable, results in approximately equal annual debt service on the Bonds Outstanding following such redemption.

Notice of Redemption. So long as the 2021 Bonds are registered in book-entry form to DTC or its nominee or a successor securities depository, the Trustee will send a notice of redemption only to DTC or any successor securities depository and not to the Beneficial Owners of the 2021 Bonds.

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 2021 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 2021 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 2021 Bonds (or all 2021 Bonds of a single maturity) are to be

redeemed, the CUSIP numbers and (in the event that not all 2021 Bonds within a maturity and series are called for redemption) bond numbers of the 2021 Bonds to be redeemed, the maturity or maturities of the 2021 Bonds to be redeemed and in the case of 2021 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 2021 Bonds the redemption price thereof, and that from and after such redemption date interest thereon will cease to accrue, and will require that such 2021 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 2021 Bonds, the notice of redemption will state that the redemption is conditioned upon receipt by the Trustee of sufficient moneys to redeem the 2021 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 2021 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 2021 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 2021 Bonds for which notice of optional redemption was given will remain Outstanding.

The City has the right under the Indenture 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 2021 Bonds called for optional redemption or for such lesser portion of such 2021 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 2021 Bonds called for optional redemption. Any such direction to the Trustee must: (i) be in writing; (ii) state either that all the 2021 Bonds called for redemption therein identified are to be purchased or, if less than all of the 2021 Bonds called for redemption are to be purchased, identify those 2021 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 2021 Bonds on the date which otherwise would be the redemption date of such 2021 Bonds. Any of the 2021 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 2021 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 2021 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 2021 Bonds on the scheduled redemption date for such redemption. To pay the purchase price of such 2021 Bonds, the Trustee will use money deposited by the City with the Trustee for such purpose. The Trustee will not purchase the 2021 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.

PLAN OF FINANCE

The City expects to apply a portion of the proceeds of the 2021 Bonds to pay the principal portion of the Authority's outstanding Lease Revenue Commercial Paper Notes, Series A (the "Commercial Paper Notes"), which have been issued pursuant to an Indenture dated as of November 1, 2018 and an Issuing and Paying Agency Agreement dated as of November 1, 2018, each by and between the Authority and U.S. Bank National Association, as trustee and issuing and paying agent. The proceeds of the Commercial Paper Notes were used to finance the acquisition, design, construction, installation and equipping of various capital improvement projects of the City. Pursuant to the Indenture, on or about the date of issuance of the 2021 Bonds, the Authority expects to transfer a portion of the proceeds of the 2021 Bonds to U.S. Bank National Association, which will be sufficient to pay on or about the date of issuance of the 2021 Bonds, \$61.1 million principal amount of the Commercial Paper Notes.

The City also expects to apply a portion of the proceeds of the 2021 Bonds to finance the acquisition, design, construction, installation and equipping of various capital improvement projects of the City. These projects include, among others, street and sidewalk reconstruction and repairs, traffic improvements, park improvements, storm water and drainage projects and improvements to City buildings and facilities.

ESTIMATED SOURCES AND USES OF FUNDS

The sources of funds to be received from the sale of the 2021 Bonds and the proposed uses of the 2021 Bond proceeds are estimated to be in the amounts shown below.

	<i>TOTAL</i>
SOURCES OF FUNDS	
Principal Amount	\$ _____
Plus/Less Net Original Issue Premium/Discount	
Total Sources	=====
USES OF FUNDS	
Transfer to Issuing and Paying Agent for Commercial Paper Notes	\$ 61,134,000
Deposit to Series 2021A Construction Fund	
Costs of Issuance ⁽¹⁾	_____
Total Uses	\$ =====

⁽¹⁾ Includes fees and costs associated with the issuance of the 2021 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 and title insurance costs.

DEBT SERVICE SCHEDULE

The following table summarizes the debt service requirements of the outstanding Prior Bonds and the 2021 Bonds, assuming no optional or special mandatory redemptions.

<i>Date</i>	<i>Debt Service on Outstanding Prior Bonds</i>	<i>2021 Bonds</i>		<i>Aggregate Parity Debt Service⁽¹⁾</i>	<i>Fiscal Year Total</i>
		<i>Principal</i>	<i>Interest</i>		
10/15/2020	\$ 20,125,008				
4/15/2021	7,713,432				
10/15/2021	20,347,432				
4/15/2022	7,484,891				
10/15/2022	19,886,941				
4/15/2023	7,250,513				
10/15/2023	19,053,863				
4/15/2024	7,029,103				
10/15/2024	19,505,928				
4/15/2025	5,837,603				
10/15/2025	19,767,403				
4/15/2026	5,586,349				
10/15/2026	20,015,749				
4/15/2027	5,328,604				
10/15/2027	16,182,504				
4/15/2028	5,121,359				
10/15/2028	16,389,859				
4/15/2029	4,909,776				
10/15/2029	16,627,401				
4/15/2030	4,688,259				
10/15/2030	16,860,266				
4/15/2031	4,446,853				
10/15/2031	17,117,934				
4/15/2032	4,197,664				
10/15/2032	16,668,107				
4/15/2033	3,231,991				
10/15/2033	16,941,991				
4/15/2034	2,952,618				
10/15/2034	17,242,618				
4/15/2035	2,655,043				
10/15/2035	17,550,043				
4/15/2036	2,343,523				
10/15/2036	17,893,523				
4/15/2037	2,006,976				
10/15/2037	18,246,976				
4/15/2038	1,655,215				
10/15/2038	18,610,215				
4/15/2039	1,286,990				
10/15/2039	12,176,990				
4/15/2040	1,046,406				
10/15/2040	12,426,406				
4/15/2041	794,670				
10/15/2041	12,689,670				
4/15/2042	531,200				
10/15/2042	8,721,200				
4/15/2043	328,250				
10/15/2043	6,728,250				
4/15/2044	168,250				
10/15/2044	6,898,250				
4/15/2045	--				
10/15/2045	--				
4/15/2046	--				
10/15/2046	--				
4/15/2047	--				
10/15/2047	--				
4/15/2048	--				
10/15/2048	--				
4/15/2049	--				

10/15/2049	--
4/15/2050	--
10/15/2050	--
4/15/2051	--
10/15/2051	--
TOTAL	<u>\$ 493,270,064</u>

⁽¹⁾ Represents total debt service on the outstanding Prior Bonds and the 2021 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 and other lawfully available funds of the City. See APPENDIX A — “CITY GOVERNMENT AND FINANCIAL INFORMATION – BONDED AND OTHER INDEBTEDNESS – Long-Term Obligations” for a description of City’s other outstanding lease obligations.

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 2021 Bonds and has pledged none of its moneys, funds or assets toward the payment of any amount due in connection with the 2021 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.* See “FINANCIAL STATEMENTS FOR FISCAL YEAR 2020” for information with respect to the City’s CAFR.

SECURITY AND SOURCES OF PAYMENT FOR THE 2021 BONDS

General

The 2021 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 2021 Bonds. The Authority has no taxing power.

The 2021 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 2021 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 to the Trustee, from the City’s General Fund or from other legally available sources. The scheduled Base Rental Payments are in an amount sufficient to pay the principal of and interest on the outstanding Prior Bonds and the 2021 Bonds on each Interest Payment 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 2021 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, the Lease 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 officials to enable the City to carry out and perform the covenants and agreements in the Lease.

The City's 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 provision of the Charter 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 Lease 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 Lease 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 2021 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 2021 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 2021 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. See CERTAIN RISK FACTORS—Abatement.”

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 PRISM 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 PRISM 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 “–Insurance Coverage for Leased Property” below and APPENDIX A — “CITY GOVERNMENT AND FINANCIAL INFORMATION – RISK MANAGEMENT – Property and Flood Insurance” and “– Earthquake Insurance.”

Due to the COVID-19 pandemic, the City has temporarily restricted public access to the library facilities and the community complex described under “THE LEASED PROPERTY— Library Facilities and Other Facilities — *Carmel Valley Multipurpose Community Complex.*” The City does not believe the temporary restriction of public access has caused damage or destruction to such portions of the Leased Property resulting in an abatement event under the Lease. Further, the aggregate annual fair rental value of the remaining portion of the Leased Property is at least equal to the Lease Payments in the current and future Lease Years.

No Debt Service Reserve Fund

Neither the Authority nor the City will establish or maintain a debt service reserve fund for the 2021 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 2021 Bonds.

Parity Bonds

As of March 1, 2021, the Authority had \$316,305,000 aggregate principal amount of Prior Bonds outstanding under the Indenture. 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) 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 (excluding the Ground Lease Sites) 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 such 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 such 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. The City and MTS currently purchase insurance coverage for their respective portions of the Leased Property required to be insured and there is currently no self-insurance coverage in effect. 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 use and occupancy 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 must be rated at least “A-” by A.M. Best & Company. Pursuant to the Lease, use and occupancy insurance cannot be provided by self-insurance.

Insurance Coverage for Leased Property

The City and MTS each participates in the joint purchase of insurance through the Public Risk Innovations, Solutions and Management (the “PRISM 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 PRISM 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 PRISM 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, which is purchased through the PRISM Pool. 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 2021 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. It is expected that 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 “THE LEASED PROPERTY – General” and 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 2021 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

Upon the issuance of the 2021 Bonds, the Leased Property will consist of the 22 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. The Leased Property is not subject to a security interest, mortgage or any other lien in favor of the Trustee for the benefit of Owners. Pursuant to the Lease, the City and the Authority may amend the Lease and the Site Lease to substitute real property and/or improvements for all or a portion of the existing Leased Property. The City owns property that it could substitute for portions of the Leased Property or the City could add to the Leased Property, however, the City has no obligation under the Site Lease, the Lease or the Indenture to do so. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2021 BONDS — Substitution, Removal or Addition of Leased Property.”

Twenty-one of the 22 Leased Property sites are owned by the City and one site is owned by MTS. Five of the parcels of City Property are the Ground Lease Sites and the City does not own, and the Leased Property does not include, any of the buildings and other improvements thereon. Pursuant to the Lease, the rights of the Authority and the Trustee with respect to the Ground Lease Sites are expressly subject to the rights of the ground lessees under their existing leases and the Trustee has no right to re-enter or re-let the Ground Lease Sites in the event of a default under the Lease. The City is leasing the City Property to the Authority pursuant to the Site Lease. In connection with the issuance of a series of Prior Bonds to finance facilities of MTS, the Authority leased from MTS the MTS Property 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 portion of the Prior Bonds that financed the facilities of MTS are scheduled to be fully paid on October 15, 2022, and if repaid as scheduled, the MTS Property will be released on October 15, 2022 from the provisions of the Lease and the MTS Site Lease in accordance with the terms of those documents. After such release, the MTS Property will no longer be part of the Leased Property. The effect of the release of the MTS Property on October 15, 2022 is included in the Base Rental Payment schedule set forth in the Lease such that the release will not in and of itself result in any revision to the amount of Base Rental Payments.

See “CERTAIN RISK FACTORS” for certain risks that could impact the City’s use and occupancy of the Leased Property and for a discussion of limitations on remedies in the event of a default under the Lease.

Base Rental Determinations

As a condition of issuing the 2021 Bonds and to conform to the requirements of California law related to lease obligations, the City must certify on the Closing Date 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. In order to make this certification, the City has determined to add three additional properties to the Leased Property at the time of issuance of the 2021 Bonds and will rely on various appraisals done over time, its evaluation of the condition of the Leased Property and, with respect to the Ground Lease Sites, the rental received from those sites in calendar year 2020. While not required by the Lease, upon the issuance of each series of Additional Bonds, the City’s usual practice is to recalculate the percentage of the Base Rental Payments attributable to each of the Ground Lease Sites based upon the rental income actually received from the Ground Lease Sites in the prior fiscal year. To make the recalculation, the City divides the rental income received from a Ground Lease Site by the total annual fair rental value of all Leased Property as estimated by the City at the time of the recalculation, and then allocates this percentage of the Base Rental Payments to such Ground Lease Site. In connection with the issuance of Prior Bonds, the City based such calculation on fiscal year rental income. As a result of the effects of the COVID-19 pandemic, with respect to the 2021 Bonds, the City will make the recalculation based on calendar year 2020 rental income. Based on the most recent recalculation made at the time of issuance of the last series of Prior Bonds in 2020, the City attributed 33.6% of the Base Rental Payments to the five Ground Lease Sites. Based on the expected debt service on the 2021 Bonds and taking into account the addition of the three properties to the Leased Property in connection with the issuance of the 2021 Bonds, the City expects that approximately 20.65% of the Base Rental Payments will be attributable to the Ground Lease Sites. See “THE LEASED PROPERTY—Ground Lease Sites” below.

Public Safety Facilities

Fire Station #2 – Bayside is a three-story 25,000 square-foot, LEED Gold certified fire station located across the street from the San Diego County Administration Center and serves Little Italy and the downtown area west of the train and trolley tracks. Fire Station #2 consists of three drive-thru apparatus bays on the ground floor. Engine #2’s district is 0.6 square miles.

Fire Communications Center is an 11,738 square-foot, 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, National City, Coronado, Imperial Beach and Chula Vista in the region.

Fire Station #9 is a 6,486 square-foot, 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.

Fire Station #11 is a two-story, 8,900 square-foot 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 is a 21,700 square-foot, single-story wood frame and 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 is a 8,400 square-foot, 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 is 9,400 square-foot, 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 Plaza is a 50.12 gross acre property including 19.01 net usable acres located on Murphy Canyon Road, between Balboa Avenue and Aero Drive in Kearny Mesa. The approximately 70,000-square foot facility contains administration offices, training fields, a pool, and a maintenance building and is used by the San Diego Police Department as a training and administrative facility.

San Diego Police Headquarters is the downtown administrative center for the San Diego Police Department. The property spans one city block in downtown San Diego, bounded by 14th and 15th Streets, E Street and Broadway, encompassing 2.76 acres. The facility includes a seven story, steel frame, Class 'A' public office building containing 165,000 square feet. See "CERTAIN RISK FACTORS – Fuel Tanks" herein.

Northeastern Police Station is a 3.22-acre property that serves the northern communities of San Diego. The facility includes a single-story concrete police sub-station office structure containing 17,860 square feet and a detached, 4,698-square foot vehicle maintenance building. See "CERTAIN RISK FACTORS - Fuel Tanks" herein.

Southern Division Police Station is a 3.30 acre property that serves the neighborhoods of Border, Egger Highlands, Nestor, Ocean Crest, Otay Mesa, Otay Mesa West, Palm City and San Ysidro. The facilities consist of one, 22,500 square-foot 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.

Ground Lease Sites

General. A portion of the Leased Property consists of the five Ground Lease Sites which are owned by the City. As discussed below, the City has previously ground leased the Ground Lease Sites to third parties who have constructed various buildings and improvements on the sites and the City is receiving rent pursuant to these leases. 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 2021 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 2021 Bonds. However, in the event of default under the Lease, in addition to other remedies, 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. A reduction in rent and other income received by the City from the Existing Leases below the amount of Base Rental Payments attributed to the Ground Lease Sites under the Lease would limit the amount that the Trustee could receive under this particular remedy. Under the Lease, the City is not required to recalculate the Base Rental Payments attributable to each Ground Lease Site. If the City decided not to recalculate the percentage of the Base Rental Payments at the time of issuance of an Additional Series of Bonds as is its usual practice, the effectiveness of this remedy could be further reduced. The City is undertaking such recalculation in connection with the issuance of the 2021 Bonds and currently expects to do so in connection with the issuance of any Additional Bonds in the future. The rent and other income from the Ground Lease Sites can fluctuate depending on a variety of factors including economic conditions or other events, such as the effects of the COVID-19 pandemic as discussed below.

Hotel Ground Leases Rent Deferrals. In response to the COVID-19 pandemic, the City Council adopted ordinances which provided for a temporary moratorium on evictions for nonpayment of rent by residential and commercial tenants in the City who are directly impacted by the outbreak (see “COVID-19 — Additional City Programs — *Eviction Moratorium* in Appendix A). Since March 2020, the three lessees under the Existing Leases for the San Diego Mission Bay Resort, the Hyatt Regency Mission Bay Spa and Marina, and the Lodge at Torrey Pines, elected to defer some or all of their monthly rent payments. Scripps Health and the Regents of the University of California (with respect to the University of California San Diego Site) have not deferred any rent payments during this period. The Existing Leases for these three sites include minimum rent provisions which total an estimated \$7.1 million annually (\$586,300 monthly). However, Torrey Pines Lodge paid approximately \$955,000 or 40% of its minimum due in calendar year 2020 (including no rent since June 2020), whereas the San Diego Mission Bay Resort (\$1.8 million) has paid 92% of the annual minimum, and Hyatt Regency (\$2.8 million) has paid 103% of the minimum due under the rent provisions. For the calendar year 2020, the three hotels have paid a combined \$5.5 million which is approximately 51% of the total rental payments received in calendar year 2019. The City cannot predict at this time the timing of the lessees’ payment of the prior rent due to the City or when the rent payments will achieve the pre-COVID-19 levels. See “COVID-19 — Additional City Programs — *Eviction Moratorium* in Appendix A for information with respect to the expiration of the City’s and the State’s eviction moratoriums.

The City currently does not believe that the non-payment or deferral of rent under the Existing Leases will materially adversely affect its ability to pay the Base Rental Payments securing the Bonds, including the 2021 Bonds.

San Diego Mission Bay 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 17.7 acres of land area and one-half acre of water area (improved with a boat dock). The City has leased the site to Pebblebrook Hotel Trust, for a 50-year term that commenced on July 27, 2018. A 357-room resort hotel, along with a restaurant, spa, swimming pool, tennis court and boat dock, are located at the San Diego Mission Bay 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.

Hyatt Regency Mission Bay Spa 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. The improvements on the site consists of a 429-room hotel and 186-slip marina, a restaurant, spa, three swimming pools and a gym, which improvements are not owned by the City and are not a part of the Leased Property. The site is leased by the City to CHSP Mission Bay LLC 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 such property. See "CERTAIN RISK FACTORS — 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 the Lodge at Torrey Pines Partnership for a 66-year term that commenced on June 5, 1995. The improvements on the site consists of a 170-room resort hotel of three 4-story structures, and one 3-story structure, along with one, 2-story parking garage, 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 by the City 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 the Regents of the University of California by the City 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 Hills Library is located on the corner of Washington Street and Front Street. The Mission Hills Library is a 19,806-square foot, one-story library over two levels of parking completed in 2019 and sits on approximately 0.45 acres.

Mission Valley Library is located in the southwest corner of a large retail center, Fenton Marketplace, on City-owned land. The Mission Valley Library is a 19,760 square-foot, two-story wood framed, steel and masonry public library building and 85 paved open surface parking spaces on the site. 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 a 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. Included 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. All three tenants have recently exercised their option to extend their respective leases for 25 years which now expire in 2046. No rental payments or other amounts received from the House of Charm tenants are pledged to pay the Base Rental Payments securing the Bonds, including the 2021 Bonds.

The Mingei International Museum (in the House of Charm) closed after Labor Day in September 2018 as part of a \$55 million project to complete a comprehensive interior physical renovation (with some exterior work) that is planned to add approximately 10,000 square-feet of new public space. The improvements and their funding are being independently managed by the Mingei International Museum and not the City. Pursuant to the lease with the Mingei International Museum, the improvements become City property at the City's option upon lease termination. The renovation of the Mingei International Museum is expected to be complete to allow for reopening by the end of June 2021. Since the majority of the House of Charm is not currently available for use and occupancy, no portion of the Base Rental Payments will be allocable to the House of Charm until the renovations are complete. In addition, the City has determined that the annual fair rental value of the remaining Leased Property exceeds the annual Base Rental Payments due and, as a result, there will be no abatement in Base Rental Payments due to the renovation project. Once the renovation of the Mingei International Museum is complete, the fair rental value of the City Property is expected to increase.

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 the Metropolitan Transit System (formerly called the 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 the 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.

SUMMARY OF LEASED PROPERTY

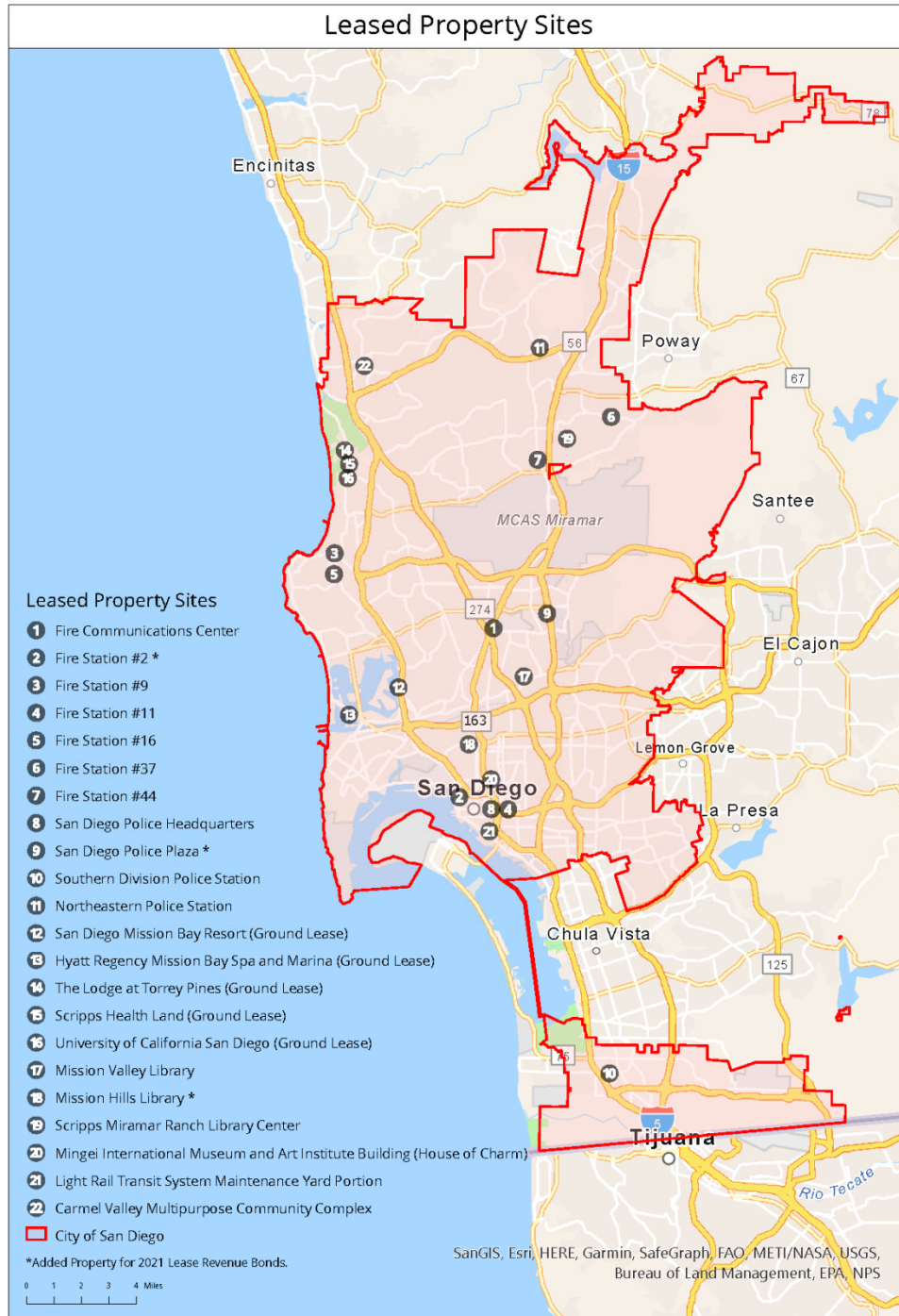
	<i>Site⁽¹⁾⁽²⁾</i>	<i>Address⁽³⁾</i>	<i>General Description</i>	<i>Original Completion Date</i>	<i>Approx. Acreage of Site</i>	<i>Approx. Building Square Footage</i>
1.	Fire Communications Center	3750 Kearny Villa Road, 92123	Fire communications building and related facilities	1990	1.47	11,738
2.	Fire Station #2 ⁽⁴⁾	875 W. Cedar Street	Fire Station	2018	0.23	25,000
3.	Fire Station #9	7870 Ardath Lane, 92037	Fire Station	1979	1.15	6,482
4.	Fire Station #11	945 25th St., 92102	Fire station	1995	0.29	11,050
5.	Fire Station #16	2110 Via Casa Alta, 92037	Fire station	1982	0.82	21,700
6.	Fire Station #37	11640 Spring Canyon, 92131	Fire station	2001	1.09	8,400
7.	Fire Station #44	10011 Black Mountain Rd., 92126	Fire station	2000	1.64	9,430
8.	San Diego Police Headquarters	1401 E. Broadway, 92101	Police administration facility	1987	2.76	165,000
9.	San Diego Police Plaza ⁽⁴⁾	4020 Murphy Canyon Road	Police station, training fields, pool, maintenance facility	1998	50.12	70,000
10.	Southern Division Police Station	1120 27 th St., 92154	Police station and police vehicle maintenance facility	1993	3.30	22,558
11.	Northeastern Police Station	13396 Salmon River Rd., 92129	Police station and police vehicle maintenance facility	1989	3.22	22,558
12.	San Diego Mission Bay Resort (Ground Lease) ⁽⁵⁾	1775 E. Mission Bay Dr., 92109	Ground Lease under a resort hotel	Not applicable	17.74	Not applicable
13.	Hyatt Regency Mission Bay Spa and Marina (Ground Lease) ⁽⁵⁾	1441 Quivera Rd., 92109	Ground Lease under a resort hotel	Not applicable	9.37	Not applicable
14.	The Lodge at Torrey Pines (Ground Lease) ⁽⁵⁾	11480 N. Torrey Pines Rd., 92037	Ground Lease under a resort hotel	Not applicable	6.05	Not applicable
15.	Scripps Health Land (Ground Lease) ⁽⁵⁾	10820 N. Torrey Pines Rd., 92037	Ground Lease under a sports center on the Scripps Health Clinic campus	Not applicable	3.50	Not applicable
16.	University of California San Diego (Ground Lease) ⁽⁵⁾	10280 N. Torrey Pines Rd., 92037	Ground Lease under a university administrative building	Not applicable	2.87	Not applicable
17.	Mission Valley Library	2123 Fenton Parkway, 92108	Public library and parking	2002	2.00	18,930
18.	Mission Hills Library ⁽⁴⁾	215 W. Washington Street	Public library and parking	2019	0.45	19,806
19.	Scripps Miramar Ranch Library Center	10301 Scripps Lake Drive, 92131	Public library and parking	1993	9.14	21,700
20.	Mingei International Museum and Art Institute Building (House of Charm) ⁽⁶⁾	1439 El Prado, Balboa Park, 92101	Two museums and three theater rehearsal spaces	1996	1.01	69,865
21.	Light Rail Transit System Maintenance Yard Portion ⁽⁷⁾	1535 Newton Ave., 92113	Rail yard and maintenance facility for light rail transit system	1993	4.17	92,000
22.	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) Based on various appraisals completed over time from 2010 – 2021, the aggregate value of the Leased Property is \$429.7 million. This includes \$129 million in estimated value of Ground Lease sites based on appraisals conducted solely for the purposes of ground lease agreements and not for purposes related to the Prior Bonds or the 2021 Bonds.
- (3) All properties are located in San Diego, California.
- (4) Real property to be added as part of the Leased Property in connection with the issuance of the 2021 Bonds.
- (5) 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.
- (6) Currently closed for renovation and estimated to reopen in June 2021.
- (7) San Diego Metropolitan Transit Development Board Property which is expected to cease to be a part of the Leased Property on October 15, 2022.

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 San Diego Mission Bay Resort Site and the Hyatt Regency Mission Bay Spa and Marina 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 2021 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."

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 2021 Bonds. The following discussion is not meant to be a comprehensive or definitive list of the risks associated with an investment in the 2021 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 2021 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 2021 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 2021 Bonds other than the obligation of the City to make Base Rental Payments under the Lease. The Authority has no taxing power.

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 2021 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.

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 2021 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 2021 Bonds. Abatement, therefore, could have an uncertain and material adverse effect on the security for and payment of the 2021 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 2021 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 2021 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 2021 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 2021 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."

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 2021 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 and the Authority" 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 2021 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 2021 Bonds (including Bond Counsel's legal opinion) will be qualified, as to the enforceability of the 2021 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 and the Authority” 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 2021 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.

Earthquake and Seismic Conditions

According to the County of San Diego Office of Emergency Services, every year approximately 500 earthquakes occur in the State that are large enough to be felt. Since 1984, earthquake activity in San Diego County has doubled over that of the preceding 50 years. A major earthquake could cause widespread destruction and significant loss of life in a populated area such as the City. There are several known earthquake faults in San Diego County including San Andreas, San Jacinto, Elsinore, and Rose Canyon, which are all capable of producing earthquakes that could cause damage in the San Diego area. The Rose Canyon Fault Zone runs through the heart of the San Diego metropolitan area and could present a major seismic hazard to the region. The seismic retrofitting of City facilities built after 1994 meet the State building codes designed to meet existing seismic standards for the San Diego region; however it is possible that buildings built after 1994, including portions of the Leased Property, could be damaged in a major earthquake. Eight of the 22 sites comprising the Leased Property were built prior to 1994, and could be more seismically vulnerable and at risk of extensive damage after an earthquake than those built after 1994. See “Summary of Leased Property” and “Map of Leased Property Sites.”

In March, 2020 the Earthquake Engineering Research Institute San Diego Chapter released a report entitled “San Diego Earthquake Planning Scenario: Magnitude 6.9 on the Rose Canyon Fault Zone.” The planning scenario examined the potential impacts and consequences of a probable 6.9 earthquake occurring on the Rose Canyon fault zone. The scenario report concluded that the San Diego Region could suffer severe damage to its buildings and lifeline infrastructure with devastating consequences to the communities and economy following a major Rose Canyon fault zone earthquake. The City did not contribute to the report nor verify the findings in the report.

If an earthquake were to substantially damage or destroy taxable property and infrastructure within the City, a reduction in revenues available to the General Fund to make Base Rental Payments would be likely to occur due to a reduction in major revenue sources, including property taxes, sales tax and transient occupancy taxes. Seismic activity may also interrupt the use and occupancy of the Leased Property resulting in an abatement of Base Rental Payments and may damage the improvements located on the Ground Lease Sites which could reduce revenues received by the City under the Ground Leases. 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 PRISM 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 and there are no insurance proceeds. The MTS Site Lease does not require MTS to maintain earthquake insurance coverage with respect to the MTS Property or to repair or restore the MTS Property if damaged by earthquake and there are no insurance proceeds. Given the foregoing, it is possible that none of the Leased Property will be covered by earthquake insurance. In such event no insurance funds will be available to rebuild the Leased Property. In addition, the rental interruption insurance required under the Lease does not cover earthquake events and no insurance proceeds will be available to pay Base Rental Payments following an earthquake. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2021 BONDS—Use and Occupancy Insurance,” “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.

No Flood Insurance

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 PRISM Pool. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2021 BONDS – Insurance Coverage for Leased Property” 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 not to carry flood insurance or 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. In such event no insurance funds will be available to make Base Rental Payments with respect to any of the City Property damaged by flood or to rebuild such property.

The MTS Site Lease does not require MTS to maintain insurance coverage insuring against loss or damage due to flood. However, flood coverage for the MTS Property is currently provided to MTS through its participation in the PRISM Pool. MTS in its discretion may elect at any time not to carry flood insurance or to modify its coverage in the future, in which case it is possible that none of the MTS Property will be covered for flood damage. In such event no insurance funds will be available to make Base Rental Payments with respect to the MTS Property damaged by flood or to rebuild such property.

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

Other Natural Disasters and Climate Change

In addition to earthquakes and floods affecting the Leased Property, as described under “— Earthquake and Seismic Conditions” and “— No Flood Insurance” above, it is possible the City could experience other natural disasters, such as wildfires, tsunamis, and floods. Certain of such natural disasters may be intensified by climate change resulting in increased wildfires, more intense and frequent droughts and more extreme weather events. 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. The City currently estimates that one of the Ground Lease Sites (San Diego Mission Bay Resort) could be exposed to a sea level rise of two feet as early as 2050 if no adaptive measures are taken.

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.

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 Assessment and Mitigation Plans.” The City has not 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.

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. As described below under “—Fuel Tanks,” certain of the Leased Property contains storage of hazardous substances that could cause damage to or result in loss of use of such property.

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 Hyatt Regency Mission Bay Spa and Marina, the City’s Fleet Operations Department 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.

Impacts and Potential Impacts of COVID-19 on the City

The COVID-19 pandemic has had an adverse impact on the economy and, in turn, on the City's financial condition and operating results. The outbreak is expected to have continued negative effects on the local, State and national economies until a vaccine is made widely available to the general public. Unemployment in the United States, including California, increased dramatically following the outbreak of the pandemic. While unemployment has declined in the last several months, it remains above the pre-pandemic levels. Federal and state governments (including California) have enacted legislation and have taken executive actions designed to mitigate the negative public health and economic impacts of the outbreak.

On March 4, 2020, the Governor declared a state of emergency to help the State prepare and respond to the COVID-19 pandemic. On March 13, 2020 the President declared a national state of emergency. On March 19, 2020, the Governor issued a statewide Order, Executive Order N-33-20, directing all residents to heed State public health directives to stay home or at their place of residence except as needed to maintain continuity of operations of critical infrastructure sectors during the COVID-19 response. Since that time the State, the County and the City have undergone varying degrees of limited reopening. On August 28, 2020, the State released guidance regarding re-opening certain types of businesses based on a county-by-county approach where each county is assigned a tier based on COVID-19 case rates within each county. As a result of a significant decrease in available intensive care unit beds in the State, on December 3, 2020, the Governor announced a Regional Stay at Home Order. If available intensive care unit beds in a region fell below 15%, certain non-essential businesses would be required to close and certain retail businesses would be required to operate at limited capacity. The southern California region, which includes the City, became subject to the Regional Stay at Home Order restrictions effective December 6, 2020. On January 25, 2021, based on projected increases in the availability of intensive care unit beds, the Governor lifted the Regional Stay at Home Order which allowed for limited re-opening of businesses based on the tiered system described above. The City expects that State and local directives will continue to be revised as infection, hospitalization and vaccination rates fluctuate.

The spread of COVID-19 and the collateral effects on the local economy resulted in reduced revenues to the City's General Fund in the final two quarters of Fiscal Year 2020 and the first two quarters of Fiscal Year 2021 and the City expects revenue declines to continue through at least the end of Fiscal Year 2021. See "COVID-19 RELATED IMPACTS ON THE CITY" above and APPENDIX A—"CITY GOVERNMENT AND FINANCIAL INFORMATION—COVID-19" and "CITY BUDGET AND RELATED MATTERS—Fiscal Year 2021 Budget Monitoring" and "—Fiscal Year 2021 Adopted Budget."

There are many variables that will affect the length and breadth of the economic impact from the COVID-19 pandemic, including the length of time social distancing measures are in place, the rate at which vaccines are administered and the effectiveness of State and Federal governments' relief programs. The City is unable to predict how long the adverse impacts from the COVID-19 will continue.

Impact of Economic Conditions on the City

The City has identified an economic recession and increasing salaries, benefits and pension costs as the two most significant factors that could adversely affect the City's financial condition. Efforts to respond to and mitigate the spread of COVID-19 have had a significant negative impact on the State and local economy and triggered a recession. While the City cannot predict the timing or extent of such recession, the effect of the recession has and can be expected to continue to result in decreases in major revenue sources such as sales tax, transient occupancy tax on lodging, and property tax caused by weakened consumer demand and higher unemployment. Such reductions to the City's major revenue sources are placing a strain the City's fiscal condition. Prior recessions reduced the City's major resources in the aggregate by approximately 1 percent to 5 percent. See APPENDIX A—"CITY GOVERNMENT AND FINANCIAL INFORMATION—CITY BUDGET AND RELATED MATTERS—Fiscal Year 2021 Adopted Budget." In addition, federal and State budget policies could 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 the 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."

Impact of Labor Costs on the City

Approximately 70.3 percent of the expenditures in the Fiscal Year 2021 General Fund budget relate to wages and benefits; meaning that small changes in labor agreements and factors that increase required employer contributions to pensions can have large impacts on City expenditures. In the City's Mid-Year Budget Monitoring Report released in January 2021, the City is projecting that General Fund expenditures for salaries and wages will be approximately \$1.8 million above the adopted budget and that fringe benefits will be approximately \$3.4 million above the adopted budget. Based on the most recent actuarial analysis for the San Diego City Employees' Retirement System delivered in January 2021, the City's actuarially determined contribution for Fiscal Year 2022 will increase by \$49.3 million from \$365.6 million to \$414.9 million.

The City reached agreements with four of the six recognized labor organizations for Fiscal Year 2021 and is negotiating with the two remaining labor organizations for Fiscal Year 2021. The City is also negotiating with all six labor organizations for agreements for Fiscal Year 2022. See APPENDIX A — "CITY GOVERNMENT AND FINANCIAL INFORMATION — LABOR RELATIONS" and "— SAN DIEGO CITY EMPLOYEES' RETIREMENT SYSTEM" and "POST-EMPLOYMENT HEALTH CARE BENEFITS."

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 February 2021 by the San Diego Military Advisory Council estimates that approximately 23% of the jobs in the County for the federal fiscal year ending September 30, 2020 were directly and indirectly related to the military. According to the Military Study, as of September 30, 2020, there were 122,630 active duty and reserve military personnel and 30,430 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, 2020 represented approximately 25% 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.

Potential Impacts from Federal and State Budget

Federal and State contributions have not historically been a major revenue source to the City General Fund. Direct funding contributed by federal and state governments for the City General Fund for Fiscal Year

2020 was less than 1% of revenues and is also less than 1% of revenues in the Fiscal Year 2021 Adopted Budget (as defined in Appendix A). However, the City has received increased amounts of federal and State funding in Fiscal Year 2020 and Fiscal Year 2021 as compared with prior years that the City expects to apply to help offset increased expenditures resulting from the COVID-19 pandemic. See APPENDIX A— “CITY GOVERNMENT AND FINANCIAL INFORMATION—”COVID-19” and “CITY BUDGET AND RELATED MATTERS.”

In addition, 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 major sources such as property taxes, sales taxes and transient occupancy tax 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” in Appendix A.

Bankruptcy of the City and the Authority

In addition to the limitation on remedies contained in the Indenture and the Lease, the rights and remedies provided in the Indenture and the Lease may be limited by and are subject to the provisions of federal bankruptcy laws and to other laws or equitable principles, as now or hereinafter enacted, that may affect the enforcement of creditors’ rights. The various legal opinions to be delivered concurrently with the 2021 Bonds (including Bond Counsel’s approving opinion) will be qualified as to the enforceability of the various agreements relating to the 2021 Bonds by limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally and by general principles of equity applied in the exercise of judicial discretion. See “– Limited Recourse on Default; Re-Letting of Leased Property” and “– Enforcement of Remedies” herein.

The City is a governmental unit and the Authority is a public agency. The City and the Authority cannot be the subject of an involuntary case under the United States Bankruptcy Code (the “Bankruptcy Code”). However, pursuant to Chapter 9 of the Bankruptcy Code (“Chapter 9”), the City and the Authority may seek voluntary protection from their respective creditors for purposes of adjusting their respective debts, provided that they comply with the requirements of Section 53760 et seq. of the California Government Code of the State.

In the event that the City or the Authority becomes a debtor under the Bankruptcy Code, the affected entity would be entitled to all of the protective provisions of the Bankruptcy Code as applicable in a Chapter 9 proceeding, and an owner of a 2021 Bond would be treated as a creditor. Possible adverse effects of such a bankruptcy include, but are not limited to (i) the application of the automatic stay provisions of the Bankruptcy Code which, absent court approval, generally prohibit the commencement of any judicial or other action to recover a pre-petition claim against the City or the Authority, as applicable, any act to collect on a pre-petition debt or claim, or any act to obtain possession of the Leased Property of the City or the Authority, as applicable; (ii) the avoidance of preferential transfers occurring during the relevant period prior to the commencement of the bankruptcy case; (iii) the existence of secured and/or unsecured creditors with allowed claims that may have priority over any claims of the Owners; and (iv) the possibility of the bankruptcy court’s confirmation of a plan of adjustment of the debts of the City or the Authority, as applicable, which may restructure, delay,

compromise or reduce the amount of the claim of the Owners. In bankruptcy, the provisions of the transaction documents that require the City to make payments directly to the Trustee rather than to the Authority may no longer be enforceable, all payments may be required to be made to the Authority, the bankruptcy court may not require the payments to be made during the case at all, and the plan of adjustment may not provide for continuing payments.

The Leased Property is not subject to a security interest, mortgage or any other lien in favor of the Trustee for the benefit of the Owners. Under the Indenture, the Trustee has a security interest in all the amounts on deposit from time to time in the funds and accounts established in the Indenture, including the Base Rental Payments, for the benefit of the Owners, but such security interest arises only when the Base Rental Payments are actually received by the Trustee following payment by the City. In bankruptcy, the lien of the Indenture may not attach to any Base Rental Payments made by the City after the commencement of the bankruptcy case.

In bankruptcy, 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 a bankruptcy court to be a true lease, the City or Authority, as the case may be, could either reject the Lease or assume the Lease despite any provision of the Lease that is based on the bankruptcy, insolvency or financial condition of the City or the Authority. In the event the City or Authority rejects the Lease, the Trustee, on behalf of the Owners, would have a secured claim only to the extent of the Base Rental Payments in the possession of the Trustee, and would have an unsecured claim for the remainder of the Base Rental Payments and other damages that may be substantially limited in amount. The City or Authority may be permitted to assign the Lease to a third party, regardless of the terms of the transaction documents, so that the City would not be obligated to make any further payments under the Lease. The City or Authority also may be able to stay in possession of the Leased Property, notwithstanding its rejection of the Lease, and the City may be able to obtain authorization from the bankruptcy court to sell the Leased Property to a third party, free and clear of the leases, and the rights of others (including the Authority, the Trustee and the Owners).

If a bankruptcy court were to treat the Lease as a financing lease (and not a true lease), (a) the City may retain possession of the Leased Property during the bankruptcy case without making post-petition rent payments, including the Base Rental Payments, and (b) under a Chapter 9 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 Chapter 9 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. If so, the remainder of the Owners’ claim for the Base Rental Payments could be treated under the Chapter 9 plan as an unsecured deficiency claim, and paid the significantly impaired rate generally paid on unsecured claims in Chapter 9 cases.

In bankruptcy, if a material unpaid liability is owed to the San Diego City Employees’ Retirement System 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 or Authority bankruptcy would rule on these matters.

As a result of the commencement of a bankruptcy case by the City or the Authority, there may be delays in payments on the 2021 Bonds, and Owners could experience partial or total loss of their investment in the 2021 Bonds. The adjustment plans approved in connection with the bankruptcies of several California cities resulted in significant reductions in the amounts payable by the cities under lease obligations. Regardless of any specific adverse determinations in a bankruptcy of the City or the Authority, a bankruptcy of the City or the Authority could have an adverse effect on the liquidity and value of the 2021 Bonds.

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 2021 BONDS — Use and Occupancy Insurance” 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 2021 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. Currently there is no self-insurance in effect with respect to the Leased Property. See APPENDIX C — “SUMMARY OF LEGAL DOCUMENTS – THE LEASE – Maintenance; Taxes; Insurance and Other Charges.”

The Lease does not require insurance coverage for risk of loss due to terrorism or earthquake or flood and the City does not maintain such insurance except to the limited extent described herein. See “CERTAIN RISK FACTORS — Earthquake and Seismic Conditions” and “—No Flood Insurance.”

Cybersecurity

The City relies on a complex technology environment to conduct its operations. As a recipient and provider of personal, private, and sensitive information, the City and its departments and offices face multiple cyber threats including, but not limited to, hacking, viruses, malware and other attacks on computers and other sensitive digital networks and systems. The City has an Information Security Office within the City’s Information Technology department to adopt new technology and procedures in an effort to protect the City’s systems and confidential and proprietary data of the City, its employees, and members of the public. See APPENDIX A — “CITY GOVERNMENT AND FINANCIAL INFORMATION — CITY BUDGET AND RELATED MATTERS — Information Technology — *Cybersecurity*.”

The City actively manages its networks and systems to ensure that City systems are properly secured and protected, however, no assurances can be given that the City’s security and operational control measures will be successful in guarding against any and each cyber threat and attack. The results of any attack on the City’s computer and information technology systems could impact its operations and damage the City’s digital networks and systems, and the costs of remedying any such damage could be substantial. To date, the City has not experienced any cyberattacks that have resulted in major operational disruptions or financial consequences.

The City currently maintains insurance coverage with respect to certain information security and privacy liability claims. See APPENDIX A — “CITY GOVERNMENT AND FINANCIAL INFORMATION — RISK MANAGEMENT — Cyber Liability Insurance.”

Storm Water Program Costs

The City is subject to various local, State and federal regulations with respect to water quality standards for urban and storm water runoff within the watersheds managed by the City. The City's estimated capital and operating costs to comply with such standards exceed currently budgeted and projected funding levels. The City also projects that it will not meet numeric limits set on allowable pollutants in certain watersheds, which could subject the City to penalties, lawsuits and enforcement actions. The City is currently pursuing a multi-faceted strategy to meet these regulatory requirements that includes negotiating a compliance strategy to lessen regulatory requirements; pursuing alternative funding sources including evaluating a sustainable long-term funding mechanism and pursuing loans and grants; and maximizing program efficiencies through adaptive management and program innovation. If the City is not successful in implementing these strategies, there could be a material increase in General Fund expenditures for the storm water program which would require budget reductions in other areas. See APPENDIX A — "CITY GOVERNMENT AND FINANCIAL INFORMATION—CITY BUDGET AND RELATED MATTERS — Storm Water Program."

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 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, APPROPRIATIONS AND REVENUE."

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.

CONTINUING DISCLOSURE

Pursuant to the Continuing Disclosure Certificate of the City (the "Disclosure Certificate"), the City will agree to provide, or cause to be provided, to the Municipal Securities Rulemaking Board ("MSRB") in the manner prescribed by the Securities Exchange Commission (the "SEC") certain annual financial information and operating data related to the City (the "Annual Report") no later than April 10 after the end of the City's fiscal year (which currently ends June 30), commencing with the Annual Report for [Fiscal Year 2021 due April 10, 2022] and to provide notices of certain enumerated events (as described in the Disclosure Certificate). The form of the Disclosure Certificate is attached hereto as APPENDIX F — "FORM OF CONTINUING DISCLOSURE CERTIFICATE." The City's covenants in the Disclosure Certificate will be made in order to assist the Underwriters in complying with Rule 15c2-12(b)(5) adopted by the SEC under the Securities Exchange Act of 1934 (the "Rule"). The Disclosure Certificate will inure solely to the benefit of any Dissemination Agent, the Underwriters, and Owners or Beneficial Owners from time to time of the 2021 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 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 2021 Bonds.

FINANCIAL STATEMENTS FOR FISCAL YEAR 2020

The City's CAFR for Fiscal Year 2020, which includes the City's audited basic financial statements as of and for the fiscal year ended June 30, 2020, is available through EMMA at <https://emma.msrb.org/P11454214-P11127460-P11538958.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, 2020 and for the year then ended have been audited by Macias Gini & O'Connell LLP as stated in its report dated December 21, 2020, which is included with the financial statements. Macias Gini & O'Connell LLP, the City's independent auditor, has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. Macias Gini & O'Connell LLP also has not performed any procedures relating to this Official Statement. The City did not request the consent of the independent auditors to incorporate the City's financial statements to this Official Statement.

TAX MATTERS

In the opinion of Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, interest on the 2021 Bonds is excluded from gross income for federal income tax purposes, and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals. In the further opinion of Bond Counsel, interest on the 2021 Bonds is exempt from State of California personal income tax.

The difference between the issue price of a 2021 Bond (the first price at which a substantial amount of the 2021 Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity with respect to the 2021 Bond (to the extent the redemption price at maturity is greater than the issue price) constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Beneficial Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Beneficial Owner will increase the Beneficial Owner's basis in the applicable 2021 Bond. In the opinion of Bond Counsel, the amount of original issue discount that accrues to the Beneficial Owner of a 2021 Bond is excluded from gross income of such Beneficial Owner for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals. In the opinion of Bond Counsel, the amount of original issue discount that accrues to the Beneficial Owner of a 2021 Bond is exempt from State of California personal income tax.

Bond Counsel's opinion as to the exclusion from gross income for federal income tax purposes of interest (and original issue discount) on the 2021 Bonds is based upon certain representations of fact and certifications made by the Authority, the City and others and is subject to the condition that the Authority and the City comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the 2021 Bonds to assure that interest (and original issue discount) on the 2021 Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause the interest (and original issue discount) on the 2021 Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 2021 Bonds. The Authority and the City will covenant to comply with all such requirements.

The amount by which a Beneficial Owner's original basis for determining loss on sale or exchange in the applicable 2021 Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable bond premium, which must be amortized under Section 171 of the

Code; such amortizable bond premium reduces the Beneficial Owner's basis in the applicable 2021 Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of bond premium may result in a Beneficial Owner realizing a taxable gain when a 2021 Bond is sold by the Beneficial Owner for an amount equal to or less (under certain circumstances) than the original cost of the 2021 Bond to the Beneficial Owner. Purchasers of the 2021 Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.

Bond Counsel's opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Bond Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Indenture and the Tax Certificate relating to the 2021 Bonds permit certain actions to be taken or to be omitted if a favorable opinion of a bond counsel is provided with respect thereto. Bond Counsel expresses no opinion as to the effect on the exclusion from gross income for federal income tax purposes of interest (or original issue discount) on any 2021 Bond if any such action is taken or omitted based upon the advice of counsel other than Bond Counsel.

Although Bond Counsel will render an opinion that interest (and original issue discount) on the 2021 Bonds is excluded from gross income for federal income tax purposes provided that the Authority and the City continue to comply with certain requirements of the Code, the ownership of the 2021 Bonds and the accrual or receipt of interest (and original issue discount) with respect to the 2021 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 2021 Bonds, all potential purchasers should consult their tax advisors with respect to collateral tax consequences relating to the 2021 Bonds.

The Internal Revenue Service (the "IRS") has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the 2021 Bonds will be selected for audit by the IRS. It is also possible that the market value of the 2021 Bonds might be affected as a result of such an audit of the 2021 Bonds (or by an audit of similar bonds). No assurance can be given that in the course of an audit, as a result of an audit, or otherwise, Congress or the IRS might not change the Code (or interpretation thereof) subsequent to the issuance of the 2021 Bonds to the extent that it adversely affects the exclusion from gross income of interest (and original issue discount) on the 2021 Bonds or their market value.

SUBSEQUENT TO THE ISSUANCE OF THE 2021 BONDS THERE MIGHT BE FEDERAL, STATE, OR LOCAL STATUTORY CHANGES (OR JUDICIAL OR REGULATORY CHANGES TO OR INTERPRETATIONS OF FEDERAL, STATE, OR LOCAL LAW) THAT AFFECT THE FEDERAL, STATE, OR LOCAL TAX TREATMENT OF THE 2021 BONDS INCLUDING THE IMPOSITION OF ADDITIONAL FEDERAL INCOME OR STATE TAXES ON OWNERS OF TAX-EXEMPT STATE OR LOCAL OBLIGATIONS, SUCH AS THE 2021 BONDS. THESE CHANGES COULD ADVERSELY AFFECT THE MARKET VALUE OR LIQUIDITY OF THE 2021 BONDS. NO ASSURANCE CAN BE GIVEN THAT SUBSEQUENT TO THE ISSUANCE OF THE 2021 BONDS STATUTORY CHANGES WILL NOT BE INTRODUCED OR ENACTED OR JUDICIAL OR REGULATORY INTERPRETATIONS WILL NOT OCCUR HAVING THE EFFECTS DESCRIBED ABOVE. BEFORE PURCHASING ANY OF THE 2021 BONDS, ALL POTENTIAL PURCHASERS SHOULD CONSULT THEIR TAX ADVISORS REGARDING POSSIBLE STATUTORY CHANGES OR JUDICIAL OR REGULATORY CHANGES OR INTERPRETATIONS, AND THEIR COLLATERAL TAX CONSEQUENCES RELATING TO THE 2021 BONDS.

A copy of the proposed form of opinion of Bond Counsel with respect to the 2021 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 2021 Bonds or the related documents, or in any way contesting or affecting the validity of the 2021 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 2021 Bonds or the use of the 2021 Bond proceeds.

There is litigation pending against the City unrelated to the 2021 Bonds. One case is pending which seeks to challenge a prior authorization of lease revenue bonds by the Authority and the City on the grounds that the City Charter precludes the approval of lease revenue bonds secured by the General Fund. Pursuant to Code of Civil Procedure Section 860 *et seq.*, the statute of limitations to challenge the validity of the 2021 Bonds has expired. Accordingly, the outcome in this litigation will not affect the validity of the 2021 Bonds or the documents being executed by the City and the Authority to effectuate the issuance of the 2021 Bonds. Litigation is also pending with respect to a property located at 101 Ash St. where the City is leasing property from a private party. This property is not a part of the Leased Property under the Master Facilities Lease. Due to asbestos contamination at the property the City is unable to occupy the premises and, as a result, has ceased making lease payments. See APPENDIX A—“CITY GOVERNMENT AND FINANCIAL INFORMATION—“SAN DIEGO CITY EMPLOYEES’ RETIREMENT SYSTEM—Defined Benefit Plan—*Proposition B and its Current Status,*” —“NO PENDING LITIGATION REGARDING THE 2021 BONDS” and “—LITIGATION POTENTIALLY ADVERSELY AFFECTING THE GENERAL FUND.”

CERTAIN LEGAL MATTERS

Certain legal matters incident to the authorization, issuance and sale of the 2021 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 2021 Bonds will be delivered to the initial purchasers of the 2021 Bonds at the time of original delivery of the 2021 Bonds. The proposed form of the legal opinion of Bond Counsel for the 2021 Bonds is set forth in APPENDIX D —“FORM OF BOND COUNSEL OPINION.”

Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed on for the City and the Authority by Stradling Yocca Carlson & Rauth, a Professional Corporation, Disclosure Counsel, and by the City Attorney. Certain legal matters will be passed upon for the Underwriters by their counsel, Orrick, Herrington & Sutcliffe LLP. Bond Counsel and Disclosure Counsel will receive compensation contingent upon the sale and delivery of the 2021 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 2021 Bonds. Such credit ratings and outlooks reflect only the views of such organizations and any desired explanation of the significance of such credit ratings and outlooks should be obtained from the rating agency furnishing the same, at the following addresses: Fitch Ratings, One State Street Plaza, New York, New York 10004, and S&P, 55 Water Street, New York, New York 10041. A securities rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time.

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

responsibility to oppose any such revision, suspension or withdrawal. Any such downward revision, suspension or withdrawal of the ratings obtained, or other actions by a rating agency relating to its rating, may have an adverse effect on the market price and marketability of the 2021 Bonds.

The City will covenant in the Disclosure Certificate to file on EMMA, notices of any rating changes on the 2021 Bonds. See the caption “CONTINUING DISCLOSURE — Continuing Disclosure Certificate for 2021 Bonds” above and Appendix F hereto. Notwithstanding such covenant, information relating to ratings changes on the 2021 Bonds may be publicly available from the rating agencies prior to such information being provided to the City and prior to the date the City is obligated to file a notice of rating change on EMMA. Purchasers of the 2021 Bonds are directed to the ratings agencies and their respective websites and official media outlets for the most current ratings changes with respect to the 2021 Bonds after the initial issuance of the 2021 Bonds.

UNDERWRITING

The 2021 Bonds are being purchased by Citigroup Global Markets, UBS Financial Services Inc., Ramirez & Co., Inc. and Wells Fargo Bank, National Association (collectively, the “Underwriters”). The Underwriters have agreed to purchase the 2021 Bonds at a price of \$_____ (being \$_____ aggregate principal amount thereof, plus/less net original issue premium/discount and less Underwriters’ discount of \$_____). The purchase agreement for the 2021 Bonds provides that the Underwriters will purchase all of the 2021 Bonds if any are purchased. The obligation to make such purchase is subject to certain terms and conditions set forth in such purchase agreement, the approval of certain legal matters by counsel and certain other conditions.

The Underwriters may offer and sell the 2021 Bonds to certain dealers and others at prices lower than the offering prices stated on the inside cover page hereof. The offering prices may be changed from time to time by the Underwriters.

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

Citigroup Global Markets Inc., an underwriter of the 2021 Bonds, has entered into a retail distribution agreement with Fidelity Capital Markets, a division of National Financial Services LLC (together with its affiliates, “Fidelity”). Under this distribution agreement, Citigroup Global Markets Inc. may distribute municipal securities to retail investors at the original issue price through Fidelity. As part of this arrangement, Citigroup Global Markets Inc. will compensate Fidelity for its selling efforts.

UBS Financial Services Inc. (“UBS FSI”), an underwriter of the 2021 Bonds, has entered into a distribution and service agreement with its affiliate UBS Securities LLC (“UBS Securities”) for the distribution of certain municipal securities offerings. Pursuant to such agreement, UBS FSI will share a portion

of its underwriting compensation with UBS Securities. UBS FSI and UBS Securities are each subsidiaries of UBS Group AG.

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

Wells Fargo Bank, National Association, acting through its Municipal Finance Group ("WFBNA"), one of the underwriters of the 2021 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 2021 Bonds. Pursuant to the WFA Distribution Agreement, WFBNA will share a portion of its underwriting or remarketing agent compensation, as applicable, with respect to the 2021 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 2021 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

MUNICIPAL ADVISOR

Public Resources Advisory Group (the "Municipal Advisor") has acted as Municipal Advisor to the City in conjunction with the issuance of the 2021 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 2021 Bonds. The Municipal Advisor will receive compensation contingent upon the sale and delivery of the 2021 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.

MISCELLANEOUS

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

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

This Official Statement is not to be construed as a contract or agreement between the Authority or the City and the purchasers or Owners of any of the 2021 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

APPENDIX A

CITY GOVERNMENT AND FINANCIAL INFORMATION

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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. (For ease of reference, references in this APPENDIX A to any particular Fiscal Year (e.g., Fiscal Year 2021) shall mean the Fiscal Year ending June 30 of the referenced year).

As explained under "SECURITY AND SOURCES OF PAYMENT FOR THE 2021 BONDS" in the front part of this Official Statement, the 2021 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 2021 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.

COVID-19

General

The City's General Fund has been materially adversely impacted by the health-related and economic impacts of the COVID-19 pandemic. Efforts to respond to and mitigate the spread of COVID-19 have had a severe impact on the State and local economy and triggered a recession. There have been many fiscal challenges attributed to the global COVID-19 pandemic, including gross domestic product decline, historic increases in unemployment claims in the region, travel restrictions and a decline in consumer spending resulting from closures of non-essential goods and services. The COVID-19 pandemic and the efforts to mitigate its spread has resulted in significant declines in City revenues from recent levels. Additionally, uncertainty exists with inflation, and federal and international policies that may result in further declines in the future.

The outbreak resulted in temporary closing of businesses, universities, and schools throughout California. The County of San Diego (the "County") issued a "stay-at-home" emergency order on March 16, 2020 which required closures of certain businesses including restaurants, bars, and gyms across the County. Since the March 16, 2020 order, the State has issued reopening plans and additional stay-at-home orders which have been revised over time based on metrics related to COVID-19. In May and June of 2020, based on guidance from the State, businesses such as restaurants, retail shops, hair salons and gymnasiums within the County and the City began to reopen.

Due to an increase in infection rate and decline in available intensive care unit ("ICU") beds in the State, on December 6, 2020, the Governor signed a Regional Stay at Home Order. The Regional Stay at Home Order divides the State into five regions. If the ICU availability in a region falls below 15%, certain business sectors such as hair salons and personal care services, wineries, bars and breweries, card rooms and live audience sports, are required to remain closed. Certain sectors such as retail, hotel and lodging and restaurants, may remain open with limitations on capacity. Critical infrastructure sectors, schools and non-urgent medical and dental care may remain open. ICU capacity in the southern California region, which includes the County and the City, fell below 15% and the Regional Stay at Home Order restrictions went into effect for the southern California region on December 6, 2020 and remained in effect for 7 weeks. On January 25, 2021, based on projected increases in the availability of ICU beds, the Governor lifted the Regional Stay at

Home Order which allowed for limited re-opening of businesses. See “CERTAIN RISK FACTORS — Impacts and Potential Impacts of COVID-19 on the City” in the Official Statement.

The temporary closures caused by COVID-19 have led to a stark increase in unemployment across the County and the nation. Depending on the length and the breadth of the impacts of COVID-19, the economic costs may be very significant for the City and the region’s economy. According to a report released by State Employment Development Department, the City’s unemployment rate was 7.9% as of December 2020. This is a significant increase from the 3.1% unemployment rate in February 2020, but also a decrease from the high of 14.9% in May 2020. There are many variables that will continue to contribute to the economic impact of the COVID-19 pandemic and the recovery therefrom, including the length of time social distancing measures are in place, the effectiveness of State and Federal governments’ relief programs and the timing for the containment, treatment, and vaccinations efforts. The City cannot predict the extent or duration of such impacts.

Service Impacts

The City has continued to provide core services including public safety (police and fire), water and sewer services and trash collection without disruption during the COVID-19 pandemic. However, the COVID-19 pandemic has impacted certain other services that the City provides. While the stay at home order has been in effect, recreation centers and pools have closed, and libraries are open for public use on a limited basis. Parks and beaches are also open for limited use. Certain other services impacted include certain road repairs, weed abatement, residential graffiti removal, and routine tree pruning services. Certain City employees have also been reassigned from their regular job duties to assist with COVID-19-related mitigation and vaccination efforts.

Many City employees that are able to work via telecommuting have utilized this option, with the assistance from the Department of Information Technology. Approximately 20% of all City employees are now working remotely using virtual desktop infrastructure. The City’s development plan permitting function transitioned to virtual hearings, inspections, and appointments. The City has also established an electronic option for development plan submittals.

Financial Impacts

The closure of businesses and public facilities, including courts, has negatively impacted various sources of City revenues. The City’s suspension of parking meter enforcement has also reduced revenues. The COVID-19 pandemic has also increased overtime hours for City employees predominantly in the public safety departments that may not otherwise have been required. Although this has caused some overtime costs, the impacts to expenditures are not considered significant and consist primarily of the redeployment of certain staff and reallocation of resources.

The negative impacts from the COVID-19 pandemic on the City’s revenues in Fiscal Year 2020 have continued into Fiscal Year 2021 and may continue potentially several fiscal years beyond depending on the pace of recovery of the local economy and the return of conventions and tourism activity to the levels which existed prior to the outbreak of the COVID-19 pandemic. While more businesses and industries have begun to reopen, social distancing protocols currently remain intact. These protocols could continue to limit the capacity of businesses, conventions and many other tourism and sales tax generating activities for the City. See “—Fiscal Year 2021 Budget Monitoring,” “—Fiscal Year 2021 Adopted Budget,” “—Reserves” and “—Major Revenue Sources.”

COVID-19 Funding

CARES Funding. On March 27, 2020, the federal government passed the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) to provide emergency assistance and health care response for individuals, families, and businesses affected by the COVID-19 pandemic. The CARES Act provides \$150 billion in payments to states and local governments from the Coronavirus Relief Fund (“CRF”) that may only be used to cover costs that: (1) are necessary expenditures incurred due to the public health emergency with respect to the COVID-19; (2) were not accounted for in the budget most recently approved as of the date of enactment of the CARES Act; and (3) were incurred during the period that begins on March 1, 2020, and extended through December 31, 2021. As the second largest city in the State, the City received \$248.5 million on April 22, 2020. The Fiscal Year 2021 Adopted Budget (as defined below), appropriates approximately \$155 million of CARES Act funding to be used to offset expenditures in Fiscal Year 2021. As of June 30, 2020, the City had expended \$93.4 million. The City expects to spend all \$248.5 million by the end of Fiscal Year 2021.

On May 4, 2020, the United States Department of the Treasury provided supplemental guidance for the Treasury’s Coronavirus Relief Fund Guidance for State, Territorial, Local, and Tribal Governments. This guidance clarified key provisions in the CARES Act, including eligible payroll expenses and costs.

Federal legislation has been proposed which includes additional funding for individuals, businesses and state and local governments to mitigate the impacts of the COVID-19 pandemic. If such legislation is enacted into law, the City expects to seek additional federal funding that it is eligible to receive, if any.

Other Funding. The City is eligible for funds from the Federal Emergency Management Agency (“FEMA”) to cover certain COVID-19 emergency response costs. This program requires the City to pay 25% of the costs. As of June 30, 2020, the City had \$5.5 million of FEMA eligible expenditures and additional FEMA funds may be requested. The Department of Justice (“DOJ”) has awarded a \$1.2 million grant to the City to aid with police overtime expenditures due to the pandemic. Also, DOJ has provided a grant to aid firefighters during this emergency with a 15% cost share. The federal Department of Housing and Urban Development (“HUD”) has also provided \$11.5 million to the City for COVID-19 related homelessness, housing, and economic assistance. The City has received a \$3.7 million grant from the State to aid in homelessness due to COVID-19. In addition, the County and the Regional Task Force on the Homeless also received State grants which are being transferred to the City to pay for expenditures for Operation Shelter to Home (see “Additional City Programs—*Operation Shelter to Home*” below). COVID-19-funding that the City has received from the State to alleviate homelessness totals \$7.1 million.

Additional City Programs

Small Business Relief Fund. To assist local businesses and job retention, the City established a Small Business Relief Fund (“SBRF”) to provide grants and forgivable or low- to zero-interest-rate loans to eligible small businesses for working capital. The goal of the SBRF is to help businesses retain employees and sustain continuity of business operations impacted by federal, State, County and City emergency declarations relating to COVID-19.

Approximately \$6.1 million was made available in the SBRF and is being administered by the City’s Economic Development Department. Approximately \$3.4 million of the total was provided by the City’s Community Development Block Grant (“CDBG”) and approximately \$2.1 million is being funded from the San Diego Regional Consolidated Loan Fund and the remaining funds are from the Economic Workforce Development Fund. Financial assistance, in the form of grants and loans, range from \$10,000 to \$20,000 and are allocated to eligible, qualified small businesses based on the availability of funds, program guidelines and the submission of all required information and supporting documentation. As part of the Fiscal Year 2021 Adopted Budget an additional \$12.8 million has been allocated to the SBRF.

In addition, the City's Economic Development Department is providing additional financial assistance by issuing business loans ranging from \$25,000 to \$95,000 to qualified businesses as part of the CARES Act Revolving Loan Fund with funding provided from the U.S. Department of Commerce Economic Development Administration. This program does not have any provisions allowing for the loans provided thereunder to be forgiven. The term loans under this program are intended to help entrepreneurs adapt their business models to operating under pandemic restrictions while retaining or creating jobs. Priority will be given to smaller businesses within underserved communities or those operating within the following four economic base sectors: manufacturing & innovation, international trade & logistics, military, and tourism.

Operation Shelter to Home. Operation Shelter to Home ("OSTH") launched on April 1 by moving individuals already in shelters into the San Diego Convention Center (the "Convention Center"). Due to the COVID-19 pandemic, events were suspended and the Convention Center has been temporarily converted to be used as a homeless shelter from April 1, 2020 through March 31, 2021. OSTH is intended to reduce the potential for the spread of COVID-19 among the City's homeless population by creating more shelter space at the Convention Center, allowing room between individuals per guidelines from public health officials, and centralizing limited shelter staff. Coordinated outreach teams are now engaging with people living outdoors to offer shelter at the Convention Center, motel rooms or other options. Partner agencies include the City's Homeless Outreach Teams, Downtown San Diego Partnership, Regional Task Force on the Homeless, the County Health and Human Services Agency, People Assisting the Homeless, and various service providers. The effort is similar to the approach used when City bridge shelters were first opened in 2017 and follows practices local agencies normally use to engage unsheltered homeless individuals.

Funding for OSTH consists of \$7.1 million in State grant funding and an additional \$30 million of the costs are budgeted to be covered with CARES Act funding. Additional funding has been secured from grants including CDBG, Emergency Solutions Grant, Homeless Emergency Aid Program, and Homeless Housing, Assistance Prevention to continue OSTH through March 31, 2021.

Rental Assistance Program. The City included in the Fiscal Year 2021 Adopted Budget a rental assistance program (the "Rental Assistance Program") that is implemented with the San Diego Housing Commission ("SDHC") and funded in the amount of \$15.1 million. In October 2020, Council appropriated an additional \$5 million in CDBG to initiate a new phase of rental relief. In addition, on January 20, 2021, the City received \$42.3 million from the federal Consolidated Appropriations Act to be administered by SDHC for rent relief. The Rental Assistance Program provides financial assistance to low-income individuals and families who are impacted by the COVID-19 pandemic. Under the Rental Assistance Program, rental payments are provided directly to the landlords of those individuals and families eligible under this program.

The City also received approximately \$45.5 million for residential rent assistance from the State pursuant to Senate Bill 91, which the Governor signed into law on January 29, 2021. The total amount of funding available for housing stability assistance in Fiscal Year 2021 is approximately \$108 million.

Childcare Vouchers. The City has partnered with the County to use \$5 million of the City's CARES Act funding to provide childcare vouchers for essential workers and vulnerable populations eligible under the California Alternative Payment Program ("CAPP"). Such funding matches the \$5 million the County Board of Supervisors approved on May 5, 2020 and supplements California Senate Bill 89 funding. CAPP provides full or partial subsidies to pay for childcare in a location of the parent's choice while the parent works, trains, or seeks employment. Under CAPP, essential employees who could receive childcare assistance include health care workers, childcare providers, first responders, emergency medical services personnel, and grocery store staff. The program is administered by the California Department of Education and the California Department of Social Services.

Eviction Moratorium. The City Council adopted an ordinance ("Ordinance No. O-21177") effective March 25, 2020, which provides for a temporary moratorium on evictions for nonpayment of rent by

residential and commercial tenants in the City who are directly impacted by the COVID-19 pandemic. Ordinance No. O-21177 provides that no landlord shall take action to evict a tenant for not timely paying rent that was due on or after March 12, 2020, if the tenant provided written notice to the landlord, on or before the date the rent was due, and that the tenant is unable to pay rent to due to financial impacts related to COVID-19. As used in Ordinance No. O-21177, “financial impacts” means, with respect to a commercial tenant, a substantial decrease in business income due to business closure, loss of compensable hours of work or wages, layoffs or substantial out-of-pocket medical expenses. Tenants had up to six months from the date Ordinance No. O-21177 went into effect (March 25, 2020) or the withdrawal of the State Governor’s Order No. N-28-20 (which, among other things, suspends certain State laws that would otherwise restrict local governments’ ability to limit residential and commercial evictions for nonpayment of rent as a result of impacts caused by COVID-19) to pay all unpaid rent. After the six-month period, the landlord may evict a tenant who has not paid all outstanding rent and exercise remedies under the applicable lease and law.

On August 31, 2020, the Governor signed Assembly Bill 3088 into law, which provided residential tenants with certain eviction protections through January 31, 2021. On January 29, 2021 the Governor signed Senate Bill 91 into law, which extends the residential eviction protections provided under Assembly Bill 3088 through June 30, 2021. Ordinance No. O-21177 expired on September 30, 2020, however, residential tenants continue to receive the foregoing protections under State law.

On January 26, 2021, the City Council approved ordinances establishing additional protections for commercial and residential tenants, however, the residential moratorium is not effective during the pendency of the State-wide eviction moratorium under Senate Bill 91. The commercial eviction moratorium applies to small businesses as defined in the ordinance through June 30, 2021 or until 60 days after the City’s COVID-19 emergency declaration is lifted, whichever occurs sooner. Commercial tenants remain responsible for unpaid rent and have 6 months from expiration of the moratorium to pay any unpaid rent. See “THE LEASED PROPERTY— Ground Lease Sites— *Hotel Ground Leases Rent Deferrals.*”

Temporary Outdoor Business Operations. In an effort to support businesses negatively impacted by the economic effects of COVID-19, the City launched the Temporary Outdoor Business Operation permitting program in June 2020, making it easier for businesses to expand into the Public-Right-of-Way to conduct outdoor business operations. With these permits, businesses have been allowed to set up dining and other business activities temporarily in the street, sidewalk, and parking lanes if they comply with applicable Americans with Disabilities Act (“ADA”) requirements and other regulations. The City is also working to provide more permitting options, and support businesses as they work to comply with ADA and other applicable regulations while operating safely in these relatively new outdoor settings.

A \$3,000 or \$5,000 grant will be provided to businesses constructing ADA compliant decks and platforms on an upfront basis. Businesses located in low-to-moderate income census tracts or owned by low-to-moderate income individuals would be eligible for the higher \$5,000 grant as well as priority, expedited grant processing. At this time, the City has funding collected through the ADA portion of SB 1186 fees. The funds for “Accessibility for Outdoor Business Operations During COVID” are approximately \$530,000.

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, 2020, the California Department of Finance estimates the population to be 1,430,489. The City, with approximately 11,727 full-time employees budgeted for Fiscal Year 2021, 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 funded by 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 long-term debt, which are recognized when due, and (2) employee annual leave and claims and judgements 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, 2020 were audited by Macias Gini & O’Connell LLP, CPAs.

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 2022-

2026 Five-Year Financial Outlook (the “Five-Year Outlook”), which was released on November 4, 2020 and updated on November 23, 2020. 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 to the public by April 15 in compliance with the Charter. Additionally, project-length financial plans are presented to and adopted by the City Council for the Capital Improvements Program (“CIP”). In June, the final changes to the Adopted Budget are implemented based on final modifications approved by the City Council. The Adopted 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 following Fiscal Year.

The City’s budgets for Governmental Funds, such as the General Fund, Debt Service Funds, Special Revenue Funds, and Capital Project 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 in reserve for advances and deposits to other funds and agencies are considered as additions/deductions of expenditures. The budget for the City’s 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 operating budget excludes unrealized gains or losses resulting from changes in the value of investments.

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 revisions to the proposed budget in May, which include 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.

Budget Adoption

The Charter requires that the City’s adopted budgets be balanced such that proposed expenditures do not exceed projected revenues and any other available sources applied to balance the budget. As further required by Charter Section 69, the City Council shall approve the budget as submitted by the Mayor or modify the proposed budget in whole or in part by June 15 of each Fiscal Year. Within five business days of City Council’s modification, the Mayor shall approve, veto, or modify any line item approved by the City Council. The City Council has five business days within which to override any vetoes or modifications made by the Mayor. The Mayor approved the City Council modified budget on June 8, 2020 for Fiscal Year 2021 without any line-item vetoes or modifications. The Appropriation Ordinance, which adopts the annual budget and appropriates the necessary money to operate the City for the Fiscal Year (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, and may be passed by the Council on the day of its introduction, in accordance with City Charter Section 275. The Appropriation Ordinance for Fiscal Year 2021 was introduced and adopted by the City Council on June 30, 2020. Amendments to the adopted budget require City Council approval, except as delegated in the annual Appropriation Ordinance.

Budget Monitoring

The City's Department of Finance monitors fund balances and revenue and expenditure projections, throughout the Fiscal Year. The Department of Finance 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 Department of Finance 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, Third-Quarter 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 Mayor did not recommend any appropriation adjustments in connection with the Mid-Year Budget Monitoring Report delivered in January 2021 due to the uncertainty of federal or State funding, the current distribution of vaccines, and the potential impact to the City's revenues from the pandemic. Such adjustments are expected to be taken during the third-quarter of Fiscal Year 2021. The Third-Quarter Budget Monitoring Report is prepared incorporating nine months of actual results and includes projections through fiscal year-end. The Third-Quarter 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 Third-Quarter Budget Monitoring Report to the unaudited actual results to date. The Year-End Performance Report also includes financial schedules prepared by the Department of Finance 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 2016 through 2020.

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TABLE A-1
CITY OF SAN DIEGO
BALANCE SHEET FOR THE GENERAL FUND
Fiscal Years 2016 through 2020
(in thousands (except for footnotes))
(audited)

ASSETS	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Cash and Investments ⁽¹⁾	\$ 320,081	\$ 311,538	\$ 267,033	\$ 332,016	\$ 552,417
Receivables:					
Taxes – Net ⁽²⁾	127,026	97,235	106,294	107,621	92,048
Accounts – Net	20,291	13,987	37,274	27,670	28,960
Claims	8	8	-	-	-
Accrued Interest	1,109	917	1,053	1,477	1,742
Grants	-	-	-	-	-
From Other Funds ⁽³⁾	18,340	19,410	27,117	31,121	10,181
From Other Agencies ⁽⁴⁾	8,030	9,508	10,404	1,805	3,015
Contributions	2,636	634	968	-	1,159
Advances to Other Funds	811	782	733	733	-
Advances to Other Agencies	1,103	1,000	-	-	733
Prepaid Items	1,691	1	130	421	-
Restricted Cash and Investments ⁽⁵⁾	229	2,163	6,087	8,945	1,534
Total Assets	\$ 501,355	\$ 457,183	\$ 457,093	\$ 511,809	\$ 691,789
LIABILITIES					
Accounts Payable	\$ 32,870	\$ 31,107	\$ 42,769	\$ 44,338	\$ 46,395
Accrued Wages and Benefits	61,468	28,372	31,647	35,514	46,421
Due to Other Funds	4,042	3,032	-	-	-
Due to Other Agencies	-	14	9	15	-
Unearned Revenue ⁽⁶⁾	-	-	-	-	156,665
Contract Deposits	-	-	-	-	-
Other Accrued Liabilities ⁽⁷⁾	1,550	1,761	1,276	1,508	10,541
Total Liabilities	\$ 99,930	\$ 64,286	\$ 75,701	\$ 81,375	\$ 260,022
TOTAL DEFERRED INFLOWS OF RESOURCES	\$ 25,524	\$ 19,438	\$ 27,588	\$ 18,267	\$ 21,301
FUND BALANCE					
Nonspendable	\$ 2,502	\$ 783	\$ 863	\$ 1,154	\$ -
Restricted ⁽⁸⁾	146,228	116,253	132,307	160,400	195,085
Committed	109,474	116,497	100,483	92,189	88,665
Assigned ⁽⁹⁾	11,189	28,869	24,717	42,842	2,133
Unassigned ⁽¹⁰⁾	106,508	111,057	95,434	115,582	124,583
Total Fund Balance⁽¹¹⁾	\$ 375,901	\$ 373,459	\$ 353,804	\$ 412,167	\$ 410,466
Total Liabilities & Fund Balance	\$ 501,355	\$ 457,183	\$ 457,093	\$ 511,809	\$ 691,789

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

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- (1) Cash increased in Fiscal Year 2019 due to an excess of revenue over expenditures compared to prior years. The increase to Fiscal Year 2020 cash is primarily due to unspent CARES Act funding.
 - (2) The Tax Receivable decrease in Fiscal Year 2020 is due to a reduction in the Sales Tax Accrual due to the COVID-19 pandemic.
 - (3) The Fiscal Year 2020 decrease in Receivables from Other Funds is due to an increase in cash funded grants.
 - (4) The Fiscal Year 2016 increase to Receivables from Other Agencies is due to the outstanding receivable to the California Employers' Retiree Benefit Trust ("CERBT") to draw funds for the Fiscal Year 2016 Retiree Health Care costs. The reduction in Receivables from Other Agencies in Fiscal Year 2019 is the result of the City requesting less funds from the CERBT.
 - (5) The changes in Restricted Cash and Investments are due to the City maintaining operating agreements on City Facilities. Amounts are held in custody for use on City building expenditures. In Fiscal Year 2020, the City requested cash back for these operating agreements, due to a non-operational building.
 - (6) The Fiscal Year 2020 Unearned Revenue is CARES Act funding that has been received and unspent as of June 30, 2020.
 - (7) Other Accrued Liabilities increased due to the adoption of GASB 84, funds previously held as agency funds are now classified as governmental.
 - (8) The Restricted Fund Balance increase in Fiscal Year 2019 is primarily due to the first full year of receipts of the Road Repair and Accountability Gas Tax ("SB1"). The primary reason for the increase in Fiscal Year 2020 is due to unspent Infrastructure Funds.
 - (9) The increase in Assigned Fund Balance for Fiscal Year 2019 is due to the budgeted use of fund balance for the Fiscal Year 2020 budget. The reduction in Fiscal Year 2020 is due to lack of fund balance being budgeted in Fiscal Year 2021.
 - (10) The Fiscal Year 2019 increase in Unassigned Fund Balance is primarily due to a General Fund revenue surplus.
 - (11) General Fund Total Fund Balance includes funds that do not meet the criteria to be classified as special revenue funds, pursuant to Governmental Accounting Standards Board Statement No. 54.

Source: Table: Fiscal Years 2016-2020 Comprehensive Annual Financial Reports, City of San Diego.

Footnotes: Department of Finance, City of San Diego.

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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, 2016 through 2020
(in thousands (except for footnotes))
(audited)

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
REVENUES					
Property Taxes	\$ 471,321	\$ 506,197	\$ 535,481	\$ 570,627	\$ 609,297
Sales Taxes ⁽¹⁾⁽²⁾	284,448	280,558	282,321	314,362	292,525
Transient Occupancy Taxes ⁽²⁾⁽³⁾	107,675	116,869	121,904	131,926	95,243
Franchises ⁽⁴⁾	-	86,992	96,208	97,259	93,336
Other Local Taxes ⁽⁴⁾⁽⁵⁾	131,010	32,541	52,608	66,375	68,026
Licenses and Permits ⁽⁶⁾	24,929	24,502	22,000	28,366	37,756
Fines, Forfeitures and Penalties	40,183	31,040	30,708	28,582	27,918
Revenues from Federal Agencies ⁽⁷⁾	240	104	2,053	1,454	92,462
Revenues from Other Agencies ⁽⁸⁾	9,526	22,694	10,012	8,558	9,685
Revenues from Private Sources	2,335	2,118	1,225	858	688
Revenues from Use of Money and Property ⁽²⁾⁽⁹⁾	66,305	65,896	71,994	83,544	75,343
Charges for Current Services ⁽¹⁰⁾	231,825	247,733	263,266	291,439	296,599
Other Revenue	<u>26,759</u>	<u>21,650</u>	<u>12,236</u>	<u>12,418</u>	<u>13,080</u>
Total Revenues	\$ 1,396,556	\$ 1,438,894	\$ 1,502,016	\$ 1,635,768	\$ 1,711,958
EXPENDITURES					
Current:					
General Government and Other Support Services ⁽¹¹⁾	\$ 305,993	\$ 310,898	\$ 333,591	\$ 361,134	\$ 421,306
Neighborhood Services	39,310	32,868	33,650	34,796	43,398
Public Safety ⁽¹¹⁾	673,375	682,816	740,775	768,568	829,819
Parks, Recreation and Culture	146,190	156,825	167,965	173,627	173,080
Transportation	88,797	105,122	121,837	119,226	117,705
Sanitation and Health	89,695	93,872	91,166	94,711	102,279
Capital Outlay ⁽¹²⁾	12,948	80,629	34,602	16,671	11,517
Debt Service:					
Principal Retirement	9,004	6,834	7,058	9,180	13,081
Interest	<u>3,742</u>	<u>5,771</u>	<u>7,713</u>	<u>7,969</u>	<u>8,367</u>
Total Expenditures	\$ 1,369,054	\$ 1,475,635	\$ 1,538,357	\$ 1,585,882	\$ 1,720,552
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>27,502</u>	<u>(36,741)</u>	<u>(36,341)</u>	<u>49,886</u>	<u>(8,594)</u>
OTHER FINANCING SOURCES (USES)					
Transfers from Proprietary Funds	\$ 288	\$ 349	\$ -	\$ 8,239	\$ 4,915
Transfers from Other Funds ⁽¹³⁾	41,304	38,039	47,231	33,836	40,498
Transfers to Proprietary Funds	(807)	(1,019)	(1,862)	(235)	(2,073)
Transfers to Other Funds ⁽¹⁴⁾	(77,366)	(48,884)	(44,319)	(42,904)	(37,796)
Proceeds from the Sale of Capital Assets	-	2,403	-	53	-
Capital Leases ⁽¹²⁾	<u>6,624</u>	<u>72,440</u>	<u>15,636</u>	<u>9,488</u>	<u>1,349</u>
TOTAL OTHER FINANCING SOURCES (USES)	\$ (29,957)	\$ 63,328	\$ 16,686	\$ 8,477	\$ 6,893
Extraordinary Gain/Loss	\$ -	\$ -	\$ -	\$ -	\$ -
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	<u>(2,455)</u>	<u>26,587</u>	<u>(19,655)</u>	<u>58,363</u>	<u>(1,701)</u>
FUND BALANCE AT JULY 1⁽¹⁵⁾	<u>378,356</u>	<u>346,872</u>	<u>373,459</u>	<u>353,804</u>	<u>412,167</u>
FUND BALANCE AT FOLLOWING JUNE 30	<u>\$ 375,901</u>	<u>\$ 373,459</u>	<u>\$ 353,804</u>	<u>\$ 412,167</u>	<u>\$ 410,466</u>

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

- (1) The increase in Fiscal Year 2019 is primarily due to delayed distributions of Fiscal Year 2018 Sales Tax by the newly formed California Department of Tax and Fee Administration.
- (2) Fiscal Year 2020 decreases as a result of the COVID-19 Pandemic.
- (3) Includes the General Fund portion of Transient Occupancy Tax (“TOT”) (5.5% of the 10.5% levy) only; the balance (5.0% 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.
- (4) Beginning in Fiscal Year 2017, Franchise Fees were separated from the Other Local Tax category.
- (5) Other Local Taxes are local taxes and fees including revenues from Franchise Fees (through Fiscal Year 2016) and Property Transfer Tax. The increase in Fiscal Year 2019 is due to a full fiscal year of collecting the new Road Repair and Accountability Gas Tax (SB1).
- (6) The increase in Licenses and Permits in Fiscal Year 2020 is primarily due to increases in Cannabis Business Tax.
- (7) Revenues from Federal Agencies increased in Fiscal Year 2020 due to the Federal Aid provided by the CARES Act (COVID-19 Relief Fund).
- (8) Revenues from Other Agencies increase in Fiscal Year 2017 is due to a payment from the County of San Diego for land annexation near Mount Hope Cemetery.
- (9) The increase in Revenues from Use of Money and Property in Fiscal Year 2019 is primarily due to the change from a net Unrealized Loss in Fiscal Year 2018 to a net Unrealized Gain in Fiscal Year 2019 and higher average investment rates on securities in the City’s investments.
- (10) The increase in Charges for Current Services in Fiscal Year 2019 is primarily due to engineering services as well as TOT reimbursable services.
- (11) The increase in General Government and Public Safety in Fiscal Year 2020 is primarily due to negotiated salary increases with REOs.
- (12) In Fiscal Year 2017, the City entered into another capital lease for additional City staff office space building totaling over \$72 million. In Fiscal Year 2018, the land for the office space was recorded, totaling over \$18 million. In Fiscal Year 2018, the City also entered into a capital lease for a Fire Helicopter.
- (13) The decrease in Transfers from Other Funds in Fiscal Year 2019 is primarily due to a reduction in TOT transfers from both the TOT fund and the Stadium fund.
- (14) In Fiscal Year 2016 there was an increase in transfers to fund Capital Improvement Projects.
- (15) General Fund Total Fund Balance includes funds that do not meet the criteria to be classified as special revenue funds, pursuant to Governmental Accounting Standards Board Statement No. 54.

Source: Tables: Fiscal Years 2016-2020 Comprehensive Annual Financial Reports, City of San Diego.

Footnotes: Department of Finance, 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 2019 and 2020, and the Fiscal Year 2021 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 Generally Accepted Accounting Principles (“GAAP”) reporting purposes.

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TABLE A-3
CITY OF SAN DIEGO
GENERAL FUND
OPERATING BUDGET SUMMARY
Fiscal Years 2019 through 2021
(in thousands (except for footnotes))
(unaudited)

	Fiscal Year 2019	Fiscal Year 2020	Fiscal Year 2021
	Actuals on a Budgetary Basis⁽¹⁾	Actuals on a Budgetary Basis⁽¹⁾	Adopted Budget⁽²⁾
REVENUE SOURCES:			
Property Tax	\$ 570,627	\$ 609,297	\$ 630,628
Sales Tax	304,384	282,810	274,433
Property Transfer Tax	10,786	10,079	11,322
Transient Occupancy Tax ⁽³⁾	131,926	95,242	90,484
Licenses and Permits ⁽⁴⁾	28,366	37,756	40,672
Fines, Forfeitures, and Penalties ⁽⁴⁾	28,546	25,900	29,698
Interest Earnings	3,875	3,910	3,497
Franchises	80,556	77,357	69,338
Other Rents and Concessions ⁽⁴⁾	63,917	57,644	60,960
Revenue from Other Agencies/Private Sources ⁽⁴⁾⁽⁵⁾	9,129	8,674	152,655
Charges for Current Services ⁽⁴⁾⁽⁶⁾	170,803	143,346	149,465
Transfers from Other Funds ⁽⁷⁾	84,861	181,514	104,584
Other Revenue	<u>3,851</u>	<u>4,972</u>	<u>3,200</u>
Total General Fund Revenues and Transfers⁽⁸⁾	<u>\$ 1,491,627</u>	<u>\$ 1,538,501</u>	<u>\$ 1,620,936</u>
EXPENDITURES:			
Public Safety ⁽⁹⁾	\$ 768,946	\$ 846,920	\$ 852,598
Parks, Recreation, Culture and Leisure	167,622	176,132	181,440
Sanitation and Health	94,184	100,688	97,554
Transportation	66,559	63,588	70,787
Neighborhood Services ⁽¹⁰⁾	29,445	35,859	75,522
General Government and Support ⁽¹¹⁾	255,136	263,111	278,524
Capital Projects	1,165	864	1,487
Debt Service	15,672	19,969	21,754
Transfers to Other Funds ⁽¹²⁾	<u>63,855</u>	<u>67,853</u>	<u>41,270</u>
Total General Fund Expenditures and Transfers⁽⁸⁾	<u>\$ 1,462,584</u>	<u>\$ 1,574,984</u>	<u>\$ 1,620,936</u>

(Footnotes (unaudited) to Table A-3 appear on next page)

- (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) As adopted in June 2020. See “—Fiscal Year 2021 Budget Monitoring” below for updated information on Fiscal Year 2021.
- (3) Fiscal Year 2020 and Fiscal Year 2021 decrease in TOT is due to reduced tourism within the City resulting from the COVID-19 pandemic.
- (4) Includes amounts which are designated as Miscellaneous Revenues (as defined below). See “—Fiscal Year 2021 Budget Monitoring.”
- (5) Projected Fiscal Year 2021 increase in Revenue from Other Agencies in Fiscal Year 2021 relates to COVID-19 funding (i.e. CARES Act and FEMA).
- (6) The Fiscal Year 2020 and Fiscal Year 2021 decrease in Charges for Services is primarily due to decreases in TOT reimbursable services to the General Fund.
- (7) The Fiscal Year 2020 increase in Transfers from Other Funds is primarily due to an \$85 million increase in transfers due to the CARES Act.
- (8) The Fiscal Year 2019 Actuals increased fund balance by approximately \$29 million, whereas the Fiscal Year 2020 Actuals used approximately \$36.5 million of fund balance.
- (9) The Fiscal Year 2020 increase in Public Safety is primarily due to increases in personnel and fringe expenditures for the Police and Fire Departments.
- (10) The Fiscal Year 2021 increase in Neighborhood Services is primarily due to funding for programs in response to the COVID-19 pandemic such as Operation Shelter to Home, the Small Business Relief Fund, and the Rental Assistance Program.
- (11) The Fiscal Year 2020 increase in General Government and Support is primarily due to personnel and fringe expenditures as well as various contracts such as the Animal Control & Service Program and rent payments.
- (12) The Fiscal Year 2021 decrease in Transfers to Other Funds is primarily due to the elimination of the transfer to the Infrastructure Fund.

Source: Table: Fiscal Year 2019 and Fiscal Year 2020 Comprehensive Annual Financial Report, City of San Diego; Fiscal Year 2021 Adopted Budgets, City of San Diego.

Footnotes: Department of Finance, City of San Diego.

Fiscal Year 2021 Adopted Budget

The City’s General Fund budget for Fiscal Year 2021 (the “Fiscal Year 2021 Adopted Budget”) was adopted in June 2020 and reflected a balanced General Fund budget of \$1.62 billion. The General Fund budget is approximately 40.3% of the City’s total Fiscal Year 2021 Adopted Budget of \$4.02 billion. The General Fund budgeted expenditures for Fiscal Year 2021 reflected a net increase of \$30.9 million, compared to the Fiscal Year 2020 adopted General Fund budget of \$1.59 billion, primarily due to expenditures as a result of COVID-19. These COVID-19 related expenses will be covered by CARES Act funding. As described under “—Fiscal Year 2021 Budget Monitoring,” actual estimated revenues and expenditures have changed from those included in the Fiscal Year 2021 Adopted Budget.

The Fiscal Year 2021 Adopted Budget included 7,640.02 budgeted full-time equivalent (“FTE”) positions, a net decrease of 87.83 FTE positions from the Fiscal Year 2020 adopted General Fund budget.

The four major General Fund revenue sources are property taxes (38.9%), sales taxes (16.9%), TOT (5.6%), and franchise fees (4.3%). These sources account for approximately \$1.06 billion, or 65.6%, of the City’s General Fund revenue in the Fiscal Year 2021 Adopted Budget. This amount reflected a projected increase of \$69.4 million, or 6.6%, in these four revenue sources from the Fiscal Year 2020 adopted General Fund budget.

The Fiscal Year 2021 Adopted Budget includes General Fund revenues and expenditures of \$1.62 billion and maintains a focus on core essential services. General Fund expenditures are primarily supported by major General Fund revenue sources that include property tax, sales tax, transient occupancy tax, and franchise fees. These four major General Fund revenue sources account for \$1.10 billion or 67.1% of the revenue in the

Fiscal Year 2021 Adopted Budget, with the remainder of revenues generated by a variety of sources including CARES Act funding. Major revenues sources, in the Fiscal Year 2021 Adopted Budget, are projected to decrease by \$52.7 million, or 3.3%, from the Fiscal Year 2020 adopted General Fund budget, however, total budgeted General Fund revenues are \$31.2 million or 2% higher, than the Fiscal Year 2020 Adopted Budget, primarily due to receipt of CARES Act funding.

The Fiscal Year 2021 Adopted Budget assumes sales tax revenues will decrease 23.06% in the first quarter of Fiscal Year 2021, primarily from decreases in projected sales tax receipts as a result of the increased unemployment rate and decreased spending in travel, leisure, and entertainment sectors, which are all impacts from the COVID-19 pandemic. Based on current estimates from the City's sales tax consultant, sales tax revenues for the remainder of Fiscal Year 2021 are projected to decline by 4.00% due to increased unemployment, projected continued volatility in consumer confidence, and a projected continued decline in the economy. The Fiscal Year 2021 Adopted Budget includes an annualized decline of 13.53% for sales tax revenues. See "Major Revenue Sources — Sales Tax" below.

The Fiscal Year 2021 Adopted Budget incorporates a projected average annual decline for TOT revenues of 36.71%. This rate of decline is somewhat greater than the projected decline in tourism activity as forecasted by the San Diego Tourism Authority and San Diego Tourism and Marketing District, due to uncertainty regarding global health conditions from COVID-19. See "Major Revenue Sources — Transient Occupancy Tax" below.

The Fiscal Year 2021 Adopted Budget also incorporates a \$27.4 million decrease from the Fiscal Year 2020 Adopted Budget in Miscellaneous Revenues which the City attributes to the effect of the COVID-19 pandemic. The largest portion of such increase relates to reimbursement of tourism-related costs from TOT. See "Major Revenue Sources — Transient Occupancy Tax" below.

In the Fiscal Year 2021 Adopted Budget, \$58.8 million of expenditures were added to the General Fund as a result of COVID-19. These COVID-19 related expenses will be covered by CARES Act funding. The City is also utilizing CARES Act funding to reimburse additional budgeted COVID-19 related expenditures in Fiscal Year 2021. Although budget reductions that provided efficiency and minimized impacts to service levels were prioritized first, the loss of revenue projected as a result of COVID-19 required that reductions with significant service level impacts also be taken to ensure the City maintains a balanced budget.

In November 2018, local voters approved Measure G, the San Diego State University ("SDSU") West citizens' initiative which permits but does not require the City to sell approximately 132 acres in the Mission Valley Site (the "Stadium Site") to SDSU or its affiliate only if the City Council approves the sale. The City Council approved the sale on June 30, 2020. The City and SDSU reached an agreement for the sale of the Stadium Site on August 13, 2020. The sale of the Stadium Site in the amount of \$86 million resulted in a \$51 million deposit to the Capital Outlay Fund for General Fund purposes with the remaining \$35 million going to the Public Utilities Department and deposited in the Water Utility Fund. The Fiscal Year 2021 Adopted Budget budgeted \$18.5 million of the \$51 million in Stadium Site sale proceeds deposited to the Capital Outlay Fund for ongoing Stadium debt service and a portion of the General Fund debt service in Fiscal Year 2021.

Fiscal Year 2021 Budget Monitoring

The City released the Mid-Year Budget Monitoring Report on January 29, 2021 (the "Mid-Year Monitoring Report"). The Mid-Year Monitoring Report includes updates on major General Fund revenue projections and expenses for Fiscal Year 2021.

Based on receipts through November 30, 2020, a decrease of \$86 million in General Fund revenues is projected at the end of Fiscal Year 2021 from the amount in the Fiscal Year 2021 Adopted Budget. Revenues

are projected to be under budget primarily due to the following: (i) a \$35.9 million decrease in TOT revenues as a result of travel restrictions, canceled events and restrictions on public gatherings instituted to curtail the spread of COVID-19; and (ii) a reduction of \$55.7 million in Miscellaneous Revenues as described below under “Major Revenue Sources—*Miscellaneous Revenues*.” Such declines are projected to be slightly offset by sales tax revenues exceeding the amount in the Fiscal Year 2021 Adopted Budget.

The Mid-Year Monitoring Report projects General Fund expenditures to be \$0.6 million below the amount in the Fiscal Year 2021 Adopted Budget at the end of Fiscal Year 2021.

The Mid-Year Monitoring Report projects General Fund expenditures of \$1.6204 billion to exceed revenue projections of \$1.535 billion, resulting in a projected \$85.4 million deficit.

The Mid-Year Monitoring Report contains various options to cover the projected \$85.4 million deficit, however it does not contain an appropriation adjustment or define a specific mitigation action plan. However, the Mid-Year Monitoring Report identifies options to mitigate the projected fiscal year end deficit including (1) the use of reserves, (2) the use of \$14.5 million in excess equity; and (3) reductions in operational and capital project expenditures. The City is currently evaluating potential approaches to cover the projected deficit and will likely make a decision concerning how to proceed after the status and uses of any additional federal and/or State financial assistance becomes known. The City expects to know the status and uses of additional federal or State financial assistance before the release of the Third Quarter Monitoring Report, which the City expects to release around May 18, 2021. That report will include any necessary budget adjustments for the City Council’s consideration, including the use of reserves, if necessary.

For a description of the City’s available reserves, see “—Reserves” below.

After release of the Mid-Year Monitoring Report, the Chief Operating Officer released a memorandum directing departments to reduce current year expenditures by requiring all General Fund and General Fund-impacting departments to only fill vacancies that: require a specialized skill set, are critical to operations, are necessary to meet regulatory requirements, or are critical to public safety/health. The Chief Operating Officer also directed departments to limit overtime to only safety and health related work as well as limit non-personnel spending to critical expenditures only.

Five-Year Financial Outlook

The City’s Fiscal Year 2022-2026 Five-Year Financial Outlook (the “Five-Year Outlook”) was released in November 2020. The Five-Year Outlook is focused on the City’s General Fund, guides long-range fiscal planning and was intended to serve as the framework for the development of the Fiscal Year 2022 budget. The Five-Year Outlook is based on the Fiscal Year 2021 Adopted 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.

As of the publication date of the Five-Year Outlook, the City’s Fiscal Year 2022-2026 expenditure projections will exceed revenue projections for the next four Fiscal Years (\$124.1 million projected deficit in Fiscal Year 2022, \$106.7 million projected deficit in Fiscal Year 2023, \$84.2 million projected deficit in Fiscal Year 2024 and \$27.8 million projected deficit in Fiscal Year 2025). The Five-Year Outlook projects revenues exceeding projected expenses by \$5.9 million in Fiscal Year 2026. The foregoing projections were prepared prior to the Mid-Year Monitoring Report which, absent any mitigation actions, projects an \$85.4 million deficit at the end of Fiscal Year 2021.

The major General Fund revenues are projected to continue to be impacted by the COVID-19 pandemic. The Five-Year Outlook forecasts the beginning of the economic recovery in Fiscal Year 2022 and projects to reach pre-recession levels by Fiscal Year 2025. The Five-Year Outlook assumes that a COVID-19

vaccine will be readily available by fiscal year 2022 and group travel will to begin to increase in the spring of 2021. In addition, no Federal or State relief was factored in to the Five-Year Outlook. Revenue growth is projected to increase significantly in Fiscal Year 2022, assuming the availability of the vaccine, and soften once reaching pre-recession levels by Fiscal year 2025. Major General Fund revenues are anticipated to increase in each year of the Five-Year Outlook; however, the rate of growth decreases in the outer years of the Five-Year Outlook. The overall economic assumptions included in the report are consistent with the information received from the City's sales tax consultant (Avenu Insights & Analytics), the San Diego Tourism Authority, San Diego Tourism Marketing District, the UCLA Anderson Forecast and Beacon Economics. The Five-Year Outlook also projects moderate increases in expenditure categories required to maintain current service levels as well as anticipated growth in those categories. The Five-Year Outlook also assumes no general fund reserve contributions will be made during Fiscal Year 2022 and Fiscal Year 2023.

On November 19, 2020, the San Diego City Employees' Retirement System ("SDCERS") notified the City of updated actuarially determined contribution ("ADC") estimates based on a limited actuarial analysis performed. The additional analysis conducted by Cheiron incorporates three additional components: 1) the assumption changes adopted in the June 30, 2019 experience study, 2) the actual investment results at June 30, 2020, and 3) the initial salary information received for the fiscal year that ended June 30, 2020. Based on these three factors, the actuary is projecting significant increases to the pension payments for the Five-Year Outlook period. These increases range from an incremental increase of \$52 million in Fiscal Year 2022 up to a \$75 million increase in Fiscal Year 2026. Approximately 83.9% of the ADC was allocated to the General Fund in Fiscal Year 2021, and this allocation may vary each year based on budgeted employees. These projected increases to the ADC have been factored into the Five-Year Outlook, but could further change pending the completion of the annual actuarial valuation. The June 30, 2020 actuarial valuation report was released January 2021 and states that the ADC for Fiscal Year 2022 will increase by \$49.3 million from \$365.6 million to \$414.9 million. Such actuarial valuation report is expected to be finalized and approved in March 2021. See "SAN DIEGO CITY EMPLOYEES' RETIREMENT SYSTEM" below.

The Five-Year Outlook's Salary and Wages section assumes the continuation of the current MOUs and does not assume any salary and benefit increases with the City's REOs. Additional information regarding approved labor agreements is described in the "LABOR RELATIONS" section.

The Five-Year Outlook presents potential mitigation actions that could be proposed to address the projected deficits in Fiscal Years 2022 through 2026 including: (1) use of the Infrastructure Fund, (2) use of General Fund reserves, (3) COVID-19 relief funds, and (4) requesting budget reductions as part of the Fiscal Year 2022 budget. As the Five-Year Outlook is not a budget, any potential mitigation will be addressed during the preparation of the Fiscal Year 2022 proposed budget.

In anticipation of the Fiscal Year 2022 budget and to ensure a structurally balanced budget, in December 2020, a memorandum was issued to all General Fund and General Fund-impacting departments to prepare budget reductions of up to 8% for Fiscal Year 2022. These potential reductions will give the City an opportunity to evaluate all mitigation options for Fiscal Year 2022. As with Fiscal Year 2021, the City expects to evaluate Federal and State stimulus opportunities, current reserves, and expenditure reductions in developing the upcoming budget. The Fiscal Year 2022 proposed budget will be released by the City by April 15, 2021, and, as noted above, is required by the Charter to be a balanced budget such that proposed expenditures do not exceed projected revenues and any other available sources applied to balance the budget.

Reserves

City Reserve Policy. The City maintains a formal city reserve policy (the “City Reserve Policy”), which is reviewed and updated biennially. Changes are approved by the City Council and incorporated into Council Policy 100-20. A Pension Payment Stabilization Reserve was added to the City Reserve Policy in 2016. The most recent updates to the City Reserve Policy were approved by the City Council in 2018.

General Fund Reserves. The City’s General Fund Reserve is comprised of two separate components:

Emergency Reserve. The Emergency Reserve was funded at \$106.1 million as of June 30, 2020, which met the target of 8% of the 3-year average of budgetary general fund operating revenue. Under the City Charter, 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. The Emergency Reserve is reported as restricted fund balance.

Stability Reserve. The Stability Reserve was funded at \$99.5 million as of June 30, 2020, which met the target of 7.5% of the 3-year average of general fund budgetary operating revenues. 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. The Stability Reserve is a component of unassigned fund balance in the General Fund.

Excess Equity. Unassigned fund balance in excess of the amount of the Stability Reserve is referred to in the City Reserve Policy as Excess Equity. On June 30, 2020, the Excess Equity balance was \$14.5 million. Excess Equity is not treated as a part of the General Fund Reserves and may be used to fund one-time expenditures.

The City ended Fiscal Year 2020 with a General Fund budgetary fund balance (General Fund Reserves and Excess Equity) of approximately \$220.1 million.

Pension Stabilization Reserve. The Pension Payment Stabilization Reserve (the “Pension Reserve”) is used to mitigate any unanticipated increases in the pension ADC. The current Pension Reserve amount is \$10.6 million (with \$7.9 million from the General Fund). This amount is approximately 3.0% of the rolling three-year average of the pension ADC. As part of the Fiscal Year 2021 Adopted Budget, the City did not include new contributions to the Pension Reserve. The Pension Stabilization Reserve is a component of unassigned fund balance in the General Fund.

Risk Management Reserves. The City maintains separate Risk Management Reserves in order to provide funding for claims made against the City. The Risk Management Reserves consists of the Workers’ Compensation Reserve Fund, the Long-Term Disability Reserve Fund, 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 the 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 the Workers’ Compensation Reserve and Long-Term Disability Reserve Fund. These contributions consist of the funding for current expenditures and for the annual reserve contributions as specified in the Reserve Policy. Based on updated actuarial valuations, the reserve targets for the Workers’ Compensation Reserve Fund, the Long-Term Disability Reserve Fund, and the Public Liability Fund Reserve have increased over the budgeted amounts for Fiscal Year 2021. In the Mid-Year Monitoring Report, the City did not assume any additional contributions to

meet the increased reserve targets and the City is not projecting to meet the reserve targets in Fiscal Year 2021.

Workers' Compensation Reserve. The Workers' Compensation reserve provides funding for medical and disability costs for injuries and illnesses occurring in the workplace and has a target reserve level equal to 12% of the average outstanding liability for the three most recent fiscal years. As of June 30, 2020 the Workers' Compensation Reserve was funded at approximately \$32 million. The Mid-Year Monitoring Report projects that the Workers' Compensation Reserve target for Fiscal Year 2021 is \$32.5 million and as described above, the City does not project meeting this target in the Mid-Year Monitoring Report. The Worker's Compensation Reserve is a component of committed fund balance in the General Fund.

Long-Term Disability Reserve. The Long-Term Disability Reserve Fund provides non-industrially disabled City employees with income and flexible benefits coverage. The reserve target is equal to 100% of the average outstanding liability for the three most recent fiscal years. As of June 30, 2020 the Long-Term Disability Reserve was funded at approximately \$3.8 million. The Mid-Year Monitoring Report projects that the Long Term Disability Reserve target for Fiscal Year 2021 is \$4.2 million and as described above, the City does not project meeting this target in the Mid-Year Monitoring Report. The Long-Term Disability Reserve is reported separately and not included as a component of fund balance of the General Fund.

Public Liability Reserve. The Public Liability Fund Reserve is funded by the General Fund to support claims arising from real or alleged acts on the part of the City, including claims for bodily injury, property damage, and errors and omissions. As of June 30, 2020 the Public Liability Fund Reserve was funded at approximately \$33.8 million. The reserve target is equal to 50% of the average outstanding liability for the three most recent fiscal years. The reserve target for Fiscal Year 2021 is \$36 million and as described above, the City does not project meeting this target in the Mid-Year Monitoring Report. The Long-Term Disability Reserve is reported separately and not included as a component of fund balance of the General Fund.

Fund Balance Available to Address Budgetary Shortfall

As described above, the City maintains several reserves and other funds which the City can use to address budgetary shortfalls of the General Fund. These include:

- The City's Emergency Reserve and Stability Reserve, collectively funded at \$205.6 million, are reserves that the City has set aside specifically for the purpose of addressing emergencies and budgetary shortfalls;
- The General Fund portion of the City's Pension Stabilization Reserve is currently funded at \$7.9 million, which the City has set aside to address unexpected increases in its pension contributions;
- The General Fund portion of the City's Risk Management Reserve, which the City has set aside to fund claims against the City, which General Fund portion is collectively funded at approximately \$54.4 million (which consists of the entire amount of the Public Liability Fund Reserve and the General Fund portion of the other two reserves within the Risk Management Reserve);
- Excess Equity, which represents undesignated fund balance in excess of the City's reserve funding policies, which is currently funded at \$14.5 million; and
- Available amounts (which fluctuate from time to time) in other operating funds (the "Operating Funds") that are separate from the General Fund for operational purposes or that have internal restrictions that may be removed by a vote of the Council. These funds,

generally, are not restricted by statute, the Charter, or other legal means and could be available for General Fund expenditures. Accordingly, the City Council may legally appropriate any amounts in these operating funds for any lawful purpose, although such appropriation may have an operational impact on the intended purpose of the operating fund.

Except for the City's Emergency Reserve, which the City Council may only appropriate with a two-thirds vote, all of the other reserves of the City may be appropriated for any purpose, even a purpose contrary to the intended policy purpose of the reserve with a simple majority. Since the outbreak of the COVID-19 pandemic, the City has not appropriated any of its reserves to address budgetary imbalances caused by the pandemic. According to the City's Fiscal Year 2021 Mid-Year Budget Monitoring Report, the City has a projected General Fund deficit of \$85.4 million for Fiscal Year 2021. Appropriation of reserves is one of the options the City is considering in covering this deficit.

General Fund Cash Management

In general, in each fiscal year, the City General Fund's expenditures fall largely evenly over the course of the fiscal year, whereas some of the City's most significant General Fund revenues, such as property tax revenues, fall largely to the second half of the fiscal year. To address this mismatch in receipts and expenditures, the City relies on cash balances from other eligible operating funds to smooth out the General Fund cash needs during the fiscal year. Additionally, the Charter permits interfund borrowing and the Chief Financial Officer has the authority under the annual Appropriation Ordinance to make interfund loans between funds to cover cash needs. The City can also issue tax revenue anticipation notes ("TRANs") if needed. The California Government Code, the City Charter, and federal tax laws permit the use of TRANs as a debt instrument if the City projects a temporary cash deficit to meet the City's projected appropriated expenditures for the fiscal year. The City has not issued TRANs since Fiscal Year 2013. See "Prospective Financings"

As of December 31, 2020, the City had available cash, including amounts on deposit in the City's General Fund, of approximately \$1.286 billion compared to December 31, 2019 available cash of approximately \$1.201 billion. This is based on the total cash for governmental activity categories as reported in the City's financial statements, including cash earmarked for capital and debt service, and other specific restricted governmental activities. This amount represents liquid cash that the City has for operations associated with governmental activities. This cash from other City funds is also available for General Fund activities through the Charter-permitted interfund borrowing authority. Based on the \$1.286 billion cash figure, the City ended December 31, 2020 with an estimated 189 days cash on hand for all governmental activities. As of June 30, 2020, the City had 281 days' cash on hand for all governmental activities.

As of December 31, 2020, the City's General Fund and Operating Funds had combined cash balance of \$360.3 million. The cash balance of \$360.3 million is a portion of the \$1.286 billion of cash for governmental activities. Comparatively, the cash balance for the General Fund and Operating Funds was \$370 million as of December 31, 2019.

Major Revenue Sources

General. The City depends on four major revenue sources to support core services. These sources are property tax, sales tax, transient occupancy tax, and franchise fees. In addition to these four major revenue sources, the General Fund receives revenues from various programs operated by the departments, which include parking fee revenues, court fees, various permits and fines, rental income from hotel leases, among others (the "Miscellaneous Revenues").

Property Taxes. Property tax revenue is the City's largest revenue source, representing 38.9% of the total General Fund revenue for the Fiscal Year 2021 Adopted Budget and the fiscal year 2020 adopted budget. 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, APPROPRIATIONS AND REVENUES." 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 judgement 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.

In lieu of the property tax on public utilities such as San Diego Gas and Electric, the City receives from the State (through the County) an amount of unitary revenue based upon the unitary property tax received in the prior year. In addition, property taxes allocated to the City include an amount to compensate cities for the loss of motor vehicle license fees ("MVLFF") that formerly went to the City. The City is compensated for the loss in MVLFF revenue with increased property tax revenues from the State in lieu of the MVLFF revenue.

In accordance with Assembly Bill x1 26 enacted by the State Legislature in June 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 (the “Former RDA”) 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, including the City, per appropriate allocation formulas.

In 2017, the City established an Enhanced Infrastructure Financing District in Otay Mesa, 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 “—General Fund Infrastructure” 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 2021 Property Tax Budget. The Fiscal Year 2021 Adopted Budget includes budgeted property tax revenues of \$630.6 million. This budgeted amount assumes a 4.25% growth rate based on the County’s estimated assessment roll of a 4.38% increase in assessed valuation. The assumed growth rate also takes into consideration other regional growth rates trending slightly lower than the previous year. The 4.25% assumed growth rate represents a 1.00% decrease from the prior year, which assumes an end to the general economic expansion experienced in recent years. The \$630.6 million property tax budget consists of an estimated \$432.0 million in base property tax, \$160.8 million “in-lieu of motor vehicle license fee” payment, \$9.0 million in tax sharing pass-through payments from the former Redevelopment Agency (RDA), and \$28.8 million in anticipated residual property tax payments.

In the Mid-Year Monitoring Report, property tax revenue for Fiscal Year 2021 is projected to be \$633.3 million, which is over budget by \$2.7 million due to an increase in the MVLF backfill payment and an increase in the RPTTF tax sharing pass-through payments. The projected residual property tax payment from the RPTTF is approximately \$38.9 million, which is \$1.1 million above the budgeted amount in the Fiscal Year 2021 Adopted Budget.

The RPTTF residual property tax payments are distributed to local agencies – including the City, the County, local school districts and special districts – once every six months. Generally, as enforceable obligations are fully paid and retired over the course of time, or as enforceable obligations are denied on the ROPS, the RPTTF residual balance available for distribution to local entities will increase. As a result of the retirement or denial of many enforceable obligations, the City has received increasingly larger RPTTF residual payments in recent fiscal years.

The City and six other local cities filed a lawsuit several years ago challenging the method used by the County to calculate the amount of RPTTF residual payments owed to each local taxing agency. The trial court ruled in favor of the local cities (including the City) but did not determine damages because the County filed an appeal. The Court of Appeal ruled in favor of the County on May 27, 2020, and on August 12, 2020, the California Supreme Court denied the local cities’ petition for review of the appellate ruling. The case has been remanded to the trial court to enter a final judgement consistent with the appellate ruling. Accordingly, this lawsuit has not resulted in any past increase to the City’s RPTTF residual payments and is not anticipated to result in any future increase. See “CITY BUDGET AND RELATED MATTERS — Fiscal Year 2021 Adopted Budget” and “— Fiscal Year 2021 Budget Monitoring.”

Table A-4 sets forth the assessed valuation within the City for Fiscal Years 2012 through 2020.

TABLE A-4
CITY OF SAN DIEGO
ASSESSED VALUATION ⁽¹⁾⁽²⁾
Fiscal Years Ended June 30, 2012 through 2021
(in thousands (except for percentages and footnotes))
(unaudited)

<u>Fiscal Year</u>	<u>Secured Property</u>	<u>Unsecured Property</u>	<u>Total Gross Taxable Assessed Valuation⁽³⁾</u>	<u>Annual Assessed Valuation % Change</u>
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	10,444,047	245,356,946	6.30
2019	250,467,108	10,760,593	261,227,701	6.47
2020	265,329,988	11,551,827	276,881,815	5.99
2021 ⁽⁴⁾	279,250,137	11,851,404	291,101,541	5.14

⁽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, 2019 is the official assessment date for property taxes due during Fiscal Year 2020.

⁽²⁾ Includes incremental value allocated to former redevelopment project areas that produce tax revenue assigned to the City as Successor Agency.

⁽³⁾ Total gross taxable assessed valuation before various exemptions are deducted. Fiscal Year 2021 exemptions are assessed at approximately \$13.5 billion.

⁽⁴⁾ Preliminary based upon the San Diego County Assessor's Report dated July 6, 2020 and subject to change throughout the fiscal year due to supplemental assessments and other factors related to property transfers and new development. Amounts will not be finalized until July 2021.

Source: Fiscal Year 2020 Comprehensive Annual Financial Report Statistical Section, City of San Diego; Fiscal Year 2021 data, San Diego County Assessor.

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Table A-5 sets forth the City's secured tax collections as of June 30, 2020 for Fiscal Years 2011 through 2020.

TABLE A-5
CITY OF SAN DIEGO
SECURED TAX LEVIES AND COLLECTIONS⁽¹⁾
Fiscal Years 2011 through 2020
(in thousands (except for percentages))
(unaudited)

Fiscal Year	Tax Levy⁽²⁾	Current Year Collections⁽²⁾	Current Year Collections as Percentage of Current Tax Levy	Total Tax Collections⁽³⁾	Total Collections as Percentage of Current Tax Levy
2011	\$293,624	\$285,913	97.37%	\$290,709	99.01%
2012	296,007	289,530	97.81	293,568	99.18
2013	299,332	293,577	98.08	296,426	99.03
2014	315,060	308,606	97.95	311,221	98.78
2015	331,187	325,794	98.37	328,567	99.21
2016	330,483	327,903	99.22	330,255	99.93
2017	349,650	346,510	99.10	349,186	99.87
2018	370,127	367,047	99.17	369,362	99.79
2019	391,665	388,224	99.12	390,433	99.69
2020	432,393	422,798	97.78	422,798	97.78

⁽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 2020 Comprehensive Annual Financial Report Statistical Section, City of San Diego.

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Table A-6 sets forth the ten largest secured and unsecured property taxpayers in the City for the tax roll of Fiscal Year 2020.

TABLE A-6
PRINCIPAL PROPERTY TAXPAYERS IN CITY OF SAN DIEGO
Tax Roll for Fiscal Year 2020
(in thousands (except for percentages))
(unaudited)

<u>Taxpayers</u>	<u>Type of Business</u>	<u>Taxable Assessed Value</u>	<u>Percent of Total City Taxable Assessed Value</u>
Qualcomm, Inc.	Electronics	\$ 2,138,154	0.81%
Irvine Co, LLC	Real Estate	1,490,959	0.57
Host Hotels Resorts, LP	Hotel Management	1,101,990	0.42
Kilroy Realty, LP	Real Estate	929,844	0.35
UTC Venture, LLC	Developer	818,067	0.31
One Park Boulevard, LLC	Hotel Management	505,922	0.19
Fashion Valley Mall, LLC	Developer	496,812	0.19
La Jolla Crossroad, LLC	Developer	488,173	0.18
BEX Portfolio, LLC	Developer	483,448	0.18
Bosa Development California II, Inc.	Real Estate	<u>430,983</u>	<u>0.16</u>
TOTAL		<u>\$ 8,884,352</u>	<u>3.36%</u>

Source: Fiscal Year 2020 Comprehensive Annual Financial Report Statistical Section, City of San Diego.

Sales Tax. Sales tax is collected and distributed by the California Department of Tax and Fee Administration. The statewide sales tax rate is established by the State Legislature. Sales tax is the City’s second largest revenue source.

The total citywide sales tax rate is 7.75%, comprised of a 7.25% statewide sales tax (which includes a 0.50% sales tax known as the Proposition 172 safety sales tax for the purpose of funding local public safety expenditures) and a 0.50% local supplemental sales tax described below. 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 7.25 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”). The TransNet sales tax was renewed in April 2008 for an additional 40-year term. TransNet sales tax revenues are not City General Fund revenues, and are restricted to transportation projects and are not available to pay the City’s General Fund lease obligations.

Fiscal Year 2021 Sales Tax Budget. The Fiscal Year 2021 Adopted Budget for sales tax revenues is \$274.4 million (excluding Proposition 172 safety sales tax), representing 16.9% of revenues in the Fiscal Year 2021 Adopted Budget. In Fiscal Year 2020, sales tax revenues represented approximately 19.2% of the General Fund adopted budget. The City performed a rate analysis by looking at each business sector and applying a declining rate to each sector based on assumed impacts by the COVID-19 pandemic. The Fiscal Year 2021 Adopted Budget for sales tax reflects the impact of the Marketplace Facilitator Act which requires online retailers to be responsible for collecting and paying the tax on retail sales made through their marketplace for delivery to California customers.

Online purchases (as opposed to sales through brick and mortar retailers) have increased since the onset of the COVID-19 pandemic. As a result of such shift in consumer spending, the City receives a smaller portion of sales tax revenues. Sales tax revenues from online retailers are distributed to the City through the County pool at a rate of approximately 0.5% as opposed to 1.0% for instore point of sale City sales tax revenues.

In the Mid-Year Monitoring Report, the Fiscal Year 2021 sales tax revenue projection was updated to \$283.3 million, which is \$8.8 million over budget. Mid-year projections reflect revised assumptions to include higher than anticipated sales tax receipts in the first quarter and revised impacts from the Regional Stay at Home Order in the second quarter. This increase is a result of better than anticipated consumer behavior during the COVID-19 pandemic, including the use of government stimuli by consumers, the “Home Improvement” phenomena, and an increase in online sales. In response to the Regional Stay at Home Order, which began in early December, the second quarter now reflects a revised growth rate of negative 9.20 percent. The growth rate of negative 9.20 percent is consistent with impacts from the first Stay at Home Order issued in March 2020 and accounts for limitations set on business operations, including the closure of certain sectors such as wineries and bars, a 20 percent capacity limitation set on retail stores and shopping centers, and restaurant operations limited to takeout orders. In the Mid-Year Monitoring Report, the City projects growth rates for the third and fourth quarters of Fiscal Year 2021 of negative 5.70 percent and negative 2.40 percent, respectively.

See “CITY BUDGET AND RELATED MATTERS — Fiscal Year 2021 Adopted Budget” and “— Fiscal Year 2021 Budget Monitoring” and APPENDIX B—“DEMOGRAPHIC AND ECONOMIC INFORMATION REGARDING THE CITY – Table B-4.” There could be further reductions to sales tax revenues in the current Fiscal Year as a result of recent events.

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 the City 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.

Fiscal Year 2021 Transient Occupancy Tax Budget. The Fiscal Year 2021 Adopted Budget for TOT revenues is \$171.6 million. Of the total budgeted amount, \$90.5 million in TOT revenue is allocated to the General Fund, which comprises 5.6% of the General Fund revenue budget. In Fiscal Year 2020, TOT revenues represented approximately 8.8% of the General Fund adopted 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 (see “Miscellaneous Revenues” below). The Fiscal Year 2021 blended decline assumed the majority of the impacts of the pandemic will affect July 2020 to November 2020, with a gradually lessening impact beginning in December 2020. This includes the assumption of suspension of Convention Center activity into the spring, per the Governor’s phased reopening plan. International travel restrictions, a State-wide ban on gatherings and a high national unemployment rate resulting from the COVID-19 pandemic have greatly reduced tourism in the City. The ban on gatherings has led to many conventions being canceled in the City. The City cannot predict when, or if, conventions and tourism activity will return to the level of such activity which existed prior to the outbreak of the COVID-19 pandemic.

In the Mid-Year Monitoring Report, General Fund TOT revenue was projected to be \$54.6 million, which is under budget by \$35.9 million due to under performance during the first quarter of Fiscal Year 2021, the Regional Stay at Home Order implemented in December 2020, and a downward revision of the forecasted tourism in the City associated with the COVID-19 pandemic. In the Fiscal Year 2021 Adopted Budget

General Fund TOT revenue is \$90.5 million, which reflects anticipated decreases in tourism in Fiscal Year 2021 due to COVID-19. The TOT budget was developed by month, assuming the COVID-19 pandemic would impact each month differently. The Mid-Year Monitoring Report includes five months of actual budgetary data and therefore only projects the impact that the Regional Stay at Home Order, which went into effect in December 2020, will have on TOT revenue in the first quarter of 2021. The updated mid-year projections for TOT assume no group travel or conventions through the end of Fiscal Year 2021. See “COVID-19” above and “CERTAIN RISK FACTORS— Impacts and Potential Impacts of Coronavirus on City” in the forepart this Official Statement.

Short-Term Rental Occupancy Licenses. The City Council passed a Short-Term Rental Occupancy Ordinance (the “Rental Ordinance”) on February 23, 2021 that will limit the number of whole home rentals that can operate for more than 20 days per calendar year. The Rental Ordinance, which establishes a cap on whole home rentals of 30% of the total housing units in the City’s Mission Beach Community Planning (“MBCP”) area and 1% of the total housing units in the remaining areas of the City, is effective on July 1, 2022 and may result in a decline of TOT received from the short-term rental (“STR”) population. As of January 1, 2019, which is the most recent data available, SANDAG reports that there are a total of 540,022 housing units in the City of which an estimated 3,603 are located in the MBCP area.

TOT received from STRs in Fiscal Year 2020 was approximately \$25.7 million or 13% of total TOT. Using TOT collected in calendar year 2019, the City’s Independent Budget Analyst’s Office preliminarily estimated the decline in TOT could range from \$4.4 million to \$7.3 million. This estimate was prepared using minimal data currently available and the impacts to the TOT may be greater than the preliminary estimate. The true impact will not be known until the licensing program is implemented.

See “CITY BUDGET AND RELATED MATTERS — Fiscal Year 2021 Adopted Budget” and “— Fiscal Year 2021 Budget Monitoring” and APPENDIX B — “DEMOGRAPHIC AND ECONOMIC INFORMATION REGARDING THE CITY – Tourism.”

Miscellaneous Revenues. Miscellaneous revenues are generated through various taxes, leases, permits, licenses and fees. Miscellaneous revenues include TOT allocated for reimbursement of General Fund tourism-related expenditures (including lifeguard support and park safety and maintenance expenditures for visitor related facilities), various collections revenue, parking meter revenue, tow related fees, court fines, contingent rents for hotel leases, gas tax reimbursements and safety sales tax (collectively, “Miscellaneous Revenues”). Miscellaneous Revenues contribute to the funding of police and fire and other General Fund departments.

Fiscal Year 2021 Miscellaneous Revenues Budget. The Fiscal Year 2021 Adopted Budget for Miscellaneous Revenues is \$457 million, which includes \$146.1 million of CARES Act funding. The Fiscal Year 2021 budget uses prior year actuals and was analyzed by each impacted department individually to determine when services would resume. In the Mid-Year Monitoring Report, General Fund Miscellaneous Revenues were projected to be \$401.4 million, which is under budget at fiscal year-end by \$55.7 million primarily due to COVID-19-related declines. TOT (in addition to the General Fund TOT revenues, see “— Transient Occupancy Tax” above) available for eligible General Fund tourism-related expenditures are expected to decrease by \$25.1 million. Rental revenues received by the Real Estate Assets Department are expected to decrease by \$16.3 million due to reduced contingent rentals primarily at Mission Bay. Additionally, the Mid-Year Monitoring Report includes a projected decrease of approximately \$9.5 million in parking citation revenue for the Police, Transportation and Storm Water Departments, due to the Mayor’s executive order limiting parking meter enforcement. In the Mid-Year Monitoring Report, the City projects a \$4.3 million decrease in Miscellaneous Revenues from Parks and Recreation due to COVID-19-related closures of recreation centers, pools, and campgrounds.

Franchise Fees. Franchise fee revenue is generated from agreements with private utility companies in exchange for the use of the City’s rights-of-way. Currently, the City has franchise agreements with San Diego Gas & Electric (“SDG&E”), Cox Communications, Spectrum (formerly known as Time Warner), AT&T, and certain refuse haulers. The revenue received from such agreements is based on a percentage of gross sales for refuse haulers and a percentage of revenue for the majority of the other franchise fee agreements.

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. 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 deposited 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.*”

The amount of franchise fee revenue from the sale of electricity and gas may be impacted by a change in rates or consumption, SDG&E’s current expansion of Electric Vehicle infrastructure, and changes to the current franchise agreement with SDG&E that is set to expire by June 1, 2021. Also, the San Diego Community Power (“SDCP”) (a joint powers authority formed in 2019 by the City and four other municipalities to purchase electricity from increased renewable sources) became operational on March 1, 2021, and as a result, there may be potential impacts to franchise fee revenue, potential increases in City energy costs, or other fiscal impacts that are unknown at this time. See “—Climate Change Assessment and Mitigation Plans” below for more information with respect to SDCP.

Fiscal Year 2021 Franchise Fees Budget. The Fiscal Year 2021 Adopted Budget includes \$69.3 million in franchise fee revenue, which comprises 4.3% of the General Fund revenue budget, previously 5.3% of the adopted fiscal year 2020 budget. The budget is based on the average growth of actual receipts in the previous year. The Fiscal Year 2021 Adopted Budget includes SDG&E franchise fee revenue of \$41.3 million. The Fiscal Year 2021 Adopted Budget also includes cable franchise fee revenue of \$13.0 million, refuse hauler franchise fee revenue from refuse haulers of \$12.8 million and \$2.2 million from other franchise fee sources.

In the Mid-Year Monitoring Report, General Fund franchise fee revenue was projected to be \$70.0 million, which is over budget at fiscal year-end by approximately \$7 million primarily due to less than anticipated loss of market share to digital competitors that do not receive a franchise fee levy. The City revised the projected declining trend of franchise fee revenues from negative 9.4 percent to negative 4.6 percent. The current SDG&E franchise agreement is set to expire in June 2021, if not replaced, this could cause a monthly drop in General Fund revenues of approximately \$5 million.

The Fiscal Year 2021 Adopted Budget uses prior year actuals as well as a continuing decline for both cable and electricity franchise fees. The projected decline for electricity franchise fees includes historical declines in commercial energy consumption levels as more customers move to solar. The projected decline for cable franchise fees is based on four years of historical actuals compounded by the cancellation of major televised events such as national sports leagues and live studio performances due to COVID-19.

General Fund Infrastructure

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. In Fiscal Year 2020, approximately \$584 million was expended on City CIP projects of which \$228.2 million was expended on General Fund CIP projects. In the Fiscal Year 2021 Adopted Budget, approximately \$367.5 million was allocated to City CIP projects of which \$69.1 million was

for General Fund CIP projects. In addition to new appropriations, approximately \$1.7 billion in prior year appropriations are available to support projects in Fiscal Year 2021, with \$690.6 million being eligible for General Fund CIP projects.

In January 2021, the City released the Fiscal Year 2022-2026 Five-Year Capital Infrastructure Planning Outlook (“CIP Outlook”) for General Fund and non-General Fund asset classes including water and sewer enterprises, airports, and the 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 projected capital needs identified in the CIP Outlook were developed based on information available to the City at the time of the release of the CIP Outlook. Factors considered include federal and State mandated requirements, preservation of public safety, community input, estimated service level standards, 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 Outlook to assist with forecasting future available funding for capital projects. The City-wide \$6.94 billion in needs are grouped into two categories. The first category includes priority needs that are mandated or address risk to life, health or critical services (“Priority Needs”) and amount to \$5.7 billion. The second category includes the remaining discretionary needs amounting to \$1.24 billion. In comparing projected City-wide capital needs of \$6.94 billion and revenue of \$3.92 billion over the projection period, the CIP Outlook identified a City-wide priority funding gap of \$2.31 billion (non-priority funding gap of \$0.71 billion) across all asset classes. The Priority Needs asset type with the largest funding gap is Storm Water, amounting to \$1.28 billion or approximately 55% of the unfunded Priority Needs gap (see “—Storm Water Program” below), followed by a shortfall of \$280.5 million in roadway transportation asset (roadway pavement) Priority Needs and a shortfall of \$273 million in existing buildings Priority Needs.

The City owns and maintains depreciable assets, including but not limited to, streets, bridges, parks, public facilities, and airports. Over the years, the City deferred maintenance and capital expenditures related to some of these assets, which resulted in deterioration of segments of the City’s infrastructure. A financial plan for addressing General Fund deferred capital costs and new facilities has been in place over the last ten years, financed in part through issuances of Lease Revenue Bonds paid for from the General Fund. In 2018, the City began a Commercial Paper Program to provide funding for the General Fund capital program. See “BONDED AND OTHER INDEBTEDNESS—Commercial Paper Program.” The City’s multi-year capital planning and implementation relies on a combination of short-term commercial paper notes and long-term financing generally through lease revenue bond issuances. The schedule for issuance of debt is evaluated each fiscal year as a means towards funding capital and infrastructure needs. Additionally, the City prepares semi-annual CIP Budget Monitoring Reports that highlight the effective cash management and streamlining efforts that enhance internal monitoring and execution of the CIP program.

A ballot measure, approved by voters, established the City’s Infrastructure Fund which dedicates certain tax revenues and reductions in pension and certain defined contribution plan contributions to the fund. The Infrastructure Fund was allocated \$34.9 million in Fiscal Year 2018 and Fiscal Year 2019, and \$24.1 million for Fiscal Year 2020. The Fiscal Year 2021 Adopted Budget did not include the \$23.8 million General Fund contribution to the Infrastructure Fund to mitigate the impacts of COVID-19. Fiscal Year 2042 is the final year during which the Infrastructure Fund can receive any funding. The City’s Otay Mesa Enhanced Infrastructure Financing District (“EIFD”) is also utilized to fund General Fund infrastructure. The City formed the EIFD in 2017, which receives property tax increment from the area within the EIFD for a term of 45 years or until a revenue cap is reached, to provide supplemental funding for public infrastructure needs in the Otay Mesa area of the City. In Fiscal Year 2020, the EIFD received \$842,000. Revenues dedicated to the Infrastructure Fund and Otay Mesa EIFD will limit the amount of the unrestricted General Fund revenue available for other City programs and services.

In addition to the capital needs discussed above, 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.

The City has previously conducted condition assessments on streets, bridges, sidewalks, highest risk storm drains, and most General Fund-supported facilities. These condition assessments are updated on a periodic basis. The current condition assessments and CIP Outlook cover a subset of City assets and represent a portion of the City’s deferred maintenance and infrastructure needs. Generally, the City has discretion on the condition levels at which City assets are maintained. Spending priorities on asset maintenance and infrastructure are reassessed annually and incorporated into the budget to ensure that condition level goals are met in a manner that is balanced with other budget priorities and spending requirements.

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

The San Diego Convention Center Corporation (the “Corporation”) operates the San Diego Convention Center. The Convention Center was originally built in 1989 and expanded in 2001. The Corporation made approximately \$8 million in capital repairs and major improvements between Fiscal Years 2020 through 2021. Additionally, the Corporation financed \$25.5 million to address major capital improvements and major repairs, including replacement of the Convention Center sails, through an I-Bank Loan in 2016. Due to the COVID-19 pandemic, convention events were suspended as of March 2020 and many capital improvements and major repair projects originally planned for Fiscal Year 2021 were deferred to Fiscal Year 2022. The Corporation forecasts in excess of \$17 million in priority capital improvements and major repairs, including roof replacement, in the next three years. Additionally, the original portion of the Convention Center contains dewatering pumps within the parking garage, which need replacements. Funding options for the future repairs are being reviewed by the Corporation and the City.

Storm Water Program

The City owns and maintains over 46,023 storm drain structures, approximately 1,148 miles of drainage pipe, 63.2 miles of channels, 8.0 miles of levees and 15 Stormwater pump stations. The City manages a Stormwater program to maintain and keep facilities in good repair to mitigate flood risk and reduce pollutants in urban runoff and Stormwater and comply with all local, State, and federal environmental regulations. Currently, the City’s Stormwater program is funded primarily from the General Fund, including property-related Stormwater fees and revenue from parking enforcement related to street sweeping, and bond proceeds.

The State Water Resources Control Board (“SWRCB”) is the State agency charged with implementing the federal Clean Water Act (Clean Water Act). The SWRCB delegates its authority to nine regional boards, which implement the Clean Water Act and the California Water Code in their respective regions. The Regional Water Quality Control Board San Diego Region (“RWQCB”) has jurisdiction over the San Diego area. The RWQCB issues the Municipal Storm Water National Pollutant Discharge Elimination System Permit (the “Municipal Permit”) as required by the Clean Water Act. The City, along with other Co-permittees, is currently operating under a Municipal Permit that was issued in May 2013, which expired in June 2018. The expired Municipal Permit is likely to be reissued and adopted by the RWQCB in Fiscal Year 2022 and remains in effect until then.

The Municipal Permit establishes water quality requirements and sets receiving water limitations for pollutants in the City’s various water bodies and the storm drains discharging into them. Additionally, the Municipal Permit contains several regulatory requirements related to Total Maximum Daily Load (TMDL). Each TMDL requirement imposes certain interim deadlines and final deadlines to attain the prescribed water

quality standards through Fiscal Year 2035 in specific watersheds. In addition to the Municipal Permit, the City is subject to other regulations adopted and enforced by RWQCB such as the San Diego River Investigative Orders and the State Trash Policy.

The City can be held liable for not attaining the prescribed water quality standards within the respective timeframes. The RWQCB or the citizen stakeholders can file enforcement actions and lawsuits for violations, with penalties for state lawsuits not to exceed \$10,000 per violation, per day, and penalties for federal lawsuits not to exceed \$54,000 per violation, per day.

The City is listed as a responsible party in the Bacteria TMDL; which was adopted by the RWQCB for numerous impaired water bodies in order to attain and maintain fecal indicator bacteria water quality standards. All responsible parties are required to reduce the levels of bacteria in their discharges to all listed water bodies. The City has not met its interim dry weather regulatory deadline (April 2019) related to the Bacteria TMDL in some watersheds based on updated water quality monitoring data. The City is also not projected to meet the rigorous final dry weather regulatory deadline (April 2021) for each creek and river outfall compliance monitoring locations related to the Bacteria TMDL due to insufficient funding and the time requirements to implement essential capital projects. However, the City is currently engaged in multiple efforts to comply with these requirements. First, the City is ramping up efforts to identify and eliminate human sources of bacteria, which are most harmful to human health. The City's efforts are being documented in a draft Bacteria Tactical Plan that describes the collaboration among three City departments to capture current and potential new activities that can be initiated to address bacteria sources. Efforts include addressing homeless encampments, initiating an interdepartmental abatement team, and increased trash removal. Using the implementation activities in the draft Bacteria Tactical Plan as a basis, the City is negotiating with the RWQCB as a pathway to demonstrate the commitment in meeting the Bacteria TMDL requirements in the next Municipal Permit reissuance in Fiscal Year 2022. The City is also developing a strategy to implement the San Diego River Investigative Order (listed earlier) and use those results to consider whether amendments to the Bacteria TMDL, contingent on RWQCB approval, are warranted which may reduce the City's estimates of funding needs. If the RWQCB does not accept any of the compliance options currently being negotiated, it is expected that they will take some type of action against the City for non-compliance with the final dry weather regulatory deadline (April 2021); including but not limited to a Time Schedule Order, a Notice of Violation, and/or monetary penalties.

The City is listed as a responsible party regarding the sedimentation of Los Peñasquitos Lagoon. This TMDL was adopted by the State in July 2014. The TMDL included requirements for sediment reductions in the Los Peñasquitos Watershed and the establishment of 84 acres of new salt marsh habitat in the Los Peñasquitos Lagoon by July 2034. There is no measurable pollution remediation that can be identified. The City has initiated Phase I of this required restoration, which involves sediment and freshwater management, as well as a pilot salt marsh restoration component that will result in approximately 23 acres of restoration. Phase I is estimated to be completed in 2026. The estimated cost for Phase I is approximately \$36 million, which will be borne by the responsible parties named in this TMDL. A cost sharing agreement is currently being negotiated and the City's portion of the costs has not yet been finalized. Phase II of the restoration will be designed based on the results of various restoration techniques implemented during Phase I and will result in the restoration of the remaining acres required; however, any estimated costs cannot be reasonably determined at this time pending the development of the final concept design for Phase II.

The City developed improvement plans composed of operational activities and capital improvement projects to comply with these regulations. In October 2020, the City updated its Watershed Asset Management Plan to reflect updated costs for compliance implementation and flood risk management costs. For the period between Fiscal Year 2020 and Fiscal Year 2035, the operating cost estimate for the Stormwater program is projected at approximately \$2.04 billion and the capital cost estimate is projected at approximately \$3.01 billion (for a total operating and capital cost estimate of approximately \$5.05 billion).

The City's current 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.

The City's estimated costs to implement the improvement plans are higher than estimated revenues in the Fiscal Year 2021 Adopted Budget and projected revenue over the next five years. The City's storm drain fee of 95 cents per month per residence and \$0.0647 per hundred cubic feet of water use from industrial, commercial, institutional, and multi-family residences generates on average \$5.7 million annually and covers only a small portion of the City's annual stormwater expenses. Additionally, revenue from parking meter citations is on average \$5.3 million annually which are applied for the Stormwater operational expenditures. Other General Fund revenues, such as sales tax, transient occupancy tax, and property tax, are currently used to support the remaining Fiscal Year 2021 General Fund budget of \$36 million. This current level of funding is not sufficient to meet the estimated costs to implement the improvement plans necessary to comply with ongoing requirements. The Office of the City Auditor conducted a performance audit on the Stormwater system in 2018. There were various findings from the audit including a key finding that the expanding portfolio of Stormwater system services and responsibilities has significantly increased costs and historic and ongoing underfunding of the Stormwater system has contributed to a growing backlog of essential capital investments. To address the funding gap, and in response to the performance audit, the City began the development of a Stormwater funding strategy in 2019 to identify a sustainable long-term funding mechanism for the Stormwater program. The funding strategy analyzed an array of funding options sources such as grants, loans and inspection fees; identified cost efficiencies by utilizing adaptive management strategies and optimizing operations and maintenance efforts; assessed program innovation to maximize projects multiple benefits and realize cost savings; and evaluated options for dedicated long term funding mechanism for stormwater. The funding strategy was recently presented to City Council in February 2021. Based on the City Council approval and direction, the City will begin developing the funding mechanism for a potential November 2022 ballot measure. Funding mechanism options such as a stormwater fee or property tax will be evaluated and vetted through a robust public outreach and stakeholder engagement process.

Under a scenario in which the Stormwater program maintains current funding levels, obtains supplemental funding, realizes annual cost savings from programmatic efficiencies, and invests in innovations, a significant funding gap still exists, underscoring the need for a dedicated long-term funding source. Evaluation and benchmarking of various funding mechanisms showed that most successful post-Proposition 218 funding measures were either property-related fees or special taxes that require a vote of property owners or the public.

Information Technology

Information Technology Staff and Operations. The City's Department of Information Technology ("IT") aims to provide high quality technology and wireless services while driving strategic innovation through collaboration and partnership with City and regional stakeholders. Staffing for City technology services is supported by 71 City IT professionals and 45 public-safety radio engineers and support staff. In addition to the City staff members, the services are supported by contracts with major third-party contractors for application development and maintenance, data center and helpdesk and network systems. The Fiscal Year 2020 adopted budget includes \$103 million and the Fiscal Year 2021 Adopted Budget includes \$123 million to support the IT department and its projects.

The IT department is comprised of seven groups that work to align IT services with City business and technical requirements. The groups include the IT Operations Management group, which manages the data center, network, help desk, applications and IT service delivery, the IT Governance and Portfolio Management division performing IT-to-business relationship management functions, and the Wireless Technology Services group that manages the service delivery for public safety wireless communications technologies.

The Fiscal Year 2020 through Fiscal Year 2024 IT Strategic Plan is a comprehensive plan developed to align with the Citywide Strategic Plan; modernize the City's networks, infrastructure, and applications; and integrate IT industry best practices with the delivery and contracting of technology services. This plan includes the acceleration of the transition of City applications to cloud services and enhancement of the resiliency of the City's application portfolio. Roadmaps were developed for each major area of service, which contain hundreds of projects that keep the City's systems current, target cost reductions, enhance security, improve efficiencies, accelerate mobile and cloud adoption, drive innovation, modernize services, and increase automation. These roadmaps represent projects and initiatives outside of the daily operational support by IT staff to keep 300 City locations connected to each other and on the internet; 380 applications operational and available; 13,000 desktops and laptops secure and patched; 9,000 phones operational for calls; 1,300 servers operational, patched, and secure; 11,000 email accounts functional; and public-safety radio services available for the City's first responders.

Cybersecurity. The City's Information Security Office ("ISO"), a group within the City's IT department, works to adopt new technology and procedures in an effort to protect the City's systems and confidential and proprietary data of the City, its employees and members of the public. This office also provides the development, implementation and management of all citywide information security policies, standards, procedures, and internal controls. The ISO focuses on three core components: (1) Confidentiality – preventing the unauthorized access and disclosure of City information, including protecting personal privacy and proprietary information; (2) Integrity - guarding against improper information modification or destruction by ensuring information non-repudiation and authenticity; and (3) Availability - ensuring timely and reliable access to, and use of, City information and systems.. The ISO makes efforts to follow industry best practices, develops citywide security policies, provides regular security training to all users, and uses best-of-breed security tools to mitigate, prevent, deter and respond to incidents if and when they occur. Additionally, to identify potential vulnerabilities and proactively mitigate them, the City organizes weekly vulnerability scanning of critical systems, annual penetration tests of the information security environment, and regular internal testing of systems and users. These tests are performed by both the ISO and contracted third parties. During off hours, holidays and weekends security tools are monitored by a contracted Security Operation Center which is comprised of four individuals. In the event of a cyber security breach, the ISO has a documented Incident Response plan that is reviewed and updated on an annual basis. If additional assistance is needed, a breach response team is available on retainer. The cybersecurity team currently includes eight individuals and has a Fiscal Year 2021 budget of \$4.9 million.

The City's networking contractor provides secure network devices for the City's computer systems and the City has working relationships and meets regularly with security experts in Federal and state governments, commercial enterprises, academic institutions and law enforcement organizations. By virtue of these relationships, the City aims to stay informed of cyber threats and communicates with proper authorities regarding cyber risks and incidents.

"See "CERTAIN RISK FACTORS — Cybersecurity" in the front part of this Official Statement and "RISK MANAGEMENT — Cyber Liability Insurance" below.

Climate Change Assessment and Mitigation Plans

General. In December 2015, the City Council adopted the *Climate Action Plan* for the City (the "CAP") which seeks to eliminate 50% of all greenhouse gas emissions in the City by 2035. The Fiscal Year 2021 Adopted Budget allocates \$21.5 million to the direct costs of the CAP and future costs were considered critical strategic expenditures in the five-year outlook for Fiscal Years 2021-2025. The CAP establishes a roadmap for the City to achieve the greenhouse gas ("GHG") emission reduction goals set by the State, while improving San Diego's environment, economy and communities. Annual monitoring reports are prepared by the City's Sustainability Department to track the City's progress in meeting the goals identified in the CAP. In December 2020, the City released the Climate Action Plan Annual Report Appendix. Such report shows a

25% reduction in regional GHG emissions and a 6.2% reduction in residential energy use. According to the national scientific study by the Brookings Institution released in October 2020, the City was ranked sixth in the country for reducing GHG emissions. The City recognizes that climate change-related hazards have the potential to negatively impact both public assets and the City's ability to provide essential services over time. For example, based on assessments described below, the City currently estimates that one of the Leased Properties (San Diego Mission Bay Resort) could be exposed to a sea level rise of two feet as early as 2050 if no adaptive measures are taken.

Another step in the City's efforts to reduce GHG has been the recent creation of SDCP, regional joint powers authority, to provide 100% clean power through community choice aggregation. SDCP began operations on March 1, 2021 and the current timeline projects that SDCP will be fully enrolled and offering customer programs in addition to providing clean power at competitive rates by 2022 with the goal of achieving 100% renewable energy by 2035. Founding members of SDCP are the cities of San Diego, Chula Vista, La Mesa, Encinitas, and Imperial Beach and is expected to have a customer base of about 770,000 accounts, making it the second largest community choice aggregation in the State.

Sea Level Rise Concerns. California's Fourth Climate Change Assessment (2018) projects sea level rise of about one foot by 2050 for the San Diego area, with increases of three feet or more by the year 2100 depending on the pace of climate change in the latter half of the century. The report also projects temperatures to increase by as much as 5°F to 10°F by the end of the 21st century, which will create drier conditions and, potentially, more frequent wildfires. The City completed multiple climate change vulnerability assessments in 2019 and 2020 to better understand the potential risks posed by climate change related hazards. In accordance with State legislation ("AB691"), the City assessed the impact of sea level rise to its public trust lands. The AB691 State Lands Sea Level Rise Vulnerability Assessment, completed and reported in July 2019, assesses impacts of sea level rise and coastal processes for the years 2030, 2050, and 2100 and identifies strategies to adapt and reduce potential vulnerabilities. The assessment provides a range of estimates if no mitigation or adaptation measures are implemented. Assuming that storm surge may occur alongside higher sea levels, the City reported the value of City assets at risk in the State-granted land areas ranges from \$139-\$206 million by 2030, or \$208 to \$370 million by 2050.

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

Coastal Erosion Assessment. In 1993 and 2003 the City commissioned a Coastal Erosion Assessment ("CEA") of its 13 miles of shoreline. The study assessed 71 sites and rated them low, moderate, or high risk based on a geological observations and knowledge of conditions that pose the greatest threat to the public. The 2003 CEA also included recommendations for remedial measures to improve pedestrian safety, many of which have been implemented. In 2018, the City completed an update to the 2003 CEA that assigned a priority rating to consider the presence of pedestrian hazards, limitations to pedestrian access, and signs of

bluff instability. The 2018 CEA priority rankings, along with the 2003 CEA geologically based risk ratings can be utilized by the City to identify remedial actions. The City is inspecting and monitoring coastal assets identified in the CEA on an ongoing basis. As the City continues to plan for sea level rise and evaluate options for coastal assets, new capital improvement projects may be initiated to replace or modify existing coastal infrastructure.

The City is currently developing “*Climate Resilient SD*,” a comprehensive climate adaptation and resiliency plan to address the risks identified in the vulnerability assessments as well as build City capacity to respond to and recover from climate change related impacts. The City-wide plan addresses both City assets as well as community resilience. The plan will meet the legislative requirements of Senate Bill 379, which requires that cities and counties include a set of adaptation and resilience goals, policies, and implementation. In addition, the adaptation goals and strategies will address the vulnerabilities identified in the assessments and focus on actions that can increase the overall resilience of the communities. The City anticipates completing Climate Resilient SD by the end of 2021.

City’s Sustainability Programs. The City has several programs to address the sustainability goals and the CAP. The City made many pedestrian and bicycle infrastructure improvements such as constructing new sidewalks, improving sidewalks, adding bike lanes, and roundabouts as well as increasing the urban tree canopy by planting 1,634 trees. The City has a variety of fleet electrification programs. As of 2019, 65% of the City’s waste collection trucks are powered by compressed natural gas. The City has 57 electric vehicle charging stations at 15 locations.

The City is engaged in a phased multi-year water reuse program titled the “Pure Water Program” that is expected to provide a safe, secure, and sustainable local drinking water supply for San Diego. Advanced water purification technology will be used to produce potable water from advanced primary treated wastewater. The completion of Pure Water Program Phase 1 projects are expected to be completed in 2025 and produce 30 million gallons per day of purified water for the City residents.

Carbon Disclosure Project (“CDP”). Since 2012, the City has annually provided a report to CDP with the latest submittal made for 2020. The annual voluntary report provides information on the City’s goals to combat climate change including risk and vulnerability assessments, climate hazards, social impacts, and the vulnerable populations. The report also includes information on various related topics such as climate change and sustainability topics such as the City’s adaptation actions to reduce climate change risks, emissions data and goals, targets and goals for transportation projects, waste management projects and water supply management.

Climate Equity Index. The City’s CAP also addresses environmental justice and social equity concerns referred to as climate equity. The City’s Sustainability Department and the University of San Diego Energy Policy Initiatives Center created the Climate Equity Index (“CEI”) as a benchmark to this issue. The CEI establishes benchmarks and metrics to serve as a City-wide assessment of climate equity, by assessing census tracts that intersect with the City to calculate a score from 0-100. Based on the results of the assessment, recommendations are made by City staff to ensure the City is moving in the right direction to address climate equity when implementing the CAP and is considering the needs of all residents when planning for the City’s future. The average CEI score for the City was determined to be 61. Census tracts that scored below the average are considered to have less access to opportunity than the tracts that scored above the average. In total, 172 census tracts scored at or above the average, and 125 tracts scored below average with very low, low or moderate access to opportunity.

City CIP Project Prioritization. The City’s CIP policy and prioritization process takes into account two factors that directly address climate change and sustainability. The first factor prioritizes projects that reduce the potential hazards to the public, property and environment, which includes projects that are required to comply with various City plans such as General Plan, Community Plan, Regional Transportation Plan

and/or other approved City-wide master plans. The second factor prioritizes projects that improve the natural environment through sustainable designs, multiple transportation options and reduction of the need for auto-dependency. Other considerations include projects that promote infill development, open space and landform preservation, habitat protection and biological diversity, and enhanced urban runoff management. Projects that result in greener neighborhoods and reduce or avoid the potential public exposure to pollutants, contamination and other hazards to public health and environment receive a higher score.

Short-lived Climate Pollutants (“SLCP”): Organic Waste Methane Emissions Reductions. In September 2016, former Governor Brown signed Senate Bill 1383 (“SB 1383”) into law which established methane emissions reduction targets in a State-wide effort to reduce emissions of SLCP in various sectors of California's economy. The law codifies the California Air Resources Board's Short-lived Climate Pollutant Reduction Strategy to achieve reductions in the State-wide emissions of short-lived climate pollutants. SB 1383 establishes targets of a 50 percent reduction in the level of the State-wide disposal of organic waste from the 2014 level by 2020 and a 75 percent reduction by 2025. By January 1, 2022, SB 1383 requires the City to have an adopted ordinance and enforcement mechanism for SB 1383. In addition, the City must implement the following: City-wide organics collection; establish an edible food recovery program; procure recovered organic waste products; track metrics and report to California's Department of Resources Recycling and Recovery (CalRecycle); and conduct education and outreach.

The City estimates up to \$120 million in expenditures over a period of approximately 5 years (Fiscal Year 2022 to Fiscal Year 2026) to comply with SB 1383 including upgrading facilities, equipment, and onboarding of new FTEs. Once implemented (Fiscal Year 2026) annual operational expenses of the program are estimated at \$22 million. Beginning January 1, 2022, the State can start enforcement upon jurisdictions. The City's Environmental Services Department expects to present the required ordinance to the City Council to approval in late fall of 2021.

Wildfires

The 2020 California fire season has seen over 8,300 wildfires that have burned over 4 million acres. The nature of wildfires is no longer typical, and California has experienced unprecedented fire growth and speed of spread. The increased fire activity State-wide draws resources away from the City's region. However, due to proactive measures and increased resources the City has been capably responding to local fires quickly to contain spread and significant losses while still providing support to neighboring regions and the State with firefighting and incident management efforts. Throughout the 2020 fire season (which certain observers view as the worst in California history) San Diego Fire-Rescue Department (“SDFD”) deployed operational and overhead personnel to every major fire in the State. Resources were sent to notable incidents such as the “August Complex” (Northern California), “SCU Lightning Complex” (Central California) and the “Creek Fire” (Northern California) to assist as part of the State Mutual Aid System. The City's Fire-Rescue Department also entered into several agreements with surrounding fire agencies to ensure smooth coordination and appropriate cost sharing for incidents that cross jurisdictions. Despite an increase in activity (211 wildland fire starts in 2010 as compared to 408 starts in 2020), the City maintains an average containment of these fires to less than an acre (2010-2020 average acres of wildland fire containment 0.69 acre). The City has not lost a significant structure to wildland fire since 2007 (Witch Fire that started outside the City).

SDFD operates 50 fire stations that house 50 engine companies (Type 1), 13 truck companies and 11 brush fire off-road apparatus (Type 3). An additional engine and two brush apparatus are operated under an agreement with California Office of Emergency Services. SDFD maintains an air-operations base with two Type II helicopters (300-gallon drop capacity) and one Type I Firehawk helicopter (1000-gallon drop capacity). This provides enough capacity to have at least two helicopters available during fire season for fast initial fire attack. Additionally, SDFD operates two 911 communications centers that process over five hundred 911 calls per day. In the 2003 (Cedar Fire), the City had no permanent aerial firefighting resources, and in 2007 (Witch Fire) the City only had a single Type 2 helicopter (in service 2005). Additionally, in 2018

the City completed the upgrade of all Type 3 off road fire apparatus to meet current safety and capability standards including the National Fire Protection Association and California Office of Emergency Services. In 2017, the City implemented GIS-based fire mapping/prediction and fire incident management tablet-based software to improve communications and information sharing. In 2020 the City received an “Assistance to Firefighters Grant” to upgrade wildland protective gear for all fire operations personnel to current standards which is expected to be completed in 2021.

In 2008, the City expanded the Proactive Brush Management Program City-wide, which includes door to door brush inspections of properties on canyon rims that have been identified in the Proactive Brush Management program (inspections are approximately every 3 years). In 2011, the City established a “Ready, Set, Go” fire preparedness program to educate and prepare citizens on what to do in case of a large wildfire. This program was updated to the national standard in 2015. Inspections of properties that are not within the program are performed on a complaint basis. There are over 900 miles of wildland/urban interface in the City and the inspections are enforced by City personnel.

Since 2016, during heightened fire weather conditions the City regularly takes proactive measures to combat wildfires that include: increased operational staffing, increased helicopter staffing hours and pre-rostering operational support and Incident Management Team (“IMT”) personnel. Additional proactive measures include an increase in the required training to the battalion chiefs, specifically, providing yearly scenario-based training. SDFD currently has a fully rostered Type 3 IMT that can manage all aspects of large or extended incidents. The City also invested in a command-and-control training for the first in company officers and battalion chiefs to acquire current tactics and strategies. The ongoing annual training practices all operational drills including a focus on high-risk incident types such as wildland fire prior to fire season.

During the latest SDFD deployments for the 2020 fire season, operational crews gained valuable experience in fire behavior and the latest firefighting tactics and strategy. SDFD has personnel that are rostered on State and Federal IMT which develop knowledge of large incident management and the State/Federal response systems. These additional skills and knowledge enhance SDFD response capability locally and help facilitate rapid containment and proper management of wildland fire incidents.

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 2021 Bonds are payable from State revenues. The 2021 Bonds are payable solely from Base Rental Payments to be made by the City under the Lease and certain other moneys held under the Indenture. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2021 BONDS” in the front part of this Official Statement. The 2021 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 2021 State Budget

On June 29, 2020, the Governor signed into law the State budget for fiscal year 2020-21 (the “2021 State Budget”). The following information is drawn from the State Department of Finance’s summary of the 2021 State Budget

The 2021 State Budget acknowledges that the rapid onset of COVID-19 has had an immediate and severe impact on the State’s economy. The ensuing recession has caused significant job losses, precipitous drops in family and business income. The Governor’s May revision to the proposed State budget for Fiscal Year 2021 forecast included a peak unemployment rate of 24.5% in the second quarter of 2020 and a decline in personal income of nearly 9%. The 2020-21 State Budget reports that the official unemployment rate exceeded 16% in both April and May of 2020.

The 2021 State Budget includes a number of measures intended to address a projected deficit of \$54.3 billion and driven primarily by declines in the State’s three main tax revenues (personal income, sales and use and corporate, as discussed above). The measures included in the 2021 State Budget, and described below, are intended to close this deficit and set aside \$2.6 billion in the State’s traditional State General Fund reserve, including \$716 million for the State to respond to the changing conditions of the COVID-19 pandemic:

- *Drawdown of Reserves* – The 2021 State Budget draws down \$8.8 billion in total State reserves, including \$7.8 billion from the State’s Budget Stabilization Account (“BSA”), \$450 million from the Safety Net Reserve and all money in the Public School System Stabilization Account (“PSSSA”).
- *Triggers* – The 2021 State Budget includes \$11.1 billion in reductions and deferrals that would be restored if at least \$14 billion in federal funds are received by October 15, 2020. If the State receives less than this amount, reductions and deferrals would be partially restored. The triggers include \$6.6 billion in deferred spending on education, \$970 million in funding for the California State University and University of California systems, \$2.8 billion in State employee compensation and \$150 million for courts, as well as funding for various other State programs. The triggers would also fund an additional \$250 million for county programs to backfill revenue losses.
- *Federal Funds* – The 2021 State Budget relies on \$10.1 billion in federal funds, \$8.1 billion of which has already been received. This relief includes recent Congressional approval for a temporary increase in the federal government’s share of Medicaid costs, a portion of the State’s Coronavirus Relief Fund allocation pursuant to the CARES Act and federal funds provided for childcare programs.
- *Borrowing/Transfers/Deferrals* – The 2021 State Budget relies on \$9.3 billion in special fund borrowing and transfers, as well as deferrals to K-14 education spending. Approximately \$900 million of special fund borrowing is associated with reductions to State employee compensation and is subject to the triggers discussed above.

- *Increased Revenues* – The 2021 State Budget temporarily suspends for three years net operating loss tax deductions for medium and large businesses and limits business tax credits, with an estimated increase in tax revenues of \$4.3 billion in State Fiscal Year 2021.
- *Cancelled Expansions, Updated Assumptions and Other Measures* – The 2021 State Budget includes an additional \$10.6 billion of measures, including cancelling multiple programmatic expansions, anticipated governmental efficiencies, higher ongoing revenues above the forecast included in the May Revision and lower health and human services caseload costs than assumed by the May Revision.

For State Fiscal Year 2020, the 2021 State Budget projects total State General Fund revenues and transfers of \$137.6 billion and authorizes expenditures of \$146.9 billion. The State is projected to end State Fiscal Year 2020 with total available State General Fund reserves of \$17 billion, including \$16.1 billion in the BSA and \$900 million in the Safety Net Reserve Fund.

For State Fiscal Year 2021, the 2021 State Budget projects total State General Fund revenues and transfers of \$137.7 billion and authorizes expenditures of \$133.9 billion. The State is projected to end State Fiscal Year 2021 with total available State General Fund reserves of \$11.4 billion, including \$2.6 billion in the traditional State General Fund reserve (of which \$716 million is earmarked for COVID-19-related responses), \$8.3 billion in the BSA and \$450 million in the Safety Net Reserve Fund.

Proposed Fiscal Year 2021-22 Budget

On January 8, 2021, the Governor released his proposed State budget for fiscal year 2021-22 (the “Proposed 2022 State Budget”). The information below is drawn from the State Department of Finance’s summary of the Proposed 2022 State Budget.

The Proposed 2022 State Budget indicates that, since the adoption of the 2021 State Budget, the administration’s economic forecast and revenue projections have significantly improved, driven in large part by a rebound in the stock market and an attendant growth in capital gains tax revenues. However, the Proposed 2022 State Budget acknowledges that the risks to the revenue forecast remain higher than usual, and economic inequality has intensified since the beginning of the COVID-19 pandemic. The Proposed 2022 State Budget acknowledges that the State is currently in the midst of a second and more serious wave of COVID-19 infections, but that federally-approved COVID-19 vaccines are arriving to assist the recovery from the pandemic.

The Proposed 2022 State Budget indicates that the revenue forecast was finalized prior to the passage of the most recent federal stimulus bill. Of the almost \$900 billion in federal funding that was approved, the Proposed 2022 State Budget identifies approximately \$106 billion allocable to the State, including \$42.4 billion in direct assistance to individuals and families (including \$38.3 billion in unemployment benefits and direct payments), \$2.2 billion for COVID-19 testing, tracing and vaccine distribution, \$700 million for health and mental health services, \$50.1 billion in business and transportation support, and \$10.1 billion for education. The Governor’s May revision to the Proposed 2022 State Budget will include a revised revenue forecast that will reflect this federal assistance. The Proposed 2022 State Budget also acknowledges that further federal relief will be critical to assisting individuals and businesses survive and recover from the pandemic.

For State Fiscal Year 2021, the Proposed 2022 State Budget projects total State General Fund revenues and transfers of \$168.1 billion and expenditures of \$156 billion. The State is projected to end the State Fiscal Year 2021 with total available State General Fund reserves of approximately \$22.7 billion, including \$9 billion in the traditional State reserve, \$12.5 billion in the BSA, \$747 million in the PSSSA and \$450 million in the Safety Net Reserve Fund. For State Fiscal Year 2022, the Proposed 2022 State Budget

projects total State General Fund revenues and transfers of \$170.6 billion and authorizes expenditures of \$164.5 billion. The State is projected to end State Fiscal Year 2022 with total available State General Fund reserves of approximately \$22 billion, including \$2.9 billion in the traditional State General Fund reserve, \$15.6 billion in the BSA, \$3 billion in the PSSSA and \$450 million in the Safety Net Reserve Fund.

In recognition of the need to address the various impacts of the COVID-19 pandemic, the Proposed 2022 State Budget includes a package of measures intended to be implemented through legislative action earlier than the traditional State budget timeline. For immediate action in January, this package includes \$3 billion in direct support for workers and small businesses and \$2 billion to support the re-opening of K-12 schools. For early action in the spring, the package includes \$4.7 billion in instructional support for K-14 school districts, \$973 million in jobs and workforce training, \$561 million in environmental sustainability measures and \$262 million in housing and homelessness-related measures.

There can be no assurance that additional legislation will not be enacted in the future to implement provisions relating to the State budget, address the COVID-19 pandemic or otherwise that may affect the City or its General Fund revenues.

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 sets forth the City’s six recognized employee organizations (REOs) which represent City employees and the number of budgeted positions by each organization. The City also employs a number of employees in the classified service and the unclassified service who are unrepresented. The Fiscal Year 2021 Budget included 1,014 unrepresented positions, excluding elected officials.

The City’s Recognized Employee Organizations

<u>Organization⁽¹⁾</u>	<u>Represented Employees⁽³⁾</u>
San Diego Municipal Employees’ Association	5,225
American Federation of State, County, and Municipal Employees, Local 127	2,077
San Diego Police Officers Association	2,031
San Diego City Firefighters, International Association of Firefighters, Local 145	1,044
California Teamsters Local 911	163
Deputy City Attorneys Association of San Diego ⁽²⁾	162

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

⁽²⁾ Represents unclassified deputy city attorneys.

⁽³⁾ As of the Fiscal Year 2021 Adopted Budget, rounded to the nearest whole number.

Source: Department of Finance, City of San Diego.

Collective Bargaining Agreements

The City currently has collective bargaining agreements with four of the six recognized employee organizations (REOs) (MEA/AFSCME Local 127 /DCAA/ IAFF Local 145 for a one year contract that will terminate on June 30, 2021, with no general salary increases but with increases to the Flexible Benefit Plan for the Employee + tiers. Significant reductions to the City's major revenues due to the COVID-19 pandemic for Fiscal Years 2020 and 2021 impacted the Fiscal Year 2021 contract negotiations and are anticipated to also impact the Fiscal Year 2022 contract negotiations. The City is currently negotiating in good faith with Teamsters Local 911 and POA on successor MOUs for Fiscal Year 2021 and as such their organizations do not currently have new contracts in place for Fiscal Year 2021. These negotiations will not conclude until the parties are able to reach agreement and the Council approves the successor MOUs. Upon expiration of the current MOUs, the City is legally required to maintain the status quo on items involving terms and conditions of employment until the parties negotiate an agreement or exhaust impasse procedures. The City continues to endeavor to reach agreement with Teamsters Local 911 and POA on successor MOUs for Fiscal Year 2021. The City is currently in negotiations for successor MOUs with all six REOs for Fiscal Year 2022.

MEA: For Fiscal Year 2021, MEA has a one year MOU with no general salary increases but with increases to the Flexible Benefits Plan for the Employee + tiers (i.e. Employee + Spouse/Domestic Partner; Employee + Children; and Employee + Family (Spouse/Domestic Partner/Children)) ranging from an increase of \$2,295 to \$10,295. If an employee selects one of the Employee + tiers, they are not eligible for any cash-back after selecting their applicable plan. However, if an existing employee (hired before July 1, 2020) selects Waiver or Employee Only medical coverage the employee can select the current \$11,705 and receive the current cash-back allotment. For new hired employees (hired on or after July 1, 2020), if the employee selects the Waiver option they can receive \$1,000 cash-back option if the employee can provide proof of a qualifying medical coverage outside of the City's Flexible Benefit Plan. If the employee is unable to show qualifying medical coverage they are not eligible for the \$1,000 cash-back. The City is currently in Fiscal Year 2022 contract negotiations with MEA for a successor MOU.

AFSCME Local 127: For Fiscal Year 2021, AFSCME Local 127 has a one year MOU with no general salary increases but with increases to the Flexible Benefits Plan for the Employee + tiers (i.e. Employee + Spouse/Domestic Partner; Employee + Children; and Employee + Family (Spouse/Domestic Partner/Children)) ranging from an increase of \$1,744 to \$5,544. If an employee selects one of the Employee + tiers they are not eligible for any cash-back after selecting their applicable plan. However, if an existing employee (hired before July 1, 2020) selects Waiver or Employee Only medical coverage the employee can select the current \$9,956 (Waiver) and \$10,956 (Employee Only) and receive the current cash-back allotment. For new hired employees (hired on or after July 1, 2020), if the employee selects the Waiver option they can receive \$1,000 cash-back option if the employee can provide proof of a qualifying medical coverage outside of the City's Flexible Benefit Plan. If the employee is unable to show qualifying medical coverage they are not eligible for the \$1,000 cash-back. The City is currently in Fiscal Year 2022 contract negotiations with Local 127 for a successor MOU.

POA: The City is currently negotiating in good faith with POA on the successor MOU for Fiscal Year 2021 and as such their organization does not currently have a new contract in place for Fiscal Year 2021. These negotiations will not conclude until the parties are able to reach agreement and the Council approves the successor MOUs. Upon expiration of the current MOU, the City is legally required to maintain the status quo on items involving terms and conditions of employment until the parties negotiate an agreement or exhaust impasse procedures. The City continues to endeavor to reach agreement with POA on a successor MOU for Fiscal Year 2021. In addition, the City is also in Fiscal Year 2022 contract negotiations with POA for a successor MOU.

IAFF Local 145: For Fiscal Year 2021, IAFF Local 145 has a one year MOU with no general salary increases but with increases to the Flexible Benefits Plan for the Employee + tiers (i.e. Employee +

Spouse/Domestic Partner; Employee + Children; and Employee + Family (Spouse/Domestic Partner/Children)) ranging from an increase of \$1,547 to \$2,653. If an employee selects one of the Employee + tiers they are not eligible for any cash-back after selecting their applicable plan. However, if an existing employee (hired before July 1, 2020) selects Waiver or Employee Only medical coverage the employee can select the current \$1,750 (Waiver) and \$9,830 (Employee Only) and receive the current cash-back allotment. For new hired employees (hired on or after July 1, 2020), if the employee selects the Waiver option they can receive \$1,000 cash-back option if the employee can provide proof of a qualifying medical coverage outside of the City's Flexible Benefit Plan. If the employee is unable to show qualifying medical coverage they are not eligible for the \$1,000 cash-back. The City is currently in Fiscal Year 2022 contract negotiations with Local 145 for a successor MOU.

Teamsters Local 911: The City is currently negotiating in good faith with Teamsters Local 911 on the successor MOU for Fiscal Year 2021 and as such their organization does not currently have a new contract in place as for Fiscal Year 2021. These negotiations will not conclude until the parties are able to reach agreement and the Council approves the successor MOUs. Upon expiration of the current MOU, the City is legally required to maintain the status quo on items involving terms and conditions of employment until the parties negotiate an agreement or exhaust impasse procedures. The City continues to endeavor to reach agreement with Teamsters Local 911 on a successor MOU for Fiscal Year 2021. In addition, the City is also in Fiscal Year 2022 contract negotiations with Local 911 for a successor MOU.

DCAA: For Fiscal Year 2021, DCAA has a one year MOU with no general salary increases but with increases to the Flexible Benefits Plan for the Employee + tiers (i.e. Employee + Spouse/Domestic Partner; Employee + Children; and Employee + Family (Spouse/Domestic Partner/Children) ranging from an increase of \$82 to \$6,579. If an employee selects one of the Employee + tiers they are not eligible for any cash-back after selecting their applicable plan. However, if an existing employee (hired before July 1, 2020) selects Waiver or Employee Only medical coverage the employee can select the current \$9,942 (Waiver) and \$13,643 (Employee Only) and receive the current cash-back allotment. For new hired employees (hired on or after July 1, 2020), if the employee selects the Waiver option they can receive \$1,000 cash-back option if the employee can provide proof of a qualifying medical coverage outside of the City's Flexible Benefit Plan. If the employee is unable to show qualifying medical coverage they are not eligible for the \$1,000 cash-back. The City is currently in Fiscal Year 2022 contract negotiations with DCAA for a successor MOU.

SAN DIEGO CITY EMPLOYEES' RETIREMENT SYSTEM

The City has an unfunded pension liability of approximately \$3.34 billion and an ADC of \$414.9 million as of June 30, 2020. The ADC is projected to remain relatively stable until the Unfunded Actuarial Liability ("UAL") is fully paid, which is expected to occur in Fiscal Year 2041. 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.

Defined Benefit Plan

General. The City has a defined benefit pension plan (the "Pension Plan") and various defined contribution pension plans covering substantially all of its employees. See "OTHER RETIREMENT PLANS" below.

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 was closed to new City employees, except for the Police plan, which remained 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 2020 CAFR. SDCERS also prepares its own Comprehensive Annual Financial Report, the most recent of which is for Fiscal Year 2020.

The amounts and percentages set forth under this caption relating to SDCERS, including, for example, actuarial liabilities and funded ratios, are based upon numerous demographic and economic assumptions, including investment return rates, inflation rates, salary increase rates, cost of living adjustments, postemployment mortality, active member mortality, and rates of retirement. Prospective purchasers of the 2021 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 2021 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 2021 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 July 1, 2020**

	<u>General</u>	<u>Safety</u>	<u>Total by Classification</u>
Active Members	3,319	2,216	5,535
Deferred Vested	2,219	679	2,898
Retirees	5,872	3,641	9,513
DROP Participants ⁽¹⁾	<u>637</u>	<u>259</u>	<u>896</u>
Total Members, as of July 1, 2020	12,047	6,795	18,842

⁽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: Cheiron Actuarial Valuation Report as of June 30, 2020.

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 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 2020 Actuarial Valuation. The 2020 Actuarial Valuation serves as the basis for the City's pension contribution for Fiscal Year 2022. 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.

Proposition B and its Current Status. On June 5, 2012, City voters approved Proposition B, a pension reform initiative amending the Charter. As a result, subject to the outcome of the litigation discussed below, employees hired on or after July 20, 2012, other than sworn police officers, are no longer eligible to participate in the City's defined benefit plan and are only eligible to participate in a defined contribution.

In December 2015, the Public Employment Relations Board ("PERB") issued a decision (the "PERB Order") in an Unfair Practice Charge ("UPC") filed by certain REOs, ruling that the City had violated the Meyers-Milias-Brown Act ("MMBA") when it failed to meet and confer with the REOs over the language of Proposition B prior to placing it on the June 2012 ballot.

Between January 2016 and January 2021, the matter was adjudicated at the California Superior Court, California Appellate Court and California Supreme Court levels. On January 5, 2021, the California Superior Court, in a quo warranto proceeding, ruled that Proposition B is invalid. The impacts from this ruling on the Pension Plan are unknown at this time. See "LITIGATION POTENTIALLY ADVERSELY AFFECTING THE GENERAL FUND."

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 actuarial liability ("UAL"), 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 UAL. The administrative expense component for Fiscal Year 2022 is \$11.3 million and is assumed to increase by 2.5% per year.

Amortization Periods and Methodology. Except for the non-Police portion of the UAL as of June 30, 2012 which is amortized over 15 years, the UAL is amortized over several different closed periods as follows: changes in assumptions and methods were being amortized over 30 years and as of June 30, 2019 prospective changes will be amortized over 20 years. Changes in benefits are amortized over five years, the outstanding balance of the Fiscal Year 2007 UAL is amortized over 20 year period (such that, as of Fiscal Year 2019, 8 years of amortization remain), and subsequent yearly experience gains and losses are amortized over 15 years.

Effective with the 2017 Actuarial Valuation, the remaining balances of the 2009 experience loss and the 2012 non-Police UAL 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.

In January 2019, the SDCERS Board voted to set minimum annual pension payments of the City's UAL. This minimum payment is also referred to as a "floor;" meaning even if the ADC in a given year is less than the floor, the floor amount must still be paid for that year. The ADC for Fiscal Year 2022 will be \$414.9 million based on the 2020 Actuarial Valuation and the City will pay this amount in Fiscal Year 2022. The floor payment for the City was set at \$275.5 million, representing the UAL component of the Fiscal Year 2020 ADC, and will remain at that level unless changed by a vote of the SDCERS Board. The floor amount was

established based on the June 30, 2018 actuarial valuation and the calculated Fiscal Year 2020 payment to SDCERS.

Finally, if necessary, there is an additional UAL 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 UAL 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 2020 Actuarial Valuation. The actuarial assumptions reflect recommendations approved by the SDCERS Board in January 2019.

1. Investment Return Rate: 6.50% net of investment expenses.
2. Inflation Rate: 3.05% per year, compounded annually.
3. Administrative Expense Assumption: Administrative expenses are assumed to be \$11.3 million for Fiscal Year 2022 (assuming payment at the beginning of the fiscal year, increasing by 2.50% annually).
4. Interest Credited to Member Contributions: 6.50% compounded annually.
5. Projected Salary Increases Due to Inflation: 3.05%
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 termination, rates of disability, rates of mortality for active lives, rates of mortality for retired healthy lives and terminated vested members, rates of mortality for retired disabled lives, rates of retirement, family composition, member contributions for spousal continuance, deferred member benefit and DROP account balances.

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 assets¹ 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 five 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 3.6% while the market value of assets decreased by 1.7% from June 30, 2019 to June 30, 2020. As of June 30, 2020 the market value of plan assets was approximately \$7.649 billion, and the actuarial value was approximately \$7.871 billion.

Funding Status

According to the 2020 Actuarial Valuation, as of June 30, 2020, the City had a UAL of \$3.336 billion and a funded ratio based on the actuarial value of assets of 70.2%. The UAL increased by \$328.6 million over the UAL set forth in the Actuarial Valuation at June 30, 2019 (“2019 Actuarial Valuation”), which was \$3.007 billion, and the funded ratio decreased by 1.4%. In the Fiscal Year 2019 Actuarial Valuation, it was projected that the Fiscal Year 2020 UAL would decrease by \$152 million. The increase in the Fiscal Year 2020 UAL was primarily driven by the changes in demographic assumptions. Net asset experience was also unfavorable, increasing the UAL by \$122.5 million.

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¹ 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.

Table A-8 below sets forth the City’s portion of SDCERS historical funding progress for Fiscal Years 2011 through 2020. Additionally, see Note 12, “Pension Plans,” in the City’s Fiscal Year 2020 CAFR.

TABLE A-8
CITY OF SAN DIEGO
SCHEDULE OF FUNDING PROGRESS
Fiscal Years Ended June 30, 2011 through June 30, 2020
(in thousands (except for percentages))
(unaudited)

Valuation Date (June 30)	Actuarial Value of Assets (A)	Market Value of Assets (B)	Actuarial Liability (AL) (C)	Funded Ratio (Actuarial) (A/C)	Funded Ratio (Market) (B/C)	Unfunded AL (UAL) (Actuarial) (C)-(A)	AL less Market Value of Assets (C)-(B)
2011	\$4,739,399	\$4,848,054	\$6,917,175	68.5%	70.1%	\$2,177,776	\$2,069,121
2012	4,982,442	4,799,827	7,261,731	68.6	66.1	2,279,289	2,461,904
2013	5,317,778	5,395,158	7,555,527	70.4	71.4	2,237,749	2,160,369
2014	5,828,594	6,292,855	7,858,703	74.2	80.1	2,030,110	1,565,848
2015	6,204,244	6,387,829	8,205,953	75.6	77.8	2,001,709	1,818,124
2016	6,455,378	6,307,412	9,013,130	71.6	70.0	2,557,752	2,705,718
2017	6,808,418	7,000,220	9,565,802	71.2	73.2	2,757,384	2,565,582
2018	7,214,925	7,456,337	10,192,808	70.8	73.2	2,977,883	2,736,471
2019	7,595,073	7,779,226	10,602,166	71.6	73.4	3,007,093	2,822,941
2020	7,870,672	7,648,735	11,206,326	70.2	68.3	3,335,654	3,557,591

Source: SDCERS Comprehensive Annual Financial Report (2011 to 2019), Fiscal Year 2020 data sourced from Cheiron Actuarial Valuation Report as of June 30, 2020 for all data except that provided by Department of Finance, City of San Diego for Funded Ratio (Market) (2010) and AL less Market Value of Assets (2010-2013).

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. Because the POB Plan is not administered by a trust, the recently implemented Governmental Accounting Standards Board (“GASB”) Statement No. 73 is applicable for accounting and disclosure purposes. Pursuant to GASB 73, Cheiron prepares the accounting and financial disclosure information for the POB Plan, separate from the GASB 67/68 accounting disclosures for the pension plan. 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, 2019, the most recent year for which the City has data, was \$12.2 million, and this entire amount is unfunded. POB Plan contributions are made on a monthly basis as payments are owed to beneficiaries.

Citywide and General Fund Pension Contributions

The City’s pension plan ADC for Fiscal Year 2021 is \$365.6 million with the General Fund’s budgeted proportional share of the ADC at \$306.8 million. The City’s pension plan payment is typically made on July 1 of each fiscal year, including Fiscal Years 2020 and 2021. The 2020 Actuarial Valuation shows the City’s ADC for Fiscal Year 2022 will be increasing by \$49.3 million, to \$414.9 million (estimated \$352.1

million is allocable to the General Fund). The primary factor for the ADC increase for Fiscal Year 2022 is the changes to the demographic assumptions of approximately \$31 million driven by updated mortality rates.

Table A-9 sets forth the City’s ADC and POB Plan contributions and the General Fund’s share payments for Fiscal Years 2016 through 2020. The City does not pay any portion of employee pension contributions.

**TABLE A-9
CITY OF SAN DIEGO
PENSION CONTRIBUTION
Fiscal Years 2016 through 2020
(in thousands (except for percentages))**

Fiscal Year ended June 30	Pension Plan ADC (A)	POB Plan Contribution (B)	Total Pension Contribution⁽¹⁾ (A+B)	General Fund Pension Contribution⁽¹⁾ (C)	General Fund Revenues⁽²⁾ (D)	General Fund Pension Contribution as a Percent of General Fund Revenue (C/D)
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	324,500	1,430	325,930	239,615	1,427,501	16.79
2019	322,900	1,403	324,303	244,264	1,491,627	16.38
2020	350,500	1,482	351,982	290,996	1,538,501	18.91

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

⁽²⁾ General Fund Revenues for Fiscal Years 2016 – 2020, include Transfers from Proprietary and Other Funds, (see Comprehensive Annual Financial Reports under General Fund Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual (Budgetary Basis)).

Source: SDCERS Comprehensive Annual Financial Reports for Pension Plan ADC (2016-2020). Comprehensive Annual Financial Reports, City of San Diego for POB Plan Contribution (2016-2020) and General Fund Revenues (2016-2020). Department of Finance, City of San Diego for General Fund Pension Contribution (2016-2020).

Per the Fiscal Year 2021 Adopted Budget, the City’s pension payment is \$365.5 million, an increase of \$15 million from Fiscal Year 2020; approximately \$306.8 million or 83.9% of the ADC was budgeted in the General Fund. The POB Plan contribution is budgeted at \$1.5 million based on the Fiscal Year 2021 Adopted Budget. The General Fund pension contribution budget of \$308.3 million represents 19.02% of the General Fund revenue budget of \$1.62 billion for Fiscal Year 2021.

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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 January 2020 that were used for the 2020 Actuarial Valuation. The table also assumes the validity of Proposition B, which, as discussed above, has been rendered invalid. It is important to note that the table uses investment returns as assumed, 6.5% in Fiscal Year 2020 and 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 2021 through 2030 (earnings as assumed)

Fiscal Year Ending June 30	Assumed Investment Return Rate	Actuarially Determined Contribution (millions)	UAL (billions)
2021	6.50%	\$365.6	\$3.01
2022	6.50	414.9	3.34
2023	6.50	423.1	3.30
2024	6.50	430.4	3.22
2025	6.50	436.4	3.10
2026	6.50	437.2	2.97
2027	6.50	434.7	2.81
2028	6.50	439.7	2.63
2029	6.50	356.3	2.44
2030	6.50	356.0	2.23

Source: Cheiron Actuarial Valuation Report dated December 2020 for period ending of June 30, 2020.

Supplemental COLA

On August 5, 2013, the City Council amended the SDMC to provide a method for funding a supplemental cost-of-living benefit (the "Supplemental COLA") previously given to a closed group of retirees who retired on or before June 30, 1982. SDCERS holds a reserve within the plan assets, and pays Supplemental COLA benefits from this reserve. On a yearly basis, the City cash funds the Supplemental COLA reserve based on an estimate of benefits to be paid during the fiscal year. In Fiscal Year 2020, the City contributed \$1.56 million towards the Supplemental COLA reserve and paid approximately \$1.63 million in benefits. As of June 30, 2020, the City's Supplemental COLA reserve had an unspent balance of \$87,000. The City budgeted \$1.7 million for the Supplemental COLA reserve in Fiscal Year 2021.

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.

Supplemental Pension Savings Plan

Pursuant to the City's withdrawal from the Federal Social Security System effective January 8, 1982, the City established the Supplemental Pension Savings Plan ("SPSP"). Pursuant to the Federal Government's mandate of a Social Security Medicare tax for all employees not covered by Social Security hired on or after April 1, 1986, the City established the Supplemental Pension Savings Plan-Medicare ("SPSP-M"). The SPSP and SPSP-M were merged into a single plan, the SPSP, on November 12, 2004 for administrative simplification, without a change in benefits. Pursuant to the requirements of the Omnibus Budget Reconciliation Act of 1990 requiring employee coverage under a retirement system in lieu of coverage under the Federal Insurance Contributions Act effective July 1, 1991, the City Council established the Supplemental Pension Savings Plan-Hourly ("SPSP-H"). These supplemental plans are defined contribution plans administered by Wells Fargo to provide retirement benefits for eligible employees. The City Council can amend any provisions of the plans that are not part of any employee's vested retirement benefit. If the City amends any non-legally mandated provisions, it must first comply with procedural requirements, including collective bargaining under the MMBA and for the SPSP plan, after approval by a simple majority vote of all active members. There are no plan members who belong to an entity other than the City. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings, less investment losses. The City's general members, lifeguard members and elected officers participate in the plan. Eligible employees may participate from the date of employment; however, the SPSP plan was closed to general and lifeguard members hired on or after July 1, 2009 and January 1, 2011, respectively. As of June 30, 2020, there were 5,923 participants in the SPSP Plan and 9,020 participants in the SPSP-H plan.

The SPSP requires that both the employee and the City contribute an amount equal to 3% of the employee's total salary each pay period. Participants in the plan hired before July 1, 1986 may voluntarily contribute up to an additional 4.5% and participants hired on or after July 1, 1986 may voluntarily contribute up to an additional 3.05% of total salary, with the City matching each. Hourly employees contribute 3.75% on a mandatory basis, which is matched by City contributions except for employees represented by the MEA and the Teamsters Local 911 (for MEA and Teamsters Local 911 hourly employees, the City contribution is 6%). Under the SPSP, the City's contributions for each employee (and interest allocated to the employee's account) are fully vested after five years of continuous service at a rate of 20% for each year of service. Hourly employees are immediately 100% vested. The unvested portion of City contributions and interest forfeited by employees who leave employment before five years of service are used to reduce the City's SPSP cost.

401(a) Plan Under Proposition B

Proposition B amended the City Charter to provide all new City employees initially hired on or after July 20, 2012, except sworn police officers, with a 401(a) plan that is administered along with SPSP but with different contribution rates, vesting periods and employer match. Non-public safety employees contribute an amount equal to 9.2% of salary, and firefighters, lifeguards, and police recruits contribute 11% of salary (including overtime) on a mandatory basis. The City matches all such contributions and contributions are fully vested immediately upon employment. Police recruits participate in SDCERS upon acceptance of full-time police employment. Due to ongoing litigation regarding Proposition B, the City has not established a new 401(a) plan for eligible employees. Instead, the City has contributed funds to SPSP-H, an existing 401(a) plan, to eligible employees in accordance with the SPSP-H plan provisions. The City will continue to contribute funds for such employees through the SPSP-H, pending resolution of Proposition B litigation and negotiation. See "LITIGATION POTENTIALLY ADVERSELY AFFECTING THE GENERAL FUND. In Fiscal Year 2020, the City and the covered roughly 4,000 City employees who contributed \$42.0 million and \$39.4 million, respectively, including contributions made under the 401(a) Plan under Proposition B. As of June 30, 2020, the plan fiduciary net position totaled \$928.9 million. SPSP, which includes SPSP-H, is not considered part of the City's financial reporting entity.

401(a) Plan - City

The City Council established a 401(a) Plan for all General Member employees hired on or after July 1, 2009 and before July 20, 2012. The 401(a) Plan is a defined contribution plan administered by Wells Fargo to provide retirement benefits for eligible employees. Employees are eligible to participate from the date of employment and are immediately 100% vested. Employees contribute 1% on a mandatory basis, which is matched by City contributions. Additionally, employees can make voluntary contributions to their 401(a) Plan accounts through payroll deductions not to exceed IRS limits. Voluntary contributions to the plan are not matched by the City. The City Council can amend any provisions of the plan that are not part of any employee's vested retirement benefit. However, if the City amends any non-vested provisions, it must first comply with procedural requirements, including collective bargaining under the MMBA.

The City and employees contributed \$388,000 and \$615,000, respectively, during the Fiscal Year 2020. As of June 30, 2020, the plan fiduciary net position totaled \$8.4 million. The 401(a) Plan is not considered part of the City's financial reporting entity.

401(k) Plan - City

The City Council established a 401(k) Plan effective July 1, 1985. The 401(k) Plan is a defined contribution plan administered by Wells Fargo to provide retirement benefits for eligible employees. Employees are eligible to participate from the date of employment. Employees make contributions to their 401(k) Plan accounts through payroll deductions. The City Council can amend any provisions of the plan that are not part of any employee's vested retirement benefit. However, if the City amends any non-vested provisions, it must first comply with procedural requirements, including collective bargaining under the MMBA.

The employees' 401(k) contributions are based on IRS calendar year limits. Employees contributed \$30.9 million during Fiscal Year 2020. There is no City contribution towards the 401(k) Plan. As of June 30, 2020, the plan fiduciary net position totaled \$455.5 million. The 401(k) Plan is not considered part of the City's financial reporting entity.

POST-EMPLOYMENT HEALTHCARE BENEFITS

Healthcare Benefits

The City provides retiree healthcare benefits, also known as other post-employment benefits ("OPEB"), to certain health-eligible retirees and employees who were hired prior to July 1, 2005. Plan determination is based on several factors including hire date, termination date, and individual employee election as of Fiscal Year 2012. For eligible employees hired after July 1, 2009, the City offers a defined contribution plan via contributions to a medical trust. The City's contributions to the medical trust for general members is limited to an employer match of 0.25% of the salary of eligible employees and for International Association of Firefighters ("IAFF") Local 145 members is limited to \$25 per pay period (see "—Retiree Medical Trust" and "—Southern California Firefighters Benefit Trust" below).

OPEB Plans for Employees Hired Prior to July 1, 2005

In Fiscal Year 2012, the City implemented comprehensive retiree healthcare reforms for members retiring after April 1, 2012 who were members of the City's defined benefit plan. Members who retired before April 1, 2012 maintained defined benefit levels existing at that time. In 2012, the City entered into a 15-year memorandum of understanding ("PEHB MOU") with the City's recognized employee organizations requiring members to make an irrevocable election under three different options. Two of the options were defined benefit plans (collectively, "DB 2012 Plan") and the remaining option was a defined contribution plan ("DC 2012 Plan"). The PEHB MOU requires that certain employees contribute towards the DB 2012 Plan to fund a

portion of the expense (the “Employee Contributions”). A significant group of participants elected to participate in the DC 2012 Plan, substantially reducing the City’s OPEB plan’s unfunded actuarial liability. The City’s DB 2012 Plan is limited to 1,155 retirees and 689 active employees as of June 30, 2019. The City’s DC 2012 Plan is limited to 3,464 active participants as of June 30, 2019. (These are the most recent figures available to the City). The terms of the PEHB MOU may be renegotiated with a two-thirds vote of the City Council and will remain in place until March 31, 2027. As of the date of this Official Statement, there are no ongoing discussions to renegotiate the PEHB MOU.

The City has pre-funded future postemployment healthcare benefits for defined benefit costs through the California Employers’ Retiree Benefit Trust (“CERBT”), an investment trust administered by CalPERS. As of June 30, 2020, the fair value of the City’s investments in the CERBT was approximately \$122.3 million.

The City determines the City’s contribution for the OPEB plans through the annual budgetary process (the “Annual Contribution”). The City also uses defined benefit contributions received from members of the DB 2012 Plan and draws from the CERBT, as necessary, to cover total pay-as-you-go costs for the OPEB plans. The Fiscal Year 2020 Annual Contribution was \$65.4 million. Based on current projections performed by the City’s actuary, if the City maintains Annual Contributions at Fiscal Year 2020 levels, the City anticipates full funding of the City’s defined benefit plans by Fiscal Year 2041. It is projected that after Fiscal Year 2041, minimal contributions will be required to cover the pay-as-you-go cost for the DC 2012 Plan through 2046. These projections can change based on several assumptions including, but not limited to, retiree healthcare cost inflation, investment returns on the CERBT trust, termination rates and mortality. The actuary updates funding projections annually, allowing the City to evaluate contribution levels each year.

Table A-11 below sets forth the City’s contributions for Fiscal Years 2016 through 2020.

TABLE A-11
CITY OF SAN DIEGO
CITY RETIREE HEALTHCARE CONTRIBUTIONS⁽¹⁾
Fiscal Years 2016 through 2020
(in thousands)

Fiscal Year Ended June 30	Annual Contribution (A)	City CERBT Withdrawal (B)	Total City Retiree Healthcare Cost (A+B)	General Fund Retiree Healthcare Contribution⁽²⁾
2016	59,227	8,030	67,257	38,547
2017	60,707	9,235	69,942	40,539
2018	62,225	10,403	72,628	41,358
2019	63,781	1,806	65,587	42,653
2020	65,376	3,015	68,391	43,880

⁽¹⁾ Excludes the City’s contributions to the Retiree Medical Trust and Southern California Firefighters Benefit Trust.

⁽²⁾ General Fund actuals presented here are based on General Fund operations as defined in the City’s budget document and will differ from those presented in the City’s CAFRs.

Source: Department of Finance, City of San Diego.

The City commissions an actuarial valuation of its defined benefit plans liability annually for the purpose of determining the City’s Net OPEB Liability in accordance with GASB 75. The City’s Net OPEB Liability is \$462.5 million as of June 30, 2020, based on a measurement date of June 30, 2019. See Note 13, “Other Postemployment Benefits,” in the City’s Fiscal Year 2020 CAFR for information regarding the City’s Net OPEB Liability and OPEB plans.

Retiree Medical Trust

The City created a Retiree Medical Trust for general members hired on or after July 1, 2009. The City's 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. The City's total budgeted contribution to the Retiree Medical Trust for Fiscal Year 2021 is \$635,024 (with the General Fund portion equaling approximately 51%). This amount represents the contribution towards benefits for approximately 3,876 FTE budgeted positions and is expected to grow as new general employees are hired.

Southern California Firefighters Benefit Trust

The City and 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 (the "Firefighters Benefit Trust"), effective July 1, 2016. The Firefighters Benefit Trust is not managed by the City. The budgeted contribution for Fiscal Year 2021 to the Firefighters Benefit Trust is \$619,277. This amount represents the contribution towards benefits for 965 FTE budgeted positions and is expected to grow as new IAFF Local 145 employees are hired.

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-12 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.

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TABLE A-12
CITY OF SAN DIEGO
GENERAL FUND LIABILITY CLAIMS AND PREMIUMS
Fiscal Years 2016 through 2020

<u>Fiscal Year</u>	<u>Liability Claims Payments and Settlement Costs⁽¹⁾</u>	<u>Liability Premium Payments⁽²⁾</u>
2016 ⁽³⁾	\$57,371,000	\$8,478,000
2017	20,662,000	9,151,000
2018	27,742,000	8,798,000
2019	22,218,000	10,660,000
2020	18,082,000	11,442,000

⁽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 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 *Aglío 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).

For each of the past three full Fiscal Years, the claims payments and settlement cost 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.

Public Liability Insurance

The City’s self-insured retention for public liability is \$3,000,000 per occurrence. Above the self-insured retention, the City has a \$2,500,000 individual corridor deductible (annual aggregate). The City maintains excess public liability insurance policies in collaboration with Public Risk Innovations, Solutions and Management (“PRISM”), a statewide joint powers authority risk pool, for amounts up to \$50,000,000 per occurrence (inclusive of the \$3,000,000 self-insured retention and \$2,500,000 individual member corridor deductible for public liability). PRISM was formerly known as the California State Association of Counties-Excess Insurance Authority (“CSAC-EIA”). The Five-Year Outlook addresses reserves for the Public Liability Fund Reserve. See “—Reserves” herein.

Workers’ Compensation and Long-Term Disability

All operating funds of the City participate in both the Workers’ Compensation and long-term disability (“LTD”) programs. The City is self-insured up to \$5,000,000 for its Workers’ Compensation program with purchased excess coverage up to the statutory amount. 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.

Employee Group Health Insurance

The City offers a Flexible Benefits Plan (FBP) to all eligible employees. This IRS-qualified, cafeteria-style benefits program includes medical, vision, dental, basic life insurance and Flexible Spending Account plans. The City also provides FBP credits to apply toward the cost of these plans and allows certain

employees the ability to contribute unused FBP credits to their 401(k) retirement savings plan or to be cashed-out as taxable earnings. The FBP credit amount and restrictions are based on an employee's bargaining unit, hire date, and medical coverage election (e.g., employee-only vs family).

Property and Flood Insurance

The City participates in the joint purchase of property insurance and flood insurance through the PRISM pool (the current annual policy term is March 31, 2020 through March 31, 2021) which includes flood coverage for certain components of City property. The City is not required to provide flood insurance for the remaining components of 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 PRISM pool insures approximately \$4.5 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 PRISM 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" 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 PRISM pool unless the City and member counties are mutually subject to losses due to the same occurrence. Limits and coverage may be adjusted periodically in response to requirements of bond financed projects, acquisitions, and in response to changes in the insurance marketplace. The City can give no assurance that any future losses will be covered or that its insurance provider will be able to cover any such losses.

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 2021 BONDS — Fire and Extended Coverage Insurance" in the front part of this Official Statement.

Earthquake Insurance

PRISM's property insurance 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 \$465 million for all claims made by all towers during the coverage period, including coverage for business interruption caused by an 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 PRISM pool. Due to the potential for geographically concentrated earthquake losses, the PRISM 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 "CERTAIN RISK FACTORS — Risk Management and Insurance" in the front 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 PRISM pool. Coverage is provided in the amount of \$15 million per occurrence subject to a \$25,000 deductible.

Cyber Liability Insurance

The City maintains Cyber Liability insurance coverage for security and privacy liability claims. Coverage for website media content liability, cyber extortion and first party data protection is also afforded under this insurance program. Coverage is purchased through the PRISM pool. \$12 million per occurrence and \$70 million program aggregate limits are available to the City subject to a \$100,000 self-insured retention per claim. See “CERTAIN RISK FACTORS — Cybersecurity” in the front part of this Official Statement for information with respect to the City’s practices to protect against cyber threats.

NO PENDING LITIGATION REGARDING THE 2021 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 2021 Bonds; (ii) questioning or affecting the validity of the 2021 Bonds; or (iii) questioning or affecting the validity of any of the proceedings for the authorization, sale, execution or delivery of the 2021 Bonds.

While there is no litigation pending with respect to the 2021 Bonds, there is litigation pending regarding a prior authorization of lease revenue bonds by the Authority and the City. Although authorized, those bonds have not been issued. In 2016, the City and the Authority authorized the issuance of lease revenue bonds to finance a capital improvement project proposed for the Plaza de Panama area of Balboa Park (the “2016 Authorization”). San Diegans for Open Government (“SDOG”) initiated a validation action known as *San Diegans for Open Government v. Public Facilities Financing Authority of the City of San Diego, et al.*, Fourth District Court of Appeal Case No. D075157, San Diego Superior Court Case No. 37-2017-00004058 (the “SDOG Litigation”), which challenges the City’s and Authority’s actions related to the 2016 Authorization. SDOG alleged that the City’s actions with respect to the 2016 Authorization violated revised Section 90.1 of the City of San Diego Charter (“Section 90.1”) alleging that Section 90.1 prohibits the City from authorizing lease revenue bonds of the Authority which are payable from lease payments made by the City from its General Fund.

After a bench trial, the trial court issued a Statement of Decision and Judgement holding that Section 90.1 does not bar the issuance by the Authority of lease revenue bonds pursuant to the 2016 Authorization. The trial court ruled that Section 90.1 applies only to revenue bonds issued by the City and not lease revenue bonds issued by the Authority. Further, the trial court held that Section 90.1 does not impose a limitation on the City’s ability to authorize the Authority to issue lease revenue bonds pursuant to the Marks-Roos Local Bond Pooling Act of 1985 (the “Act”).

SDOG appealed the trial court’s ruling that Section 90.1 does not bar the City’s authorization of the Authority’s lease revenue bond issuance. Following the initial round of briefing by the parties, the Court of Appeal requested supplemental briefs addressing the following question: “Under established principles of statutory construction, does section 90.1 apply only to the issuance of bonds by the City, as opposed to the issuance of bonds by the Public Facilities Financing Authority?”

Both the City and SDOG submitted their respective supplemental briefs on January 1, 2021. SDOG’s supplemental brief argued that Section 90.1 applies to bonds authorized but not issued by the City because the

language governs situations when the City acts to "authorize the issuance of revenue bonds." The City's supplemental brief argued that (a) Section 90.1 only applies to bonds repaid with water and sewer ratepayer funds; (b) Section 90.1 only applies to revenue bonds issued by and in the name of the City, not bonds issued by the Authority; and (c) Section 90.1 applies only to revenue bonds and not lease revenue bonds issued by the Authority pursuant to the Act. The Court of Appeal held oral arguments on _____ and is expected to provide its ruling within the next [90] days.

LITIGATION POTENTIALLY ADVERSELY AFFECTING THE GENERAL FUND

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. In Fiscal Year 2020, a total of 1,711 claims were filed against the City, of which 1,467 were related to the General Fund. Of the 1,467 General Fund claims received in Fiscal Year 2020, 14% resulted in a settlement or judgement payment. Most of these claims were eligible to be covered by the City's insurance but the amount of each such claim did not exceed the City's self-insured retention or deductible, so the City's insurance coverage was not utilized. Further, all of the payments for claims in Fiscal Year 2020 were made from the City's Public Liability Fund (which is an Operating Fund) without the need to draw on the Public Liability Fund Reserve. See "RISK MANAGEMENT—Self Insurance—*Public Liability Insurance*" and "CITY BUDGET AND RELATED MATTERS—Reserves—*Risk Management Reserves*."

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 to the City's General Fund (after giving effect to amounts that the City would expect to be covered by insurance) 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 Note 18 of the City's CAFR for Fiscal Year 2020 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.

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 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 has collected approximately \$225 million during the relevant time-period and the

amount collected increases monthly. The City has a balance of approximately \$145 million in the Undergrounding Fund. The claim does not have any effect on other compensation SDG&E pays to the City in exchange for the electric franchise.

In August 2018, the City successfully moved for summary judgement as to all claims and causes of action. The court entered judgement in favor of the City on August 31, 2018 and the plaintiffs appealed the judgement. The Court of Appeal affirmed summary judgement in favor of the City on November 20, 2020 in a published opinion. The plaintiffs petitioned the California Supreme Court for review on December 30, 2020. The California Supreme Court has until March 30, 2021 to grant or deny review. Damages awarded in this case, if any, would not be covered by the City's insurance.

Executive Office Complex

The City is named as a defendant in one action and several government tort claims involving complaints or claims of personal injury and property damage primarily resulting from exposure to asbestos at the Executive Complex Building (the "ECB"), which the City leased pursuant to a standard lease with a private owner. The first action was filed in court in June 2019 by several City employees seeking to represent all City employees who have worked in the ECB (the "ECB Complainants") during the relevant time period July 2017 to January 2018.

The City believes that it has a number of defenses to the ECB Complainants' claims including, but not limited to, (1) the action by and on behalf of the ECB Complainants who are City employees is barred because civil suits for workplace-related injuries must be pursued through the worker's compensation system, and (2) the relevant testing results demonstrate that the levels at which the asbestos fibers were present in the ECB failed to rise to the level that would increase the ECB Complainants' risk of developing disease. Further, the City may pursue cross-complaints against the owner of the ECB, as well as both the general contractor and the asbestos abatement subcontractor(s) performing work at both the ECB, because they may be liable to the ECB Complainants who have worked in the building or to the City under California law.

The City demurred to the first amended complaint on October 22, 2019. On July 31, 2020, the trial court sustained the City's demurrer to the first amended complaint with leave to amend. The Court found that the Worker's Compensation exclusivity rule bars the requested relief. Plaintiffs filed the second amended complaint on August 31, 2020. The City demurred to the second amended complaint on August 31, 2020. [On February 26, 2021, the court granted the City's demurrer without leave to amend.

While the City believes it has defenses to the claims, should the ECB Complainants prevail the potential liability to the City could be significant and could have an adverse impact on the City's financial condition. Further additional claims of injury resulting from alleged asbestos exposure at the ECB are possible.

101 Ash Street Building

City as Defendant. The City has received several government tort claims involving complaints or claims and has been named in several lawsuits alleging personal injury and property damage primarily resulting from exposure to asbestos at the 101 Ash Street Building (previously defined as "101 Ash"). The City leases 101 Ash under a 20-year capital lease arrangement pursuant to which it agreed to make lease payments to the lessor (101 Ash, LLC), with title to be transferred to the City at the end of the lease term. The City has received several claims made by individuals who performed construction-related work at 101 Ash. The allegedly injured parties are referred to herein as the "Ash Complainants." The City has tendered its first-party property damages and third-party exposure claims to its insurance carriers. The City's property damage claim was denied by its insurer, although the City is seeking reconsideration of this coverage determination. The City's tender of its exposure claims has been accepted by its insurer.

The City believes that it has a number of defenses to the Ash Complainants' claims including, but not limited to, (1) the action by and on behalf of the Ash Complainants who are City employees is barred because civil suits for workplace-related injuries must be pursued through the worker's compensation system, and (2) the relevant testing results demonstrate that the levels at which the asbestos fibers were present in 101 Ash failed to rise to the level that would increase the Ash Complainants' risk of developing disease. Further, the City may pursue cross-complaints against the general contractor and the asbestos abatement subcontractor(s) performing work at 101 Ash because they may be liable to the Ash Complainants who have worked in the building or to the City under California law.

While the City believes it has defenses to the claims, should the Ash Complainants prevail the potential liability to the City could be significant and could have an adverse impact on the City's financial condition. Further additional claims of injury resulting from alleged asbestos exposure at 101 Ash are possible.

City as Plaintiff. The City is not presently able to occupy 101 Ash. As of September 1, 2020, the City ceased making monthly rent payments of \$534,726.50 until the City can occupy 101 Ash. A notice to such effect was voluntarily filed on September 1, 2020 by the City on the Municipal Securities Rulemaking Board's Electronic Municipal Market Access System maintained on the Internet at <http://emma.msrb.org/>. On November 10, 2020, the City received a Continuing Reservation of Rights and Notice of Default sent on behalf of Wilmington Trust, National Association ("Wilmington Trust," the trustee for the holders of securities secured by lease payments related to 101 Ash).

The City has filed a declaratory relief action against 101 Ash, LLC and Wilmington Trust seeking a judicial declaration that under the terms of the lease for 101 Ash the City is entitled to rent abatement (i) during the period that it cannot occupy or use such building as a result of asbestos contamination, and (ii) as a result of the issuance of a Public Nuisance Violation by the County Air Pollution Control District. In the alternative, the City contends that if the lease agreement related to 101 Ash were interpreted to require the City to pay rent while it cannot occupy the premises, there is no consideration and therefore no contractual obligation. The City further contends that if such lease agreement were interpreted to require the City to pay rent, it would violate the California Constitution's debt limitation provision which prohibits the City from entering into a long-term lease unless the terms include customary commercial terms such as a provision that requires abatement of rent if the City cannot occupy the premises.

The lease for 101 Ash includes certain provisions that obligate the City to repair and maintain the leased premises. Depending upon the outcome of the litigation, the City may be required to make a number of capital improvements to the leased premises. The cost of these capital improvements is unknown, but could be significant.

101 Ash is not part of the Leased Property under the Lease and does not secure the debt service on any other loans, bonds or other instruments issued by or on behalf of the City.

Proposition B and its Current Status

On June 5, 2012, City voters approved Proposition B, a pension reform initiative amending the Charter. As a result, employees hired on or after July 20, 2012, other than sworn police officers, are no longer eligible to participate in the City's defined benefit plan and are only eligible to participate in a defined contribution plan (subject to appellate court ruling as discussed below).

In December 2015, the Public Employment Relations Board ("PERB") issued a decision (the "PERB Order") in an Unfair Practice Charge ("UPC") filed by certain Recognized Employee Organizations (REOs), ruling that the City had violated the MMBA when it failed to meet and confer with the REOs over the language of Proposition B prior to placing it on the June 2012 ballot.

Between January 2016 and March 2019, the matter was adjudicated at both the California Appellate Court and California Supreme Court levels. The California Supreme Court ultimately upheld PERB's determination of an MMBA violation and remanded the matter back to the Court of Appeal for further proceedings to determine the appropriate judicial remedy. The City sought review with the United States Supreme Court, however, it was denied.

On March 25, 2019, the Court of Appeal affirmed the PERB Order with the following modifications (the "Modified PERB Order"): (1) The City must meet and confer with the REOs over the effects of Proposition B; (2) For the time period that ends with the completion of the bargaining process (including the exhaustion of impasse measures, if an impasse occurs), the City must pay the affected current and former employees represented by the REOs the difference, plus seven percent annual interest between the compensation (including retirement benefits) the employees would have received prior to when Proposition B took effect and the compensation those employees received after Proposition B took effect (the "Make-Whole Provision"); and (3) The City must meet and confer at the REOs' request and is precluded from placing a charter amendment on the ballot that is advanced by the City that affects employee pension benefits and/or other negotiable subjects until the bargaining process is complete.

The REOs requested that the Court of Appeal invalidate Proposition B, however, the court declined to do so, concluding that the question of Proposition B's validity would be more appropriately decided in a separate *quo warranto* proceeding. In June 2019, the City Council directed the City Attorney's Office to "take appropriate and affirmative action to invalidate Proposition B, which would include working with the [REOs]." On June 25, 2019, the REOs served the California Attorney General with an Application for Leave to Sue in *quo warranto*. The Attorney General granted the REOs Leave to Sue and on September 27, 2019, the REOs filed their complaint in Superior Court. The City answered the REO's complaint agreeing invalidation was appropriate. The REOs and other unions stipulated to the proponents of Proposition B entering the case as defendants-in-intervention. On January 5, 2021, the Court conducted a one-day virtual bench trial at the request of all parties following the Court's ruling issued on December 18, 2020, denying, without prejudice, the parties' dueling motions for summary judgement. At the conclusion of the trial the court ruled that Proposition B is invalid and awarded costs to the REOs and the City. Notice of Entry of Judgement was served on the proponents on February 8, 2021 and the deadline for the proponents to file a notice of appeal is April 9, 2021. The City can make no assurances as to whether the Proponents will file an appeal, or if any other party may attempt to allege standing. If the judgement is appealed, it could take until 2024 before there is final resolution of Proposition B's validity if the *quo warranto* action is ultimately reviewed by the California Supreme Court.

Neither PERB nor the Appellate Court clearly defined how the value of the benefits under the Make-Whole Provision should be calculated; meaning the ultimate cost to the City, if any, will likely be the subject of negotiations between the City and the REOs. The City's preliminary analysis and work performed by SDCERS' actuary has provided a preliminary understanding of what disparity exists between the benefits provided under Proposition B versus what employees would have otherwise received under the City's defined benefit plan. That preliminary analysis identified several assumptions that would be the subject of negotiations between the City and REOs including, but not limited to, the investment rate of return, the discount rate, and how interest earnings are calculated. Any one of these assumptions could significantly alter the estimated one-time and ongoing costs to the City and such costs could be material. A further consideration in implementing any compensatory remedy is compliance with federal tax laws and regulations, which may also restrict the remedies available through labor negotiations. Accordingly, it would not be meaningful or informative for the City to provide any such preliminary cost estimates at this time.

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

Oversight and Reporting Requirements. The City Treasurer provides a monthly investment report, including the portfolio market valuation, to the Mayor, City Council, Chief Financial Officer, and other senior management officials. In addition to the monthly investment reports, the Department annually presents the City Treasurer's Investment Policy to the City Treasurer's Investment Advisory Committee ("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 Department of Finance for review and reconciliation.

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 are 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") 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 Bloomberg Barclays U.S. Treasury Bill 3-6 month Index, or equivalent. 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 Bloomberg Barclays U.S. Treasury 1-3 year Index, or equivalent. 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, 2020, approximately 14.94% of the City Pool's investments mature within 2 months, 19.30% within 3 months, 28.03% within 6 months, 37.13% within 1 year, 74.18% within 2 years, and 100% within 3 years (on a cumulative basis). As of December 31, 2020, the City Pool had a weighted average maturity of 1.29 years

(470.36 days) and its average yield to maturity was 1.25%. 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 0.25 years and the Core portfolio had a duration of 1.78 years as of December 31, 2020. 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 0.25% for every 1% increase in market interest rates while the Core portfolio should decrease in market value by 1.78% 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 for the next six months, maturity or sale of investments, purchases of new securities, and fluctuations in interest rates.

Table A-13 sets forth information concerning the City Pool at December 31, 2020.

TABLE A-13
CITY TREASURER'S POOLED INVESTMENT FUND
At December 31, 2020
(in thousands (except for percentages))
(unaudited)

<u>Investment Instrument</u>	<u>Book Value</u>	<u>Fair Value</u>	<u>Percent of Total</u> ⁽¹⁾
U.S. Treasury Notes	\$1,236,329	\$1,248,596	53.90%
U.S. Treasury Bills	79,984	80,000	3.49
U.S. Agency Notes	35,216	35,643	1.53
Local Agency Investment Fund	65,539	65,539	2.86
Supranationals	29,972	30,477	1.30
Commercial Paper	292,179	292,255	12.74
Corporate Notes	417,673	426,311	18.21
Asset Backed Securities	136,945	<u>138,586</u>	<u>5.97</u>
TOTAL INVESTMENTS	\$2,293,837	\$2,317,407	100.00%

⁽¹⁾ Based on book value.

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 _____, 2021, the City had an "Aa2" Issuer Rating from Moody's Investors Service, Inc., an "AA" Issuer Credit Rating from S&P Global Ratings 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 2021 Bonds. See "RATINGS" in the forepart of the Official Statement.

Commercial Paper

In Fiscal Year 2018, the City established the Commercial Paper Notes program to fund various General Fund capital improvements. The Commercial Paper Notes are authorized to be issued in the maximum principal amount of \$88.5 million and are supported by an irrevocable direct-pay letter of credit (the

“Letter of Credit”) issued by Wells Fargo Bank, N.A. The Letter of Credit is currently scheduled to expire on November 26, 2021, unless extended or terminated sooner in accordance with its terms. The City pays interest on the Commercial Paper Notes from its General Fund as interest comes due and rolls the outstanding principal amount until refunded with long-term lease revenue bonds.

As of March, 2021, the City had \$61.1 million principal amount of Commercial Paper Notes outstanding of the \$88.5 million authorized. The City expects to pay the outstanding amount of the Commercial Paper Notes with a portion of the proceeds of the 2021 Bonds. The City expects to issue additional Commercial Paper Notes in Fiscal Year 2022 to finance City improvements. See “—Future Financing Plans” below.

Long-Term Obligations

Table A-14 sets forth the long-term General Fund lease commitments and other General Fund supported obligations outstanding as of June 30, 2020 and December 31, 2020.

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TABLE A-14
CITY OF SAN DIEGO
GENERAL FUND SUPPORTED OBLIGATIONS
(in thousands (except for footnotes))
(Unaudited)

	Principal Outstanding as of <u>June 30, 2020</u>	Principal Outstanding as of <u>December 31, 2020</u>
General Fund Lease Revenue Bonds⁽¹⁾		
2012A – Convention Center Expansion Refunding Bonds ⁽²⁾	\$ 82,225	\$ 17,660
2012A – Deferred Capital Improvement Project Bonds ⁽³⁾⁽⁴⁾	61,995	6,080
2012B – Fire and Life Safety Refunding Bonds ⁽³⁾	13,165	12,735
2013A – Capital Improvement Projects and Old Town Light Rail Refunding Bonds ⁽³⁾	33,055	31,380
2013B – Balboa Park/Mission Bay Park Refunding Bonds ⁽³⁾	2,670	2,050
2015A – Capital Improvement Projects Bonds ⁽³⁾	62,260	62,260
2015B – Capital Improvement Projects Bonds ⁽³⁾	36,195	34,170
2016 – Ballpark Refunding Bonds	83,845	78,615
2018A – Master Refunding Bonds ⁽³⁾	115,100	107,875
2020A – Convention Center Expansion Refunding Bonds	-	70,750
2020A – Master Refunding Bonds ⁽³⁾	-	59,755
Total Principal of General Fund Lease Revenue Bonds	<u>\$490,510</u>	<u>\$483,330</u>
Other Lease Obligations⁽⁵⁾		
2011 Qualified Energy Conservation Bonds Equipment Lease (15-year lease)	\$ 5,816	\$ 4,903
2015 Civic Center Plaza Capital Lease (20 year lease) ⁽⁶⁾	40,691	39,620
2017 101 Ash Street Capital Lease (20 year lease) ⁽⁶⁾⁽⁷⁾	69,265	66,624
Equipment Vehicle Financing Program (lease terms vary)	79,837	81,925
Other Capital Leases and Loans (lease terms vary) ⁽⁸⁾	19,624	18,640
Total Other Lease Obligations	<u>\$215,233</u>	<u>211,712</u>
Sub-Total Principal Outstanding	<u>\$705,743</u>	<u>\$695,042</u>
Other Obligations (General Fund Backup Support)		
San Diego Convention Center I-Bank Loan ⁽⁹⁾	<u>\$ 24,768</u>	<u>\$ 24,010</u>
Total Principal Outstanding		

⁽¹⁾ Convention Center Expansion Refunding Bonds issued by the Convention Center Expansion Financing Authority. All other Lease Revenue Bonds issued by the Authority.

⁽²⁾ The Convention Center Expansion Financing Authority Lease Revenue Refunding Bonds, Series 2012A were partially refunded on July 8, 2020 with the issuance of the Convention Center Expansion Financing Authority Lease Revenue Refunding Bonds, Series 2020A (Federally Taxable).

⁽³⁾ Bonds outstanding under the 2012 Master Indenture.

⁽⁴⁾ The Authority's Lease Revenue Bonds, Series 2012A (Capital Improvement Projects) were partially refunded on July 1, 2020 with the issuance of the Authority's Lease Revenue Refunding Bonds, Series 2021 (Series 2012A Refunding) (Federally Taxable).

⁽⁵⁾ Private placement financing.

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

⁽⁷⁾ Since the City is unable to use or occupy 101 Ash, lease payments have been abated since September 1, 2020. See "LITIGATION POTENTIALLY ADVERSELY AFFECTING THE GENERAL FUND — Litigation and Regulatory Actions — 101 Ash Street Building."

Footnotes to Table A-14 continue on next page)

- (8) Other Capital Leases includes LED street lights and equipment and IT leases (Open Text and Desktop Computers). LED street lights and equipment are financed through a Master Lease Agreement with GE Government Finance and California Energy Resources Conservation and Development Commission (CEC) loans.
- (9) The San Diego Convention Center (“SDCCC”) and the City, as co-lessees, executed a \$25.5 million 25-year loan from the California Infrastructure and Economic Development Bank through its Infrastructure State Revolving Fund Program. SDCCC makes the annual payments.

Source: Fiscal Year 2020 Comprehensive Annual Financial Report, City of San Diego for Principal Outstanding as of June 30, 2020. Debt Management, City of San Diego for Principal Outstanding as of December 31, 2020 and footnotes.

Table A-15 sets forth the principal and interest payments required to be made by the City with respect to future obligations, as of June 30, 2020. Table A-15 does not include any payments with respect to the Commercial Paper Notes. As described under “—Commercial Paper” above, the City pays interest on the Commercial Paper Notes as interest comes due and expects to continue to refund the principal amount with additional Commercial Paper Notes until the Commercial Paper Notes are refunded with long term lease revenue bonds. The City expects to refund the outstanding principal amount of the Commercial Paper Notes with a portion of the proceeds of the 2021 Bonds.

TABLE A-15
CITY OF SAN DIEGO
GENERAL FUND LEASE PAYMENTS AND OTHER LEASE OBLIGATIONS
As of June 30, 2020
(in thousands (except for footnotes))
(Audited)

<u>Fiscal Year</u>	<u>General Fund Lease Payments</u> ⁽¹⁾	<u>Other Lease Obligations</u> ⁽²⁾⁽³⁾	<u>Total</u>
2021 ⁽³⁾	\$ 50,111	\$ 32,182	\$ 82,293
2022	50,104	30,723	80,827
2023	49,417	29,743	79,160
2024	48,354	26,937	75,291
2025	47,618	21,449	69,067
Thereafter	468,967	145,878	614,845
Subtotal	714,571	286,912	1,001,483
Less Interest Portion	<u>(224,061)</u>	<u>(71,679)</u>	<u>(295,740)</u>
Total Principal Portion	<u>\$ 490,510</u>	<u>\$ 215,233</u>	<u>\$ 705,743</u>

(1) Lease payments do not reflect the Convention Center Expansion Financing Authority Lease Revenue Refunding Bonds, Series 2020A issued on July 8, 2020, and the Authority’s Lease Revenue Refunding Bonds, Series 2020 issued on July 1, 2020.

(2) Consists of payments related to the Other Lease Obligations category shown in Table A-14.

(3) SDCCC and the City, as co-lessees, executed a \$25.5 million 25-year loan with the California Infrastructure and Economic Development Bank’s Infrastructure State Revolving Fund Program. SDCCC makes the annual payments on the loan and the payments for this loan are not reflected in the table.

(3) Lease payments for the 101 Ash property are included in this table; however, because the City is unable to use or occupy the property, the \$535,000 monthly lease payments due under the capital lease agreement have been abated since September 1, 2020. See “LITIGATION POTENTIALLY ADVERSELY AFFECTING THE GENERAL FUND — Litigation and Regulatory Actions — 101 Ash Street Building.”

Source: Fiscal Year 2020 Comprehensive Annual Financial Report, City of San Diego.

Future Financing Plans

From time to time, the City conducts bond and note 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 expects to issue Lease Revenue Commercial Paper Notes up to \$88.5 million as needed in Fiscal Years 2021-2022 to continue to fund General Fund capital improvement priorities. The timing of these note offerings is dependent on the project construction schedules and cash flow needs. In Fiscal Year 2022, City also anticipates financing replacement costs of the public safety radio system totaling \$56 million and using short term lease purchase options to finance various General Fund fleet replacement needs totaling approximately \$37 million. Depending on amounts made available in the Fiscal Year 2022 budget, the amount and timing of the federal aid, and the results of other budget mitigation actions, the City may issue Tax and Revenue Anticipation Notes during the Fiscal Year 2022.

Overlapping Debt and Debt Ratios

Table A-16 presents a statement of direct and overlapping bonded debt (the “Debt Statement”) of the City as of June 30, 2020. 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 verified the Total Direct Debt but has not reviewed balance of the Debt Statement for completeness or accuracy and does not guarantee the accuracy of the additional information in the Debt Statement. 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 has issued 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.

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TABLE A-16
CITY OF SAN DIEGO
STATEMENT OF DIRECT AND OVERLAPPING BONDED DEBT
As of June 30, 2020
(in thousands, except for percentages)
(unaudited)

	<i>Total Debt</i> <i>6/30/20</i>	<i>% Applicable⁽¹⁾</i>	<i>City's Share of</i> <i>Debt 6/30/20</i>
<u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u>			
Metropolitan Water District	\$ 37,300	8.551%	\$ 3,189
Palomar Community College District	610,658	23.574	143,956
San Diego Community College District	1,321,653	99.937	1,320,821
Poway Unified School District School Facilities Improvement District Nos. 2002-1 and 2007-1	301,542	55.418 & 56.124	168,317
San Diego Unified School District	3,827,677	99.940	3,825,380
San Dieguito Union High School District	347,365	34.038	118,236
San Ysidro School District	115,873	84.712	98,158
Other School, High School and Community College Districts	2,556,759	Various	292,371
Grossmont Healthcare District	254,648	8.016	20,413
Palomar Pomerado Health System	422,024	27.999	118,163
City of San Diego Special Assessment/Special Tax Bonds ⁽²⁾	74,815	100.000	74,815
Del Mar Unified School District Community Facilities District No. 99-1 & 95-1	52,615	100.000	52,615
North City West School District Community Facilities District	40,268	100.000	40,267
Poway Unified School District Community Facilities Districts	311,791	100.000	311,791
San Dieguito Union High School District Community Facilities Districts	66,470	81.063-100.000	61,031
Sweetwater Union High School District Community Facilities Districts	9,216	8.935-100.000	6,875
Solana Beach School District Community Facilities Districts	29,475	100.000	29,475
Other Special District 1915 Act Bonds	51,229	Various	42,615
TOTAL NET DIRECT OVERLAPPING TAX AND ASSESSMENT DEBT			<u>\$ 6,728,489</u>
<u>DIRECT AND OVERLAPPING DEBT:</u>			
San Diego County General Fund Obligations	\$ 231,350	47.554%	\$ 110,016
San Diego County Pension Obligation Bonds	456,040	47.554	216,865
San Diego Superintendent of Schools Certificates of Participation	9,350	47.554	4,446
Poway Unified School District Certificates of Participation	55,650	65.002	36,174
Sweetwater Union High School District Certificates of Participation	38,060	19.586	7,454
Chula Vista School District General Fund Obligations	152,895	5.118	7,825
San Ysidro School District Certificates of Participation	51,845	84.712	43,919
Other School, High School and Community College District Certificates of Participation	122,068	Various	5,147
City of San Diego Obligations⁽³⁾	879,626	100.000	<u>879,626</u>
TOTAL NET DIRECT AND OVERLAPPING DEBT			<u>\$ 1,311,472</u>
<u>OVERLAPPING TAX INCREMENT DEBT (Successor Agencies):</u>	\$ 363,422	0.816-100%	\$ 364,066
TOTAL DIRECT DEBT			\$ 879,626
TOTAL GROSS OVERLAPPING DEBT			\$ 7,494,766
GROSS COMBINED TOTAL DEBT⁽⁴⁾			\$ 8,374,392

⁽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 2020 CAFR, Total Special Assessment/Special Tax Bonds.

⁽³⁾ Amounts for Total Debt reconcile to Note 5 in the Fiscal Year 2020 CAFR and include Capital Lease Obligations, QECB Lease Obligations, Loans Payable, Section 108 Loans Payable, General Fund CP Notes, Lease Revenue Bonds and Tobacco Settlement Bonds. Excludes I-Bank Loan to SDCCC and the City as co-lessees.

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

Source: Fiscal Year 2020 Comprehensive Annual Financial Report, 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 III 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 2021 has been established at \$3.8 billion. Using the Fiscal Year 2021 Adopted 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 \$1.1 billion, which is \$2.7 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 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 XIII C 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 XIII C 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 XIII C and Article XIII D ("SB 919"). However, on July 24, 2006, the California Supreme Court ruled in *Bighorn-Desert View Water Agency v. Virjil (Kelley)* (the "Bighorn

Decision”) that charges for ongoing water delivery are fees and charges within the meaning of Section 3 of Article XIII C. 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 XIII C. 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 XIII D.

In the *Bighorn Decision*, the Supreme Court stated that nothing in Section 3 of Article XIII C 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 XIII C 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 XIII C, and it is unclear whether these terms are intended to have the same meanings for purposes of Article XIII C as for Article XIII D described below. If not, the scope of the initiative power under Article XIII C 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 XIII D, 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 XIII D

Article XIII D 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 XIII D 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 XIII D.

Article XIII D 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 XIIA and XIIB, 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 — Major Revenue Sources — *Property Taxes*” 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 XIIC to the California Constitution principally to define what constitutes a “tax” under the limitations and requirements of that provision. Article XIIC 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 XIIC did not define the term “tax.” Proposition 26 broadly defines a tax under Article XIIC 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 8% of monthly gross receipts.

The 5-Year Outlook assumes \$148 million in cannabis tax revenue will be received by the City between Fiscal Year 2021 and Fiscal Year 2026. 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.

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 is historical in nature and speaks only as of the dates indicated. 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. In particular, certain of the information provided in this Appendix B predates the COVID-19 pandemic. See “COVID-19 RELATED IMPACTS ON THE CITY” and “CERTAIN RISK FACTORS — Impacts and Potential Impacts of Coronavirus on City” in the forepart of this Official Statement and APPENDIX A—“COVID-19” and “CITY BUDGET AND RELATED MATTERS.” The 2021 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 1,430,489 as of January 1, 2020 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 2010 through 2020. The City’s population increased by approximately 9.90% between 2010 and 2020, with an average annual increase of approximately 12,887.

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TABLE B-1
CITY OF SAN DIEGO, COUNTY OF SAN DIEGO, AND STATE OF CALIFORNIA
POPULATION GROWTH
Calendar Years 2010 through 2020

<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>
2010	1,301,617	N/A	3,095,313	N/A	37,253,956	N/A
2011	1,313,977	0.95%	3,125,654	0.98%	37,561,624	0.83%
2012	1,329,489	1.18	3,161,808	1.16	37,924,661	0.97
2013	1,349,092	1.47	3,199,900	1.20	38,269,864	0.91
2014	1,364,446	1.14	3,232,762	1.03	38,556,731	0.75
2015	1,381,988	1.29	3,265,038	1.00	38,870,150	0.81
2016	1,393,165	0.81	3,285,150	0.62	39,131,307	0.67
2017	1,405,701	0.90	3,306,889	0.66	39,398,702	0.68
2018	1,423,620	1.27	3,326,318	0.59	39,586,646	0.48
2019	1,428,600	0.35	3,340,312	0.42	39,695,376	0.27
2020	1,430,489	0.13	3,343,355	0.09	39,782,870	0.22

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

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

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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 2015 through 2019, and for December 2020 (Preliminary).

**TABLE B-2
LABOR FORCE – ESTIMATED AVERAGE ANNUAL EMPLOYMENT AND
UNEMPLOYMENT OF CITY OF SAN DIEGO CIVILIAN LABOR FORCE
Calendar Years 2015 through 2019, and December 2020
(Not Seasonally Adjusted)**

	<i>Calendar Year⁽¹⁾</i>					<i>December 2020⁽¹⁾⁽²⁾</i>
	<i>2015</i>	<i>2016</i>	<i>2017</i>	<i>2018</i>	<i>2019</i>	
Civilian Labor Force						
City of San Diego						
Employed	660,600	672,000	683,400	693,700	699,100	665,700
Unemployed	34,400	32,200	27,700	23,400	21,900	57,000
Unemployment Rates						
City	4.9%	4.6%	3.9%	3.3%	3.0%	7.9%
County	5.2	4.7	4.0	3.4	3.2	8.0
California	6.2	5.5	4.8	4.2	4.0	8.8
United States	5.3	4.9	4.4	3.9	3.7	6.7

⁽¹⁾ County and State 2015-2019 data based on March 2019 Benchmark Report. City information updated December 2020 by EDD.

⁽²⁾ Preliminary, subject to change.

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 December of 2020 was 665,700, of which approximately 57,000 persons were unemployed. Based on preliminary estimates of the EDD as of December of 2020, the City’s unemployment rate 7.9% in December of 2020, on a seasonally unadjusted basis, was below that of the County at 8.0% and was below the unemployment rate of the State, which was 8.8%. The City’s unemployment rate was above the United States, which was 6.7%. 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 2016 through 2019 and for December 2020 (Preliminary). Annual industry employment information is not compiled by sector for the City.

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TABLE B-3
COUNTY OF SAN DIEGO
NONFARM EMPLOYMENT
Calendar Years 2016 through 2019, and December 2020⁽¹⁾
(In Number of Jobs By Industry)

<i>Industry Category</i>	<i>2016</i>	<i>2017</i>	<i>2018</i>	<i>2019</i>	<i>December 2020⁽⁵⁾</i>
Services ⁽²⁾	701,400	717,300	736,500	754,300	692,000
Total Government	242,200	246,300	248,100	249,600	234,900
Federal	46,800	46,900	47,100	47,700	48,700
State and Local	195,500	199,400	201,000	202,000	186,200
Total Trade	191,200	192,800	191,800	189,600	184,400
Wholesale	43,700	43,800	43,800	44,200	39,100
Retail	147,500	149,000	148,000	145,400	145,300
Total Manufacturing	108,400	109,400	112,300	115,100	108,800
Nondurable Goods	27,200	27,900	28,600	29,000	26,500
Durable Goods	81,200	81,500	83,700	86,000	82,300
Financial Activities ⁽³⁾	73,000	74,600	76,000	76,400	74,600
Construction	76,300	79,500	83,700	84,000	88,000
Transportation, Warehousing & Utilities	29,700	32,000	33,300	34,400	36,500
Mining & Logging	<u>300</u>	<u>300</u>	<u>400</u>	<u>400</u>	<u>400</u>
TOTAL NONFARM⁽⁴⁾	<u>1,422,600</u>	<u>1,452,200</u>	<u>1,482,200</u>	<u>1,503,900</u>	<u>1,419,600</u>

⁽¹⁾ Based on March 2019 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 as of December 2020.

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.

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Taxable Sales

The following Table B-4 sets forth taxable transactions in the City for calendar years 2016 through 2020. See APPENDIX A – “CITY GOVERNMENT AND FINANCIAL INFORMATION – CITY BUDGET AND RELATED MATTERS – Major Revenue Sources” for a discussion of the City’s sales tax revenues.

**TABLE B-4
CITY OF SAN DIEGO
TAXABLE TRANSACTIONS
Calendar Years 2015 through 2020⁽¹⁾
(In Thousands)**

	2016	2017	2018	2019	2020 ⁽²⁾
Retail and Food Services					
Apparel	\$ 1,849,752	\$ 1,884,703	\$1,932,777	\$ 1,928,007	\$ 759,939
General Merchandise	1,629,376	1,633,756	1,710,621	1,722,070	1,053,302
Food	1,045,178	1,078,711	1,125,759	1,140,809	888,240
Eating and Drinking	4,133,095	4,307,507	4,466,904	4,711,805	2,193,250
Home Furnishings and Appliances	1,227,499	1,140,892	1,163,314	1,138,187	743,121
Building Materials	1,008,705	1,041,763	1,081,396	1,094,514	873,415
Motor Vehicles and Parts	2,734,187	2,747,732	2,873,480	2,876,886	1,958,111
Service Stations	1,437,892	1,571,570	1,782,322	1,738,773	1,014,082
Other Retail Stores	<u>1,749,474</u>	<u>1,782,546</u>	<u>1,836,103</u>	<u>1,904,751</u>	<u>1,328,360</u>
Total Retail and Food Services	\$ 16,815,163	\$17,189,186	\$17,972,680	\$18,255,804	\$10,811,820
All Other Outlets	<u>6,407,062</u>	<u>6,566,238</u>	<u>6,999,132</u>	<u>7,339,763</u>	<u>4,466,804</u>
TOTAL ALL OUTLETS ⁽¹⁾	<u>\$ 23,222,225</u>	<u>\$23,755,424</u>	<u>\$24,971,813</u>	<u>\$25,595,567</u>	<u>\$15,278,624</u>

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

⁽²⁾ Through Third Quarter.

Source: California Department of Tax and Fee Administration (“CDTFA”), CDTFA Open Data Portal 2015-2019.

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Tourism

The following Table B-5 sets forth total visitor spending in the County for the calendar years 2015 through 2019 and through September for calendar year 2020.

TABLE B-5
COUNTY OF SAN DIEGO
TOTAL VISITOR SPENDING
Calendar Years 2015 through 2019, and September 2020
(In Millions)

<i>Calendar Year</i>	<i>Amount</i>
2015	\$ 9,921
2016	10,402
2017	10,828
2018	11,490
2019	11,643
2020 ⁽¹⁾	4,021

⁽¹⁾ Preliminary information as of September 2020.

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 2016 through 2020. See APPENDIX A – "CITY GOVERNMENT AND FINANCIAL INFORMATION – CITY BUDGET AND RELATED MATTERS – Major Revenue Sources" for a discussion of the City's transient occupancy tax.

TABLE B-6
CITY OF SAN DIEGO
TRANSIENT OCCUPANCY TAX⁽¹⁾
Fiscal Years 2016 through 2020
(in thousands)

<i>Fiscal Year</i>	<i>Amount</i>
2016	\$200,612
2017	222,228
2018	231,863
2019	250,883
2020	181,181

⁽¹⁾ Includes both the General Fund portion of the transient occupancy tax (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 2020 Comprehensive Annual Financial Report, 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 2020, 64.8% of hotel rooms in the County were located within the City. For calendar year 2020, the San Diego Tourism Authority reported that hotel occupancy in the City averaged 45.2%, which decreased from the 78.5% 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 2020 there were 14.3 million visitors to San Diego County, and they spent approximately \$5.2 billion. In calendar year 2019, there were 35.1 million visitors to San Diego County, and they spent approximately \$11.6 billion. In calendar year 2020, approximately 8.7 million of the 14.3 million visitors stayed overnight in private homes or hotels. In calendar year 2020, there were 4.6 million airport arrivals, down from 12.6 million in calendar year 2019 (representing a 63.4% decrease).

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, 2020, events in the Convention Center generated over \$977.4 million in economic impact for the San Diego regional economy through direct attendee spending, tax revenues, and hotel room nights from July 1, 2019 through March 2020, when the restrictions on large gatherings went into effect.

Military

The information in the first three paragraphs below is taken from the San Diego Military Economic Impact Study released in February 2021 (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 153,060 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 116,810 active duty military and veteran personnel, 5,831 reserves and 30,400 full-time civilian workers. The estimated direct defense-related spending by the military in the County for the fiscal year ending September 30, 2020 increased approximately 5.7% to \$33.6 billion from \$31.8 billion for the federal fiscal year ending September 30, 2019.

The direct spending by the military results in additional jobs and spending in the local economy. In addition to direct spending, defense spending (e.g. contracts and procurement dollars) supports development in the area, which produces additional sources of revenue. Based on studies of the spillover effect of defense spending on the gross regional product, each dollar of defense spending is estimated to contribute \$1.56 to the gross regional product and that each \$100,000 spent creates 1.08 jobs per year. The Military Study estimates that in addition to direct hiring by the military, this spillover effect resulted in approximately 189,426 jobs for the federal fiscal year ending September 30, 2020. Approximately 23% (342,500) of the jobs in the County were directly and indirectly related to the military in the fiscal year ended September 30, 2020 and the gross regional product in the County related to the military was estimated at \$52.4 billion, up from \$49.6 billion in

the prior federal fiscal year. It is estimated that the military's total impact on the region represents about 25% of the County's total gross regional product.

Top Ten Principal Employers

The following Table B-7 sets forth the top 10 principal employers in the City for Fiscal Year 2020.

TABLE B-7
CITY OF SAN DIEGO
TOP TEN PRINCIPAL EMPLOYERS
Fiscal Year 2020
(unaudited)

<i>Employer</i>	<i>Number of Employees</i>	<i>Percentage of Total Employment⁽¹⁾</i>
Naval Base, San Diego ⁽²⁾	41,111	5.85%
University of California San Diego ⁽³⁾	40,088	5.71
Sharp Healthcare ⁽⁴⁾	19,148	2.73
County of San Diego	17,929	2.55
San Diego Unified School District	14,020	2.00
Scripps Health ⁽⁵⁾	13,254	1.89
City of San Diego ⁽⁶⁾	11,598	1.42
Qualcomm, Inc. ⁽⁷⁾	11,050	1.57
San Diego Community College District ⁽⁸⁾	6,804	0.97
Kaiser Permanente ⁽⁹⁾	<u>9,653</u>	<u>1.37</u>
Total Top Employers	184,655	26.06%

(1) Percentage based on total employment of 702,300 for Fiscal Year 2020.

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

(6) As of last pay-period of the fiscal year.

(7) Excludes temporary employees and interns.

(8) Excludes out of state military instructors.

(9) Includes physicians.

Source: Fiscal Year 2020 Comprehensive Annual Financial Report, City of San Diego.

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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 2015 through 2019.

**TABLE B-8
COUNTY OF SAN DIEGO, STATE OF CALIFORNIA AND UNITED STATES
PER CAPITA PERSONAL INCOME⁽¹⁾
Calendar Years 2015 through 2019**

<i>Calendar Year</i>	<i>County of San Diego</i>	<i>State of California</i>	<i>United States</i>
2015	\$54,822	\$55,833	\$49,019
2016	56,506	58,048	50,015
2017	58,380	60,549	52,118
2018	61,147	63,720	54,606
2019	63,729	66,619	56,490

⁽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.

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Property Value and Construction

Total issued building permits and permit valuation (residential and non-residential) are used as indicators of overall construction activity. In Fiscal Year 2019, construction permits valuation decreased by 23.3%, or \$676 million, from Fiscal Year 2018. Through the first three quarters of Fiscal Year 2020, there were 2,937 building permits issued for residential units with an estimated total value of \$707 million, as compared to 1,162 building permits issued with an estimated total value of \$301 million through the same period in Fiscal Year 2019.

With respect to non-residential construction, through the first three quarters of Fiscal Year 2020, there were 118 building permits issued with an estimated total value of \$1.2 billion, as compared to 80 building permits issued with an estimated total value of \$1.1 billion through the same period in Fiscal Year 2019.

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 2015 through 2019.

TABLE B-9
CITY OF SAN DIEGO
Assessed Value and Construction Permit Valuation
Fiscal Years 2015 through 2019
(\$ 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>	
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
2018	5,546	1,296,929	187	1,607,466	2,904,395
2019	2,532	620,970	112	1,607,675	2,228,645

⁽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.

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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 2021A 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 2021A Bonds will commence on the respective Closing Date and end on October 15, 2021.

“Bonds” means the Prior Bonds, the Series 2021A 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.

“Certificate of Completion” means, with respect to the 2021A Project, a Certificate of the City filed with the Trustee stating that the 2021A Project, which was financed with the proceeds of the Series 2021A Bonds deposited into the Series 2021A Construction Fund, has been acquired, constructed, installed and improved and that all Construction Costs have been paid or provided for.

“Closing Date” means, with respect to the Series 2021A Bonds, the date the Series 2021A 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.

“Commercial Paper Notes” means the Authority’s Lease Revenue Commercial Paper Notes, Series A which are issued and outstanding pursuant to an Indenture dated as of November 1, 2018 (Commercial Paper Indenture) and an Issuing and Paying Agency Agreement dated as of November 1, 2018 (Issuing and Paying Agency Agreement), each by and between the Authority and U.S. Bank National Association and which financed a portion of the Construction Costs of the 2021A Projects.

“Construction Costs” means, with respect to the Series 2021A Bonds, all costs of acquiring, constructing, installing or improving the 2021A Project, including but not limited to:

(i) all costs which the Authority or the City will be required to pay to a manufacturer, vendor or contractor or any other person under the terms of any contract or contracts for the acquisition, construction, installation or improvement of the 2021A Project;

(ii) obligations of the Authority or the City incurred for labor and materials (including obligations payable by the Authority or the City for actual out of pocket expenses of the Authority or the City) in connection with the acquisition, construction, installation, improvement, replacement or equipping of the 2021A Project, including reimbursement to the Authority or the City for all advances and payments made in connection with the 2021A Project prior to or after delivery of the Series 2021A Bonds;

(iii) the costs of performance or other bonds and any and all types of insurance that may be necessary or appropriate to have in effect during the course of acquisition, construction, installation, improvement, replacement or equipping of the 2021A Project;

(iv) all costs of planning, development, design, engineering and architectural services, including the actual out of pocket costs of the Authority or the City for test borings, surveys, estimates, plans and specifications and preliminary investigations therefor, development fees and sales commissions, and for supervising acquisition, design, construction, installation, improvement, replacement and equipping, as well as for the performance of all other duties required by or consequent to the proper acquisition, design, construction, installation, improvement, replacement or equipping of the 2021A Project; and

(v) any sums required to reimburse the Authority or the City for advances made by the Authority or the City for any of the above items or for any other costs incurred and for work done by the Authority or the City which are properly chargeable to the acquisition, design, construction, installation, improvement, replacement or equipping of the 2021A Project.

“Continuing Disclosure Certificate” means, with respect to the Series 2021A Bonds, that certain Continuing Disclosure Certificate relating to the Series 2021A 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, 2051, 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.

"Fifth Amendment to Facilities Lease" means the Fifth Amendment to Facilities Lease, dated as of June 1, 2020, by and between the Authority, as sublessor, and the City, as sublessee.

"Fifth Amendment to Site Lease" means the Fifth Amendment to Site Lease, dated as of _____ 1, 2021, by and between the Authority, as sublessor, and the City, as sublessee.

"Fifth Supplemental Indenture" means the Fifth Supplemental Indenture, dated as of June 1, 2020, by and between the Authority and the Trustee.

"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 June 1, 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 June 1, 2018, by and between the City, as lessor, and the Authority, as lessee.

"Fourth Supplemental Indenture" means the Fourth Supplemental Indenture, dated as of June 1, 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, the Fourth Supplemental Indenture, the Fifth Supplemental Indenture and the Sixth 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 2021A Bonds, each April 15 and October 15, commencing October 15, 2021, and for any series of Additional Bonds, such dates as shall be specified in the Supplemental Indenture authorizing such Additional Bonds.

“Issuing and Paying Agent” means U.S. Bank National Association as Issuing and Paying Agent under the Issuing any Paying Agency Agreement by and between the Authority and U.S. Bank National Association.

“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, the Fourth Amendment to Facilities Lease, the Fifth Amendment to Facilities Lease and the Sixth 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 2021A Bonds, April 10 and October 10 of each year commencing October 10, 2021.

“Lease Year” means, with respect to the Series 2021A 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 October 15, 2021.

“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 2021A Bonds, the original purchaser(s) of the Series 2021A 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 2021 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 or 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 2012A Bonds, the Series 2012B Bonds, the Series 2013A Bonds, the Series 2013B Bonds, the Series 2015 Bonds, the Series 2018 Bonds and the Series 2020A 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 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 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 2018 Bonds” means the Authority’s Lease Revenue Refunding Bonds, Series 2018A (Series 2010A Refunding) (Federally Taxable).

“Series 2020A Bonds” means the Authority’s Lease Revenue Refunding Bonds, Series 2020A (Series 2012A Refunding) (Federally Taxable).

“Series 2021A Bonds” means the Authority’s Lease Revenue Bonds, Series 2021A (Capital Improvement Projects).

“Series 2021A Bonds Sinking Account” means the account by that name established and held by the Trustee pursuant to the Indenture.

“Series 2021A 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, the Fourth Amendment to Site Lease and the Fifth Amendment to Site Lease.

“Sixth Amendment to Facilities Lease” means the Sixth Amendment to Facilities Lease, dated as of _____ 1, 2021, by and between the Authority, as sublessor, and the City, as sublessee.

“Sixth Supplemental Indenture” means the Sixth Supplemental Indenture, dated as of _____ 1, 2021, by and between the Authority and the Trustee.

“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.

“Tax Certificate” means, with respect to the Series 2021A Bonds, the tax certificate of the Authority and City dated the Closing Date.

“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 2021A Bonds, the Series 2021A 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 2021 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 2021A 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 2021A Costs of Issuance Fund.” Notwithstanding any other provision of the Sixth Supplemental Indenture, the Series 2021A Cost of Issuance Fund and the accounts therein are not pledged to, nor does it secure, the Bonds.

The moneys in the Series 2021A 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 Sixth 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 December 1, 2021, or upon the earlier Written Request of the City, all amounts remaining in the Series 2021A Costs of Issuance Fund will be transferred by the Trustee to the Series 2021A Construction Fund to be used for the payment of Construction Costs or the Revenue Fund to be used for the payment of interest on the Bonds and the Series 2021A Costs of Issuance Fund will then be closed.

Establishment and Application of Series 2021A Construction Fund

The Trustee will establish and maintain a fund designated as the “Series 2021A Construction Fund.” Notwithstanding any other provision of the Sixth Supplemental Indenture or the Master Indenture, the Series 2021A Construction Fund is not pledged to, nor does it secure, the Bonds.

The Trustee will hold the moneys in the Series 2021A Construction Fund separate and apart from all other funds held by the Trustee and will use such moneys, as provided in the Sixth Supplemental Indenture: (i) to pay the Construction Costs; or (ii) at the election of the City, as set forth in a Written Request of the City to the Trustee, to transfer moneys therefrom for deposit into the Interest Account to pay interest on the Series 2021A Bonds, when and as the same becomes due and payable.

Such payments of Construction Costs will be made from time to time upon receipt by the Trustee of a Written Requisition of the City (in the form as set forth in an exhibit to the Sixth Supplemental Indenture, signed by the Public Works Director and Comptroller or their designees) which requisition: (i) states with respect to each payment to be made: (A) the requisition number, (B) the name and address of the person, firm or authority to whom payment is due; (C) the amount to be paid; and (D) that each obligation therein has been properly incurred, and is a proper charge against the Series 2021A Construction Fund and has not been the basis of any previous disbursement; (ii) specifies in reasonable detail the nature of the obligation; and (iii) is accompanied by a bill or statement of account for each 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.

If, after payment by the Trustee of all Written Requisitions of the City and delivery by the City to the Trustee of a Certificate of Completion, there will remain any balance of money in the Series 2021A Construction Fund, all money so remaining will be transferred by the Trustee to the Interest Account or the

Redemption Fund, as directed by the City in a Written Request and the Series 2021A Construction Fund will then be closed.

Series 2021A 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 2021A 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 2021A Bonds pursuant to the Sixth 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 2021 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 2021 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 2021 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 2021 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 2021 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.

Tax Covenants for Series 2021A Bonds.

The Authority covenants to and for the benefit of the Owners of the Series 2021A Bonds that, notwithstanding any other provisions of the Sixth Supplemental Indenture (other than the provisions of the Indenture), it will:

(a) neither make or use nor cause to be made or used any investment or other use of the proceeds of the Series 2021A Bonds or the moneys and investments held in the funds and accounts established under the Sixth Supplemental Indenture which would cause the Series 2021A Bonds to be arbitrage bonds under section 103(b) and section 148 of the Code or which would otherwise cause the interest payable on the Series 2021A Bonds to be includable in gross income for federal income tax purposes;

(b) not take or cause to be taken any other action or actions, or fail to take any action or actions, which would cause the interest payable on the Series 2021A Bonds to be includable in gross income for federal income tax purposes;

(c) at all times do and perform all acts and things permitted by law and necessary or desirable in order to assure that interest paid by the Authority on the Series 2021A Bonds will be excluded from the gross income, for federal income tax purposes, of the Owners pursuant to section 103 of the Code; and

(d) not take any action or permit or suffer any action to be taken if the result of the same would be to cause the Series 2021A Bonds to be “federally guaranteed” within the meaning of section 149(b) of the Code.

In furtherance of the covenants in the Sixth Supplemental Indenture, the Authority will execute, deliver and comply with the provisions of the Tax Certificate for the Series 2021A Bonds, which is incorporated into the Sixth Supplemental Indenture and made a part of the Sixth Supplemental Indenture as if set forth in the Sixth Supplemental Indenture in full including all of the defined terms therein, and by its acceptance of the Sixth Supplemental Indenture the Trustee acknowledges receipt of such Tax Certificate and acknowledges its incorporation in the Sixth Supplemental Indenture. The Trustee agrees it will invest funds held under the Indenture in accordance with the terms of the Indenture (this covenant will extend throughout the term of the Series 2021A Bonds, to all funds and accounts created under the Sixth Supplemental Indenture and all moneys on deposit to the credit of any fund or account).

Rebate Fund for the Series 2021A Bonds.

(a) The Trustee will establish and maintain, when required, a fund separate from any other fund established and maintained under the Sixth Supplemental Indenture designated as the Series 2021A Rebate Fund for the Series 2021A Bonds, which is not pledged to the Bonds. Neither the Authority nor the Owner of any Bonds will have any rights in or claim to such money. Within the Series 2021A Rebate Fund, the Trustee will maintain such accounts as will be necessary to comply with instructions of the City given pursuant to the terms and conditions of the Tax Certificate. Subject to the transfer provisions provided in paragraph (e) below, all money at any time deposited in the Series 2021A Rebate Fund will be held by the Trustee in trust, to the extent required to satisfy the Rebate Requirement (as defined in the Tax Certificate) for the Series 2021A Bonds, for payment to the federal government of the United States of America.

All amounts deposited into or on deposit in the Series 2021A Rebate Fund will be governed by the Sixth Supplemental Indenture and by the Tax Certificate. The Trustee will be deemed conclusively to have complied with such provisions if it follows the Written Request of the City including supplying all necessary information in the manner provided in the Tax Certificate, and will have no liability or responsibility to enforce compliance by the Authority or City with the terms of the Tax Certificate or any other tax covenants contained in the Sixth Supplemental Indenture. The Trustee will not be responsible for calculating rebate amounts or for the adequacy or correctness of any rebate report or rebate calculations. The Trustee will have

no independent duty to review such calculations or enforce the compliance by the City with such rebate requirements. The Trustee will have no duty or obligation to determine the applicability of the Code and will only be obligated to act in accordance with Written Request provided by the City.

(b) Upon the City's Written Request, an amount will be deposited to the Series 2021A Rebate Fund by the Trustee from deposits by the City, if and to the extent required, so that the balance in the Series 2021A Rebate Fund will equal the Rebate Requirement for the Series 2021A Bonds. Computations of the Rebate Requirement will be furnished by or on behalf of the City in accordance with the Tax Certificate. The Trustee will supply to the City all necessary information in the manner provided in the Tax Certificate, to the extent such information is reasonably available to the Trustee.

(c) The Trustee will have no obligation to rebate any amounts required to be rebated pursuant to the Sixth Supplemental Indenture, other than from moneys held in the funds and accounts created under the Sixth Supplemental Indenture or from other moneys provided to it by the City.

(d) At the Written Request of the City, the Trustee will invest all amounts held in the Series 2021A Rebate Fund in Permitted Investments. Moneys will not be transferred from the Series 2021A Rebate Fund except as provided in paragraph (e) below. The Trustee will not be liable for any consequences arising from such investment.

(e) Upon receipt of the City's Written Request, the Trustee will remit part or all of the balances in the Series 2021A Rebate Fund to the United States, as so directed. In addition, if the City so directs, the Trustee will deposit money into or transfer money out of the Series 2021A Rebate Fund from or into such accounts or funds as directed by the City's Written Request; provided, however, only moneys in excess of the Rebate Requirement may, at the written direction of the City, be transferred out of the Series 2021A Rebate Fund to such other accounts or funds or to anyone other than the United States in satisfaction of the arbitrage rebate obligation. Any funds remaining in the Series 2021A Rebate Fund after each five year remission to the United States, redemption and payment of all of the Bonds and payment and satisfaction of any Rebate Requirement, or provision made therefor satisfactory to the Trustee, will be withdrawn and remitted to the City.

(f) Notwithstanding any other provision of the Indenture, the obligation to remit the Rebate Requirement to the United States and to comply with all other requirements of the Sixth Supplemental Indenture and the Tax Certificate will survive the defeasance or payment in full of the Series 2021A Bonds.

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 Defeasance 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.

Tax Covenants

Tax Covenants for Series 2021A Bonds

(a) The City covenants that it will use, and will restrict the use and investment of, the proceeds of the Series 2021A Bonds in such manner and to such extent as may be necessary so that: (1) the Series 2021A Bonds will not (A) constitute private activity bonds, arbitrage bonds or hedge bonds under Section 141, 148 or 149 of the Code, or (B) be treated other than as obligations to which Section 103 of the Code applies, and (ii) the interest thereon will not be treated as a preference item for purposes of the federal alternative minimum tax.

(b) The City further covenants (i) that it will take or cause to be taken such actions that may be required of it for the interest on the Series 2021A Bonds to be and remain excluded from gross income for

federal income tax purposes, (ii) that will not take or authorize to be taken any actions that would adversely affect that exclusion, and (iii) that it, or persons acting for it, will, among other acts of compliance, (A) apply the proceeds of the Series 2021A Bonds to governmental purposes, (B) restrict the yield on investment property, (C) make timely and adequate payments to the federal government as required under the Tax Certificate, (D) maintain books and records and make calculations and reports, and (E) refrain from certain uses of those proceeds and, as applicable, of property financed with such proceeds, all in such manner and to the extent necessary to assure such exclusion of that interest under the Code.

(c) The Authorized Representative of the City is hereby authorized: (i) to make or effect any election, selection, designation, choice, consent, approval, or waiver on behalf of the City with respect to the Series 2021A Bonds as the City is permitted or required to make or give under the federal income tax laws, including, without limitation thereto, any of the elections provided for in Section 148(f)(4)(B) and (C) of the Code or available under Section 148 of the Code, for the purpose of assuring, enhancing or protecting favorable tax treatment or status of the Series 2021A Bonds or interest thereon or assisting compliance with requirements for the purpose, reducing the burden or expense of such compliance, reducing the rebate amount or payments of penalties or making payments of special amounts in lieu of making computations determined by that officer, which action shall be in writing and signed by the Authorized Representative, (ii) to take any and all other actions, make or obtain calculations, make payments and make or give reports, covenants and certifications of and on behalf of the City, as may be appropriate to assure the exclusion of interest from gross income for federal income tax purposes of interest on the Series 2021A Bonds, and (iii) to set forth in the Tax Certificate and/or in one or more appropriate certificates of the City, for inclusion in the transcript of proceedings for the Series 2021A Bonds, the reasonable expectations of the City regarding the amount and use of all the proceeds of the Series 2021A Bonds, the facts, circumstances and estimates on which they are based, and other facts and circumstances relevant to the tax treatment of the interest on the Series 2021A Bonds.

(d) The City may create, or may direct the Trustee to create, such accounts or sub-accounts in any fund or account held under the Indenture as it shall deem necessary or advisable in order to comply with the foregoing covenants and the Tax Certificate.

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 2021 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 2021A 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 2021 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 2021 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 2021 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 2021 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 2021 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 2021 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 2021 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 2021 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 2021 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 2021 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 2021 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 2021 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 2021 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 San Diego Resort Site and the Islandia Hyatt Regency and Marina 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 w 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.

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APPENDIX D

FORM OF BOND COUNSEL OPINION

_____, 2021

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 Bonds Series 2021A (Capital Improvement Projects)*

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 Bonds, Series 2021A (Capital Improvement Projects) (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 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”), the Fourth Amendment to Site Lease, dated as of June 1, 2018 (the “Fourth Amendment to Site Lease”) and the Fifth Amendment to Site Lease, dated as of _____ 1, 2021 (the “Fifth Amendment to Site Lease” and, together with the Master Site Lease, 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, 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”), the Fourth Amendment to Facilities Lease, dated as of June 1, 2018 (the “Fourth Amendment to Facilities Lease”), the Fifth Amendment to Facilities Lease, dated as of June 1, 2020 (the “Fifth Amendment to Facilities Lease”) and the Sixth Amendment to Facilities Lease, dated as of _____ 1, 2021 (the “Sixth Amendment to Facilities Lease” and, together with the Master Facilities Lease, the First Amendment to Facilities Lease, the Second Amendment to Facilities Lease, the Third Amendment to Facilities Lease, the Fourth Amendment to Facilities Lease and the Fifth 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”), the Fourth Supplemental Indenture, dated as of June 1, 2018 (the “Fourth Supplemental Indenture”), the Fifth Supplemental Indenture, dated as of June 1, 2020 (the “Fifth Supplemental Indenture”), and the Sixth Supplemental Indenture, dated as of _____, 2021 (the “Sixth Supplemental Indenture” and, together with the First Supplemental Indenture, the Second Supplemental Indenture, the Third Supplemental Indenture, the Fourth Supplemental Indenture, the Fifth 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, the MTS Site Lease and the Tax Certificate. We call attention to the fact that the rights and obligations under the Bonds, the Indenture, the Site Lease, the MTS Site Lease, the Lease and the Tax Certificate 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.

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 special, limited obligations of the Authority, enforceable in accordance with their terms and the terms of the Indenture.

2. The Sixth 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 Sixth 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. Under existing statutes, regulations, rulings and judicial decisions, interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals. The foregoing opinion is subject to the condition that the Authority and the City comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Bonds to assure that such interest (and original issue discount) will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest (and original issue discount) on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The Authority and the City have covenanted to comply with all such requirements.

5. The difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of a maturity are to be sold to the public) and the stated redemption price at maturity with respect to such Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Bond owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Bond owner will increase the Bond owner's basis in the applicable Bond. Original issue discount that accrues for the Bond owner is excluded from the gross income of such Bond owner for federal income tax purposes, is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals (as described in paragraph 5 above) and is exempt from State of California personal income tax.

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 must be amortized under Section 171 of the Code; such amortizable Bond premium reduces the Bond owner's basis in the applicable Bond (and the amount of tax-exempt interest received), and is not 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 holder for an amount equal to or less (under certain circumstances) than the original cost of the Bond to the holder.

7. Interest (and original issue discount) on the Bonds is exempt from State of California personal income tax.

Except as set forth in paragraphs 4 through 7 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 Bond owners. 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.

Certain agreements, requirements and procedures contained or referred to in the Indenture, the Site Lease, the Lease, the Tax Certificate relating to the Bonds and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. We express no opinion herein as to the effect on the exclusion from gross income for federal income tax purposes of interest (or

original issue discount) on any Bond if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur, and we disclaim any obligation to update this opinion. Our engagement as Bond Counsel terminates upon the issuance of the Bonds.

The scope of our engagement in relation to the issuance of the Bonds has been limited solely to the examination of facts and law incident to rendering the opinions expressed herein. We express no opinion herein as to the accuracy, completeness, fairness or sufficiency of any of the statements in the Official Statement or any exhibits or appendices thereto or any other offering material relating to the Bonds. In addition, we have not been engaged to review, and therefore express no opinion as to, the compliance by the Authority, the City or the underwriters with any federal or state statute, regulation or ruling with respect to the sale or distribution of the Bonds.

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 2021 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 2021 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 2021 Bonds. The 2021 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 2021 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 2021 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2021 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 2021 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 2021 Bonds, except in the event that use of the book-entry system for the 2021 Bonds is discontinued.

To facilitate subsequent transfers, all 2021 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 2021 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 2021 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2021 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 2021 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2021 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of 2021 Bonds may wish to ascertain that the nominee holding the 2021 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 2021 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 2021 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 2021 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 2021 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the 2021 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 2021 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 2021 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 2021 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 2021 BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE REGISTERED HOLDERS OF THE 2021 BONDS SHALL MEAN CEDE & CO., AS AFORESAID, AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE 2021 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 2021 BONDS CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE. Each person for whom a Participant acquires an interest in the 2021 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 2021 BONDS TO BE REDEEMED IN THE EVENT OF REDEMPTION OF LESS THAN ALL 2021 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 2021 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 2021 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 2021 Bonds, and the Authority does not select another qualified securities depository, the Authority shall deliver one or more 2021 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 2021 Bonds will be governed by the provisions of the Indenture.

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 _____ 1, 2021 in connection with \$_____ aggregate principal amount of Public Facilities Financing Authority of the City of San Diego Lease Revenue Bonds, Series 2021A (Capital Improvement Projects) (the “2021 Bonds”). The 2021 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 Owners and Beneficial Owners of the 2021 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 2021 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 2021 Bonds (including persons holding 2021 Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any 2021 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.

“*Financial Obligation*” means, for purposes of the listed events set out in Section 5(a)(x) and Section (5)(b)(viii), a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term “Financial Obligation” shall not include municipal securities (as defined in the Securities Exchange Act of 1934, as amended) as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule.

“*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, the Fourth Supplemental Indenture, dated as of June 1, 2018, the Fifth Supplemental Indenture, dated as of June 1, 2020 and the Sixth Supplemental Indenture, dated as of _____ 1, 2021, each by and between the Authority and the Trustee.

“*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) and (b) of this Certificate.

“*Participating Underwriters*” means any of the original purchasers of the 2021 Bonds required to comply with the Rule in connection with the offering of the 2021 Bonds.

“*Official Statement*” means the Official Statement dated _____, 2021, prepared and distributed in connection with the initial sale of the 2021 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, 2021 (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 for the most recently completed fiscal year will be provided in one or more reports:

(i) An update to the information generally in the form presented in Table A-2 (titled “City of San Diego Statement of Revenues, Expenditures, and Changes in Fund Balance for the General Fund”) 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-5 (titled “City of San Diego 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-6 (titled “City of San Diego 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-9 (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-10 (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-15 (titled “City of San Diego General Fund Supported Obligations”) 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-16 (titled “City of San Diego General Fund Lease Payments and Other Lease 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 2021 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;
- (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 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).
- (x) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the obligated person, any of which reflect financial difficulties.

(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 2021 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 2021 Bonds, or other events affecting the tax status of the 2021 Bonds;
- (iii) modifications to rights of the holders of the 2021 Bonds;

¹ Without limiting its reporting obligation, the City advises that it has not established a debt service reserve fund for the 2021 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 2021 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.

(iv) bond calls* ;
(v) release, substitution or sale of property securing repayment of the 2021 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.

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

(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 2021 Bonds. If such termination occurs prior to the final maturity of the 2021 Bonds, the City shall give notice of such termination in the name 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 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 2021 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 2021 Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

* Any scheduled redemption of 2021 Bonds pursuant to mandatory sinking fund redemption requirements does not constitute a Notice Event within the meaning of the Rule.

(c) The amendment or waiver either (1) is approved by the Owners majority of outstanding principal amount of the 2021 Bonds, in the same manner as provided in the Indenture for amendments to the Indenture with the consent of the Owners, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Owners or Beneficial Owners of the 2021 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 Owner or Beneficial Owner of the 2021 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 2021 Bonds, and the sole remedy under this Certificate in the event or 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 Owners and Beneficial Owners from time to time of the 2021 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.

THE CITY OF SAN DIEGO

By: _____
Matthew Vespi
Chief Financial Officer

PRELIMINARY OFFICIAL STATEMENT DATED MARCH __, 2021

NEW ISSUE — FULL BOOK-ENTRY-ONLY

Fitch: “___” (___ Outlook)
S&P: “___” (___ Outlook)
See “RATINGS”

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation (“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 (and original issue discount) on the 2021 Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals. In the further opinion of Bond Counsel, interest (and original issue discount) on the 2021 Bonds 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 BONDS
SERIES 2021A
(CAPITAL IMPROVEMENT PROJECTS)**

Dated: Date of Delivery

Due: October 15, as shown on the inside cover

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 Bonds, Series 2021A (Capital Improvement Projects) (the “2021 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”), the Fourth Supplemental Indenture, dated as of June 1, 2018 (the “Fourth Supplemental Indenture”), the Fifth Supplemental Indenture, dated as of June 1, 2020 (the “Fifth Supplemental Indenture”), and the Sixth Supplemental Indenture, dated as of _____, 2021 (the “Sixth Supplemental Indenture” and, together with the First Supplemental Indenture, the Second Supplemental Indenture, the Third Supplemental Indenture, the Fourth Supplemental Indenture, the Fifth 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 2021 Bonds are being issued to (i) pay the Authority’s outstanding Lease Revenue Commercial Paper Notes, Series A (the “Commercial Paper Notes”); (ii) finance the costs of the acquisition, design, construction, installation, improvement, replacement and equipping of certain capital improvement projects of the City of San Diego (the “City”) and (iii) pay costs of issuance incurred in connection with the issuance of the 2021 Bonds. See “PLAN OF FINANCE.”

The 2021 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 2021 Bonds will be made in book-entry form only, in the principal amount of \$5,000 or any multiple thereof. Interest on the 2021 Bonds will be payable on April 15 and October 15 of each year, commencing October 15, 2021. See “THE 2021 BONDS.”

The 2021 Bonds are payable from Revenues (as defined herein) and the amounts in certain funds and accounts pledged under the Indenture, including certain insurance and condemnation awards, if any, payable under the Lease (as defined herein) to the Trustee, all as set forth in the Indenture. The 2021 Bonds are payable on a parity with eight series of bonds currently outstanding under the Master Indenture and any additional bonds issued under the Indenture in the future. The Revenues consist primarily of Base Rental Payments paid by the City for the use and occupancy of the Leased Property (each as defined in the Lease) as long as the City has use and occupancy of the Leased Property. The Base Rental Payments are subject to abatement under certain circumstances. There is no debt service reserve fund for the 2021 Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2021 BONDS” and “CERTAIN RISK FACTORS.”

The 2021 Bonds are subject to optional, mandatory sinking fund, and special mandatory redemption, as more fully set forth herein. See “THE 2021 BONDS – Redemption Provisions.”

THE 2021 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 2021 BONDS. THE AUTHORITY HAS NO TAXING POWER. THE 2021 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 2021 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, Orrick, Herrington & Sutcliffe LLP. It is anticipated that the 2021 Bonds will be available for delivery through the facilities of DTC in book-entry form on or about March __, 2021.

**Citigroup
UBS**

Ramirez & Co., Inc.

Wells Fargo Securities

* Preliminary, subject to change.

THIS PRELIMINARY OFFICIAL STATEMENT AND THE INFORMATION CONTAINED HEREIN ARE SUBJECT TO COMPLETION OF ARRANGEMENTS. THESE SECURITIES MAY NOT BE SOLD, NOT MAY OFFERS TO BUY THEM BE ACCEPTED, PRIOR TO THE TIME THE OFFICIAL STATEMENT IS DELIVERED IN FINAL FORM. UNDER NO CIRCUMSTANCES SHALL THIS PRELIMINARY OFFICIAL STATEMENT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY, NOR SHALL THERE BE ANY SALE OF THESE SECURITIES IN ANY JURISDICTION IN WHICH SUCH OFFER, SOLICITATION OR SALE WOULD BE UNLAWFUL.

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 2021 BONDS – Additional Bonds.”

COVID-19 Related Impacts on the City

The coronavirus respiratory disease (“COVID-19”) pandemic has significantly impacted the City and the local economy in various ways. Since mid-March 2020, based on guidance and directives from the State and public health agencies, the City has undergone varying degrees of closure and limited reopening of City public buildings and businesses such as retail, logistics and manufacturing, offices and limited personal services. The COVID-19-related closures and health directives in response thereto led to significant declines in the City General Fund’s major revenue sources in Fiscal Year 2020 and the effects are currently projected to continue through at least ~~the end of Fiscal Year 2021.~~ Fiscal Year 2022. Certain of these declines have been and will be offset by federal funds made available from the federal government in the current Fiscal Year and in Fiscal Year 2022. See APPENDIX A— “CITY GOVERNMENT AND FINANCIAL INFORMATION—“COVID-19” and “CITY BUDGET AND RELATED MATTERS” on information related to the Fiscal Year 2020 year-end financial projections and Fiscal Year 2021 Budget, “CERTAIN RISK FACTORS — Impacts and Potential Impacts of COVID-19 on the City” for additional potential impacts of COVID-19 to the City.

Bondholders’ Risks

There are a number of risks associated with the purchase of the 2021 Bonds. See “APPENDIX A— “CITY GOVERNMENT AND FINANCIAL INFORMATION—“COVID-19” and “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 2021) shall mean the fiscal year ending on June 30 of the referenced year.

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 2021 Bonds and has pledged none of its moneys, funds or assets toward the payment of any amount due in connection with the 2021 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.* See “FINANCIAL STATEMENTS FOR FISCAL YEAR 2020” for information with respect to the City’s CAFR.

SECURITY AND SOURCES OF PAYMENT FOR THE 2021 BONDS

General

The 2021 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 2021 Bonds. The Authority has no taxing power.

The 2021 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 2021 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 to the Trustee, from the City’s General Fund or from other legally available sources. The scheduled Base Rental Payments are in an amount sufficient to pay the principal of and interest on the outstanding Prior Bonds and the 2021 Bonds on each Interest Payment Date. The Authority may, from time to time, enter into supplemental indentures without the consent of the ~~owners~~ 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 2021 BONDS — Additional Bonds.”

The portion of the Prior Bonds that financed the facilities of MTS are scheduled to be fully paid on October 15, 2022, and if repaid as scheduled, the MTS Property will be released on October 15, 2022 from the provisions of the Lease and the MTS Site Lease in accordance with the terms of those documents. After such release, the MTS Property will no longer be part of the Leased Property. The effect of the release of the MTS Property on October 15, 2022 is included in the Base Rental Payment schedule set forth in the Lease such that the release will not in and of itself result in any revision to the amount of Base Rental Payments.

See “CERTAIN RISK FACTORS” for certain risks that could impact the City’s use and occupancy of the Leased Property and for a discussion of limitations on remedies in the event of a default under the Lease.

Base Rental Determinations

As a condition of issuing the 2021 Bonds and to conform to the requirements of California law related to lease obligations, the City must certify on the Closing Date that the total Base Rental Payments and any Additional Rental 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. In order to make this certification, the City has determined to add three additional properties to the Leased Property at the time of issuance of the 2021 Bonds and will rely on various appraisals done over time, its evaluation of the condition of the Leased Property and, with respect to the Ground Lease Sites, the rental received from those sites in calendar year 2020. While not required by the Lease, upon the issuance of each series of Additional Bonds, the City’s usual practice is to recalculate the percentage of the Base Rental Payments attributable to each of the Ground Lease Sites based upon the rental income actually received from the Ground Lease Sites in the prior fiscal year. To make the recalculation, the City divides the rental income received from a Ground Lease Site by the total annual fair rental value of all Leased Property as estimated by the City at the time of the recalculation, and then allocates this percentage of the Base Rental Payments to such Ground Lease Site. In connection with the issuance of Prior Bonds, the City based such calculation on fiscal year rental income. As a result of the effects of the COVID-19 pandemic, with respect to the 2021 Bonds, the City will make the recalculation based on calendar year 2020 rental income. Based on the most recent recalculation made at the time of issuance of the last series of Prior Bonds in 2020, the City attributed 33.6% of the Base Rental Payments to the five Ground Lease Sites. Based on the expected debt service on the 2021 Bonds and taking into account the addition of the three properties to the Leased Property in connection with the issuance of the 2021 Bonds, the City expects that approximately 20.65% of the Base Rental Payments will be attributable to the Ground Lease Sites. See “THE LEASED PROPERTY—Ground Lease Sites” below.

Public Safety Facilities

Fire Station #2 – Bayside is a three-story 25,000 square-foot, LEED Gold certified fire station located across the street from the San Diego County Administration Center and serves Little Italy and the downtown area west of the train and trolley tracks. Fire Station #2 consists of three drive-thru apparatus bays on the ground floor. Engine #2’s district is 0.6 square miles.

Fire Communications Center is an 11,738 square-foot, 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, National City, Coronado, Imperial Beach and Chula Vista in the region.

Fire Station #9 is a 6,486 square-foot, 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.

Impacts and Potential Impacts of COVID-19 on the City

The COVID-19 pandemic has had an adverse impact on the economy and, in turn, on the City's financial condition and operating results. The outbreak is expected to have continued negative effects on the local, State and national economies until a vaccine is made widely available to the general public. Unemployment in the United States, including California, increased dramatically following the outbreak of the pandemic. While unemployment has declined in the last several months, it remains above the pre-pandemic levels. Federal and state governments (including California) have enacted legislation and have taken executive actions designed to mitigate the negative public health and economic impacts of the outbreak.

On March 4, 2020, the Governor declared a state of emergency to help the State prepare and respond to the COVID-19 pandemic. On March 13, 2020 the President declared a national state of emergency. On March 19, 2020, the Governor issued a statewide Order, Executive Order N-33-20, directing all residents to heed State public health directives to stay home or at their place of residence except as needed to maintain continuity of operations of critical infrastructure sectors during the COVID-19 response. Since that time the State, the County and the City have undergone varying degrees of limited reopening. On August 28, 2020, the State released guidance regarding re-opening certain types of businesses based on a county-by-county approach where each county is assigned a tier based on COVID-19 case rates within each county. As a result of a significant decrease in available intensive care unit beds in the State, on December 3, 2020, the Governor announced a Regional Stay at Home Order. If available intensive care unit beds in a region fell below 15%, certain non-essential businesses would be required to close and certain retail businesses would be required to operate at limited capacity. The southern California region, which includes the City, became subject to the Regional Stay at Home Order restrictions effective December 6, 2020. On January 25, 2021, based on projected increases in the availability of intensive care unit beds, the Governor lifted the Regional Stay at Home Order which allowed for limited re-opening of businesses based on the tiered system described above. The City expects that State and local directives will continue to be revised as infection, hospitalization and vaccination rates fluctuate.

The spread of COVID-19 and the collateral effects on the local economy resulted in reduced revenues to the City's General Fund in the final two quarters of Fiscal Year 2020 and the first two quarters of Fiscal Year 2021 and the City expects revenue declines to continue through at least the end of Fiscal Year 2021. See "~~INTRODUCTION—COVID-19 RELATED IMPACTS ON THE CITY~~ [Related Impacts on the City](#)" above and APPENDIX A—"CITY GOVERNMENT AND FINANCIAL INFORMATION—COVID-19" and "CITY BUDGET AND RELATED MATTERS—Fiscal Year 2021 Budget Monitoring" and "—Fiscal Year 2021 Adopted Budget."

There are many variables that will affect the length and breadth of the economic impact from the COVID-19 pandemic, including the length of time social distancing measures are in place, the rate at which vaccines are administered and the effectiveness of State and Federal governments' relief programs. The City is unable to predict how long the adverse impacts from the COVID-19 will continue.

Impact of Economic Conditions on the City

The City has identified an economic recession and increasing salaries, benefits and pension costs as the two most significant factors that could adversely affect the City's financial condition. Efforts to respond to and mitigate the spread of COVID-19 have had a significant negative impact on the State and local economy and triggered a recession. While the City cannot predict the timing or extent of such recession, the effect of the recession has and can be expected to continue to result in decreases in major revenue sources such as sales tax, transient occupancy tax on lodging, and property tax caused by weakened consumer demand and higher unemployment. Such reductions to the City's major revenue sources are placing a strain the City's fiscal condition. Prior recessions reduced the City's major resources in the aggregate by approximately 1 percent to 5 percent. See APPENDIX A—"CITY GOVERNMENT AND FINANCIAL INFORMATION—CITY BUDGET AND RELATED MATTERS—Fiscal Year 2021 Adopted Budget." In addition, federal and State

The City currently maintains insurance coverage with respect to certain information security and privacy liability claims. See APPENDIX A — “CITY GOVERNMENT AND FINANCIAL INFORMATION — RISK MANAGEMENT — Cyber Liability Insurance.”

Storm Water Program Costs

The City is subject to various local, State and federal regulations with respect to water quality standards for urban and storm water runoff within the watersheds managed by the City. The City’s estimated capital and operating costs to comply with such standards exceed currently budgeted and projected funding levels. The City also projects that it will not meet numeric limits set on allowable pollutants in certain watersheds, which could subject the City to penalties, lawsuits and enforcement actions. The City is currently pursuing a multi-faceted strategy to meet these regulatory requirements that includes negotiating a compliance strategy to lessen regulatory requirements; pursuing alternative funding sources including evaluating a sustainable long-term funding mechanism and pursuing loans and grants; and maximizing program efficiencies through adaptive management and program innovation. If the City is not successful in implementing these strategies, there could be a material increase in General Fund expenditures for the storm water program which would require budget reductions in other areas. See APPENDIX A — “CITY GOVERNMENT AND FINANCIAL INFORMATION—CITY BUDGET AND RELATED MATTERS — Storm Water Program.”

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 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, APPROPRIATIONS AND REVENUE.”

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.

CONTINUING DISCLOSURE

Pursuant to the Continuing Disclosure Certificate of the City (the “Disclosure Certificate”), the City will agree to provide, or cause to be provided, to the Municipal Securities Rulemaking Board (“MSRB”) in the manner prescribed by the Securities Exchange Commission (the “SEC”) certain annual financial information and operating data related to the City (the “Annual Report”) no later than April 10 after the end of the City’s fiscal year (which currently ends June 30), commencing with the Annual Report for {Fiscal Year 2021 due April 10, 2022} and to provide notices of certain enumerated events (as described in the Disclosure Certificate). The form of the Disclosure Certificate is attached hereto as APPENDIX F — “FORM OF CONTINUING DISCLOSURE CERTIFICATE.” The City’s covenants in the Disclosure Certificate will be made in order to assist the Underwriters in complying with Rule 15c2-12(b)(5) adopted by the SEC under the Securities Exchange Act of 1934 (the “Rule”). The Disclosure Certificate will inure solely to the benefit of any Dissemination Agent, the Underwriters, and Owners or Beneficial Owners from time to time of the 2021 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 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.

of its underwriting compensation with UBS Securities. UBS FSI and UBS Securities are each subsidiaries of UBS Group AG.

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

Wells Fargo Bank, National Association, acting through its Municipal Finance Group ("WFBNA"), one of the underwriters of the 2021 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 2021 Bonds. Pursuant to the WFA Distribution Agreement, WFBNA will share a portion of its underwriting or remarketing agent compensation, as applicable, with respect to the 2021 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 2021 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 Bank, National Association is serving as both an underwriter and as Trustee for the 2021 Bonds and will be compensated separately for serving in each capacity.

A portion of the proceeds of the 2021 Bonds will be used to pay the outstanding Commercial Paper Notes. Credit support for the Commercial Paper Notes is provided in the form of a letter of credit from WFBNA. WFBNA also serves as Commercial Paper dealer for the Commercial Paper Notes. Wells Fargo Securities or its affiliates may, in the ordinary course of business, purchase, sell, or hold the Commercial Paper Notes for its own account.

MUNICIPAL ADVISOR

Public Resources Advisory Group (the "Municipal Advisor") has acted as Municipal Advisor to the City in conjunction with the issuance of the 2021 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 2021 Bonds. The Municipal Advisor will receive compensation contingent upon the sale and delivery of the 2021 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.

MISCELLANEOUS

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

There are appended to this Official Statement, among other things, a summary of certain provisions of the principal legal documents, the proposed form of the opinion of Bond Counsel, a general description of the

APPENDIX A
CITY GOVERNMENT AND FINANCIAL INFORMATION

COVID-19 Funding

CARES Funding. On March 27, 2020, the federal government passed the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) to provide emergency assistance and health care response for individuals, families, and businesses affected by the COVID-19 pandemic. The CARES Act provides \$150 billion in payments to states and local governments from the Coronavirus Relief Fund (“CRF”) that may only be used to cover costs that: (1) are necessary expenditures incurred due to the public health emergency with respect to the COVID-19; (2) were not accounted for in the budget most recently approved as of the date of enactment of the CARES Act; and (3) were incurred during the period that begins on March 1, 2020, and extended through December 31, 2021. As the second largest city in the State, the City received \$248.5 million on April 22, 2020. The Fiscal Year 2021 Adopted Budget (as defined below), appropriates approximately \$155 million of CARES Act funding to be used to offset expenditures in Fiscal Year 2021. As of June 30, 2020, the City had expended \$93.4 million. The City expects to spend all \$248.5 million by the end of Fiscal Year 2021.

On May 4, 2020, the United States Department of the Treasury provided supplemental guidance for the Treasury’s Coronavirus Relief Fund Guidance for State, Territorial, Local, and Tribal Governments. This guidance clarified key provisions in the CARES Act, including eligible payroll expenses and costs.

~~Federal legislation has been proposed~~ On March 11, 2021, President Biden signed the American Rescue Plan Act (the “Rescue Act”) which includes additional \$1.9 trillion of funding for individuals, businesses and state and local governments to mitigate the impacts of the COVID-19 pandemic. ~~If such legislation is enacted into law, the City expects to seek additional federal funding that it is eligible to receive, if any.~~ The City expects to receive approximately \$306 million in funding over the current Fiscal Year and Fiscal Year 2022.

Other Funding. The City is eligible for funds from the Federal Emergency Management Agency (“FEMA”) to cover certain COVID-19 emergency response costs. This program requires the City to pay 25% of the costs. As of June 30, 2020, the City had \$5.5 million of FEMA eligible expenditures and additional FEMA funds may be requested. The Department of Justice (“DOJ”) has awarded a \$1.2 million grant to the City to aid with police overtime expenditures due to the pandemic. Also, DOJ has provided a grant to aid firefighters during this emergency with a 15% cost share. The federal Department of Housing and Urban Development (“HUD”) has also provided \$11.5 million to the City for COVID-19 related homelessness, housing, and economic assistance. The City has received a \$3.7 million grant from the State to aid in homelessness due to COVID-19. In addition, the County and the Regional Task Force on the Homeless also received State grants which are being transferred to the City to pay for expenditures for Operation Shelter to Home (see “Additional City Programs—*Operation Shelter to Home*” below). COVID-19-funding that the City has received from the State to alleviate homelessness totals \$7.1 million.

Additional City Programs

Small Business Relief Fund. To assist local businesses and job retention, the City established a Small Business Relief Fund (“SBRF”) to provide grants and forgivable or low- to zero-interest-rate loans to eligible small businesses for working capital. The goal of the SBRF is to help businesses retain employees and sustain continuity of business operations impacted by federal, State, County and City emergency declarations relating to COVID-19.

Approximately \$6.1 million was made available in the SBRF and is being administered by the City’s Economic Development Department. Approximately \$3.4 million of the total was provided by the City’s Community Development Block Grant (“CDBG”) and approximately \$2.1 million is being funded from the San Diego Regional Consolidated Loan Fund and the remaining funds are from the Economic Workforce Development Fund. Financial assistance, in the form of grants and loans, range from \$10,000 to \$20,000 and

are allocated to eligible, qualified small businesses based on the availability of funds, program guidelines and the submission of all required information and supporting documentation. As part of the Fiscal Year 2021 Adopted Budget an additional \$12.8 million has been allocated to the SBRF.

In addition, the City's Economic Development Department is providing additional financial assistance by issuing business loans ranging from \$25,000 to \$95,000 to qualified businesses as part of the CARES Act Revolving Loan Fund with funding provided from the U.S. Department of Commerce Economic Development Administration. This program does not have any provisions allowing for the loans provided thereunder to be forgiven. The term loans under this program are intended to help entrepreneurs adapt their business models to operating under pandemic restrictions while retaining or creating jobs. Priority will be given to smaller businesses within underserved communities or those operating within the following four economic base sectors: manufacturing & innovation, international trade & logistics, military, and tourism.

Operation Shelter to Home. Operation Shelter to Home ("OSTH") launched on April 1 by moving individuals already in shelters into the San Diego Convention Center (the "Convention Center"). Due to the COVID-19 pandemic, events were suspended and the Convention Center has been temporarily converted to be used as a homeless shelter from April 1, 2020 through March 31, 2021. OSTH is intended to reduce the potential for the spread of COVID-19 among the City's homeless population by creating more shelter space at the Convention Center, allowing room between individuals per guidelines from public health officials, and centralizing limited shelter staff. Coordinated outreach teams are now engaging with people living outdoors to offer shelter at the Convention Center, motel rooms or other options. Partner agencies include the City's Homeless Outreach Teams, Downtown San Diego Partnership, Regional Task Force on the Homeless, the County Health and Human Services Agency, People Assisting the Homeless, and various service providers. The effort is similar to the approach used when City bridge shelters were first opened in 2017 and follows practices local agencies normally use to engage unsheltered homeless individuals.

Funding for OSTH consists of \$7.1 million in State grant funding and an additional \$30 million of the costs are budgeted to be covered with CARES Act funding. Additional funding has been secured from grants including CDBG, Emergency Solutions Grant, Homeless Emergency Aid Program, and Homeless Housing, Assistance Prevention to continue OSTH through March 31, 2021.

Rental Assistance Program. The City included in the Fiscal Year 2021 Adopted Budget a rental assistance program (the "Rental Assistance Program") that is implemented with the San Diego Housing Commission ("SDHC") and funded in the amount of \$15.1 million. In October 2020, the City Council appropriated an additional \$5 million in CDBG to initiate a new phase of rental relief. In addition, on January 20, 2021, the City received \$42.3 million from the federal Consolidated Appropriations Act to be administered by SDHC for rent relief. The Rental Assistance Program provides financial assistance to low-income individuals and families who are impacted by the COVID-19 pandemic. Under the Rental Assistance Program, rental payments are provided directly to the landlords of those individuals and families eligible under this program.

The City also received approximately \$45.5 million for residential rent assistance from the State pursuant to Senate Bill 91, which the Governor signed into law on January 29, 2021. The total amount of funding available for housing stability assistance in Fiscal Year 2021 is approximately \$108 million.

Childcare Vouchers. The City has partnered with the County to use \$5 million of the City's CARES Act funding to provide childcare vouchers for essential workers and vulnerable populations eligible under the California Alternative Payment Program ("CAPP"). Such funding matches the \$5 million the County Board of Supervisors approved on May 5, 2020 and supplements California Senate Bill 89 funding. CAPP provides full or partial subsidies to pay for childcare in a location of the parent's choice while the parent works, trains, or seeks employment. Under CAPP, essential employees who could receive childcare assistance include health care workers, childcare providers, first responders, emergency medical services personnel, and grocery store

staff. The program is administered by the California Department of Education and the California Department of Social Services.

Eviction Moratorium. The City Council adopted an ordinance (“Ordinance No. O-21177”) effective March 25, 2020, which provides for a temporary moratorium on evictions for nonpayment of rent by residential and commercial tenants in the City who are directly impacted by the COVID-19 pandemic. Ordinance No. O-21177 provides that no landlord shall take action to evict a tenant for not timely paying rent that was due on or after March 12, 2020, if the tenant provided written notice to the landlord, on or before the date the rent was due, and that the tenant is unable to pay rent to due to financial impacts related to COVID-19. As used in Ordinance No. O-21177, “financial impacts” means, with respect to a commercial tenant, a substantial decrease in business income due to business closure, loss of compensable hours of work or wages, layoffs or substantial out-of-pocket medical expenses. Tenants had up to six months from the date Ordinance No. O-21177 went into effect (March 25, 2020) or the withdrawal of the State Governor’s Order No. N-28-20 (which, among other things, suspends certain State laws that would otherwise restrict local governments’ ability to limit residential and commercial evictions for nonpayment of rent as a result of impacts caused by COVID-19) to pay all unpaid rent. After the six-month period, the landlord may evict a tenant who has not paid all outstanding rent and exercise remedies under the applicable lease and law.

On August 31, 2020, the Governor signed Assembly Bill 3088 into law, which provided residential tenants with certain eviction protections through January 31, 2021. On January 29, 2021 the Governor signed Senate Bill 91 into law, which extends the residential eviction protections provided under Assembly Bill 3088 through June 30, 2021. Ordinance No. O-21177 expired on September 30, 2020, however, residential tenants continue to receive the foregoing protections under State law.

On January 26, 2021, the City Council approved ordinances establishing additional protections for commercial and residential tenants, however, the residential moratorium is not effective during the pendency of the State-wide eviction moratorium under Senate Bill 91. The commercial eviction moratorium applies to small businesses as defined in the ordinance through June 30, 2021 or until 60 days after the City’s COVID-19 emergency declaration is lifted, whichever occurs sooner. Commercial tenants remain responsible for unpaid rent and have 6 months from expiration of the moratorium to pay any unpaid rent. See “THE LEASED PROPERTY—Ground Lease Sites—*Hotel Ground Leases Rent Deferrals.*”

Temporary Outdoor Business Operations. In an effort to support businesses negatively impacted by the economic effects of COVID-19, the City launched the Temporary Outdoor Business Operation permitting program in June 2020, making it easier for businesses to expand into the Public-Right-of-Way to conduct outdoor business operations. With these permits, businesses have been allowed to set up dining and other business activities temporarily in the street, sidewalk, and parking lanes if they comply with applicable Americans with Disabilities Act (“ADA”) requirements and other regulations. The City is also working to provide more permitting options, and support businesses as they work to comply with ADA and other applicable regulations while operating safely in these relatively new outdoor settings.

A \$3,000 or \$5,000 grant will be provided to businesses constructing ADA compliant decks and platforms on an upfront basis. Businesses located in low-to-moderate income census tracts or owned by low-to-moderate income individuals would be eligible for the higher \$5,000 grant as well as priority, expedited grant processing. At this time, the City ~~has~~ is ~~based~~ is ~~on~~ based ~~the~~ on ~~amounts~~ amounts collected through the ADA portion of SB 1186 fees. The funds for “Accessibility for Outdoor Business Operations During COVID” are approximately \$530,000.

- (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) As adopted in June 2020. See “—Fiscal Year 2021 Budget Monitoring” below for updated information on Fiscal Year 2021.
- (3) Fiscal Year 2020 and Fiscal Year 2021 decrease in TOT is due to reduced tourism within the City resulting from the COVID-19 pandemic.
- (4) Includes amounts which are designated as Miscellaneous Revenues (as defined below). See “—Fiscal Year 2021 Budget Monitoring.”
- (5) Projected Fiscal Year 2021 increase in Revenue from Other Agencies in Fiscal Year 2021 relates to COVID-19 funding (i.e. CARES Act and FEMA).
- (6) The Fiscal Year 2020 and Fiscal Year 2021 decrease in Charges for Services is primarily due to decreases in TOT reimbursable services to the General Fund.
- (7) The Fiscal Year 2020 increase in Transfers from Other Funds is primarily due to an \$85 million increase in transfers due to the CARES Act.
- (8) The Fiscal Year 2019 Actuals increased fund balance by approximately \$29 million, whereas the Fiscal Year 2020 Actuals used approximately \$36.5 million of fund balance.
- (9) The Fiscal Year 2020 increase in Public Safety is primarily due to increases in personnel and fringe expenditures for the Police and Fire Departments.
- (10) The Fiscal Year 2021 increase in Neighborhood Services is primarily due to funding for programs in response to the COVID-19 pandemic such as Operation Shelter to Home, the Small Business Relief Fund, and the Rental Assistance Program.
- (11) The Fiscal Year 2020 increase in General Government and Support is primarily due to personnel and fringe expenditures as well as various contracts such as the Animal Control & Service Program and rent payments.
- (12) The Fiscal Year 2021 decrease in Transfers to Other Funds is primarily due to the elimination of the transfer to the Infrastructure Fund.

Source: Table: Fiscal Year 2019 and Fiscal Year 2020 Comprehensive Annual Financial Report, City of San Diego; Fiscal Year 2021 Adopted Budgets, City of San Diego.

Footnotes: Department of Finance, City of San Diego.

Fiscal Year 2021 Adopted Budget

The City’s General Fund budget for Fiscal Year 2021 (the “Fiscal Year 2021 Adopted Budget”) was adopted in June 2020 and reflected a balanced General Fund budget of \$1.62 billion. The General Fund budget is approximately 40.3% of the City’s total Fiscal Year 2021 Adopted Budget of \$4.02 billion. The General Fund budgeted expenditures for Fiscal Year 2021 reflected a net increase of \$30.9 million, compared to the Fiscal Year 2020 adopted General Fund budget of \$1.59 billion, primarily due to expenditures as a result of COVID-19. These COVID-19 related ~~expenses will be~~ expenditures are covered by CARES Act funding. As described under “—Fiscal Year 2021 Budget Monitoring,” actual estimated revenues and expenditures have changed from those included in the Fiscal Year 2021 Adopted Budget.

~~The Fiscal Year 2021 Adopted Budget included 7,640.02 budgeted full-time equivalent (“FTE”) positions, a net decrease of 87.83 FTE positions from the Fiscal Year 2020 adopted General Fund budget.~~

The four major General Fund revenue sources are property taxes (38.9%), sales taxes (16.9%), TOT (5.6%), and franchise fees (4.3%). These sources account for approximately \$1.06 billion, or 65.6%, of the City’s General Fund revenue in the Fiscal Year 2021 Adopted Budget. This amount reflected a projected increase of \$69.4 million, or 6.6%, in these four revenue sources from the Fiscal Year 2020 ~~adepted~~ Adopted General Fund budget. ~~The Fiscal Year 2021 Adopted Budget includes General Fund revenues and expenditures of \$1.62 billion and maintains a focus on core essential services. General Fund expenditures are primarily supported by major General Fund revenue sources that include property tax, sales tax, transient occupancy tax, and franchise fees. These four major General Fund revenue sources account for \$1.10 billion or 67.1% of the~~

~~revenue in the Fiscal Year 2021 Adopted Budget, with the remainder of revenues generated by a variety of sources including CARES Act funding. Major revenues sources~~ Major revenues sources in the Fiscal Year 2021 Adopted Budget, ~~are~~ were projected to decrease by \$52.753.8 million, or ~~3.34.8%~~, from the Fiscal Year 2020 adopted General Fund budget, however, total budgeted General Fund revenues are \$31.271.7 million or ~~24.6%~~ higher, than the Fiscal Year 2020 Adopted Budget, primarily due to receipt of CARES Act funding.

The Fiscal Year 2021 Adopted Budget ~~assumes~~ assumed sales tax revenues will decrease 23.06% in the first quarter of Fiscal Year 2021, primarily from decreases in projected sales tax receipts as a result of the increased unemployment rate and decreased spending in travel, leisure, and entertainment sectors, which are all impacts from the COVID-19 pandemic. Based on current estimates from the City's sales tax consultant, sales tax revenues for the remainder of Fiscal Year 2021 ~~are~~ were projected to decline by 4.00% due to increased unemployment, projected continued volatility in consumer confidence, and a projected continued decline in the economy. The Fiscal Year 2021 Adopted Budget includes an annualized decline of 13.53% for sales tax revenues. See "Major Revenue Sources — Sales Tax" below.

The Fiscal Year 2021 Adopted Budget ~~incorporates~~ incorporated a projected average annual decline for TOT revenues of 36.71%. This rate of decline ~~is~~ was somewhat greater than the projected decline in tourism activity as forecasted by the San Diego Tourism Authority and San Diego Tourism and Marketing District, due to uncertainty regarding global health conditions from COVID-19. See "Major Revenue Sources — Transient Occupancy Tax" below.

The Fiscal Year 2021 Adopted Budget also ~~incorporates~~ incorporated a \$27.4 million decrease from the Fiscal Year 2020 Adopted Budget in Miscellaneous Revenues which the City attributes to the effect of the COVID-19 pandemic. The largest portion ~~of such increase relates~~ is related to reimbursement of tourism-related costs from TOT. See "Major Revenue Sources — Transient Occupancy Tax" below.

In the Fiscal Year 2021 Adopted Budget, \$58.8 million of expenditures were added to the General Fund as a result of COVID-19. These COVID-19 related expenses ~~will be~~ are covered by CARES Act funding. The City is also utilizing ~~the remaining \$87.3 million in~~ CARES Act funding to reimburse additional budgeted COVID-19 related expenditures in Fiscal Year 2021. Although budget reductions that provided efficiency and minimized impacts to service levels were prioritized first, the loss of revenue projected as a result of COVID-19 required that reductions with significant service level impacts ~~were~~ also be taken to ensure the City ~~maintains~~ had a balanced budget. The Fiscal Year 2021 Adopted Budget included 7,640 budgeted full-time equivalent ("FTE") positions related to the General Fund.

In November 2018, local voters approved Measure G, the San Diego State University ("SDSU") West citizens' initiative which permits but does not require the City to sell approximately 132 acres in the Mission Valley Site (the "Stadium Site") to SDSU or its affiliate only if the City Council approves the sale. The City Council approved the sale on June 30, 2020. The City and SDSU reached an agreement for the sale of the Stadium Site on August 13, 2020. The sale of the Stadium Site in the amount of \$86 million resulted in a \$51 million deposit to the Capital Outlay Fund for General Fund purposes, including \$28.3 million earmarked for ongoing stadium debt service, with the remaining \$35 million going to the Public Utilities Department and deposited in the Water Utility Fund. The Fiscal Year 2021 Adopted Budget ~~budgeted~~ included \$18.5 million of the \$51 million in Stadium Site sale proceeds ~~deposited to the Capital Outlay Fund for ongoing Stadium debt service and a portion of the~~ to fund certain General Fund ~~supported~~ debt service, including Stadium debt service due in Fiscal Year 2021.

Fiscal Year 2021 Budget Monitoring

The City released the Mid-Year Budget Monitoring Report on January 29, 2021 (the "Mid-Year Monitoring Report"). The Mid-Year Monitoring Report includes updates on major General Fund revenue projections and expenses for Fiscal Year 2021.

Based on receipts through November 30, 2020, a decrease of \$86 million in General Fund revenues is projected at the end of Fiscal Year 2021 from the amount in the Fiscal Year 2021 Adopted Budget. As of such date, Revenues are/were projected to be under budget primarily due to the following: (i) a \$35.9 million decrease in TOT revenues as a result of travel restrictions, canceled events and restrictions on public gatherings instituted to curtail the spread of COVID-19; and (ii) a reduction of \$55.7 million in Miscellaneous Revenues as described below under “Major Revenue Sources—*Miscellaneous Revenues.*” Such declines are projected to be slightly offset by sales tax revenues exceeding the amount in the Fiscal Year 2021 Adopted Budget.

The Mid-Year Monitoring Report projects General Fund expenditures to be \$0.6 million below the amount in the Fiscal Year 2021 Adopted Budget at the end of Fiscal Year 2021.

The Mid-Year Monitoring Report projects General Fund expenditures of \$1.6204 billion to exceed revenue projections of \$1.535 billion, resulting in a projected \$85.4 million deficit.

The Mid-Year Monitoring Report contains various options to cover the projected \$85.4 million deficit, however it does not contain an appropriation adjustment or define a specific mitigation action plan. However, the Mid-Year Monitoring Report identifies options to mitigate the projected fiscal year end deficit including (1) ~~the use of reserves~~ federal stimulus funds, (2) the use of \$14.5 million in excess equity, ~~and~~, (3) reductions in operational and capital project expenditures; ~~and~~ (4) the use of reserves. The City is ~~currently evaluating potential approaches to cover the projected deficit and will likely make a decision concerning how to proceed after the status and uses of any additional federal and/or State financial assistance becomes known. The City expects to know the status and uses of additional federal or State financial assistance before the release of the Third Quarter Monitoring Report, which the City expects to release around May 18, 2021. That report will include any necessary budget adjustments for the City Council’s consideration, including the use of reserves, if necessary~~ awaiting a final determination on the permissible uses of the Rescue Act funds. The City plans to utilize these federal stimulus funds prior to drawing upon reserves.

For a description of the City’s available reserves, see “—Reserves” below.

After release of the Mid-Year Monitoring Report, the Chief Operating Officer released a memorandum directing departments to reduce current year expenditures by requiring all General Fund and General Fund-impacting departments to only fill vacancies that: require a specialized skill set, are critical to operations, are necessary to meet regulatory requirements, or are critical to public safety/health. The Chief Operating Officer also directed departments to limit overtime to only safety and health related work as well as limit non-personnel spending to critical expenditures only.

Five-Year Financial Outlook

The City’s Fiscal Year 2022-2026 Five-Year Financial Outlook (the “Five-Year Outlook”) was released in November 2020. The Five-Year Outlook is focused on the City’s General Fund, guides long-range fiscal planning and was intended to serve as the framework for the development of the Fiscal Year 2022 budget. The Five-Year Outlook is based on the Fiscal Year 2021 Adopted 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. The Five Year Outlook was developed prior to the adoption of the Rescue Act and does not take into account the expected receipt by the City of approximately \$306 million of additional federal stimulus funds.

As of the publication date of the Five-Year Outlook, the City’s Fiscal Year 2022-2026 expenditure projections will exceed revenue projections for the next four Fiscal Years (\$124.1 million projected deficit in Fiscal Year 2022, \$106.7 million projected deficit in Fiscal Year 2023, \$84.2 million projected deficit in Fiscal Year 2024 and \$27.8 million projected deficit in Fiscal Year 2025). The Five-Year Outlook projects revenues

exceeding projected expenses by \$5.9 million in Fiscal Year 2026. ~~The foregoing projections were prepared prior to the Mid-Year Monitoring Report which, absent any mitigation actions, projects an \$85.4 million deficit at the end of Fiscal Year 2021.~~

The major General Fund revenues are projected to continue to be impacted by the COVID-19 pandemic. The Five-Year Outlook forecasts the beginning of the economic recovery in Fiscal Year 2022 and projects to reach pre-recession levels by Fiscal Year 2025. The Five-Year Outlook assumes that a COVID-19 vaccine will be readily available by fiscal year 2022 and group travel will begin to increase in the spring of 2021. In addition, no Federal or State relief was factored in to the Five-Year Outlook. Revenue growth is projected to increase significantly in Fiscal Year 2022, assuming the availability of the vaccine, and soften once reaching pre-recession levels by Fiscal year 2025. Major General Fund revenues are anticipated to increase in each year of the Five-Year Outlook; however, the rate of growth decreases in the outer years of the Five-Year Outlook. The overall economic assumptions included in the report are consistent with the information received from the City's sales tax consultant (Avenu Insights & Analytics), the San Diego Tourism Authority, San Diego Tourism Marketing District, the UCLA Anderson Forecast and Beacon Economics. The Five-Year Outlook also projects moderate increases in expenditure categories required to maintain current service levels as well as anticipated growth in those categories. The Five-Year Outlook also assumes no general fund reserve contributions will be made during Fiscal Year 2022 and Fiscal Year 2023.

On November 19, 2020, the San Diego City Employees' Retirement System ("SDCERS") notified the City of updated actuarially determined contribution ("ADC") estimates based on a limited actuarial analysis performed. The additional analysis conducted by Cheiron incorporates three additional components: 1) the assumption changes adopted in the June 30, 2019 experience study, 2) the actual investment results at June 30, 2020, and 3) the initial salary information received for the fiscal year that ended June 30, 2020. Based on these three factors, the actuary is projecting significant increases to the pension payments for the Five-Year Outlook period. These increases range from an incremental increase of \$52 million in Fiscal Year 2022 up to a \$75 million increase in Fiscal Year 2026. Approximately 83.9% of the ADC was allocated to the General Fund in Fiscal Year 2021, and this allocation may vary each year based on budgeted employees. These projected increases to the ADC have been factored into the Five-Year Outlook, but could further change pending the completion of the annual actuarial valuation. The June 30, 2020 actuarial valuation report was released January 2021 and states that the ADC for Fiscal Year 2022 will increase by \$49.3 million from \$365.6 million to \$414.9 million. Such actuarial valuation report is expected to be finalized and approved in March 2021. See "SAN DIEGO CITY EMPLOYEES' RETIREMENT SYSTEM" below.

The Five-Year Outlook's Salary and Wages section assumes the continuation of the current MOUs and does not assume any salary and benefit increases with the City's REOs. Additional information regarding approved labor agreements is described in the "LABOR RELATIONS" section.

The Five-Year Outlook presents potential mitigation actions that could be proposed to address the projected deficits in Fiscal Years 2022 through 2026 including: (1) use of the Infrastructure Fund, (2) use of General Fund reserves, (3) the estimated \$306 million of Rescue Act funds to be received by the City along with any additional COVID-19 relief funds that might be provided in the future, and (4) requesting budget reductions as part of the Fiscal Year 2022 budget. As the Five-Year Outlook is not a budget, any potential mitigation will be addressed during the preparation of the Fiscal Year 2022 proposed budget.

In anticipation of the Fiscal Year 2022 budget and to ensure a structurally balanced budget, in December 2020, a memorandum was issued to all General Fund and General Fund-impacting departments to prepare budget reductions of up to 8% for Fiscal Year 2022. These potential reductions will give the City an opportunity to evaluate all mitigation options for Fiscal Year 2022. As with Fiscal Year 2021, the City expects to evaluate/determine how to apply the \$306 million of expected Rescue Act funds, evaluate any other Federal and State stimulus opportunities, current reserves, and expenditure reductions in developing the upcoming budget. The Fiscal Year 2022 proposed budget will be released by the City by April 15, 2021, and, as noted

appropriate any amounts in these operating funds for any lawful purpose, although such appropriation may have an operational impact on the intended purpose of the operating fund.

Except for the City's Emergency Reserve, which the City Council may only appropriate with a two-thirds vote, all of the other reserves of the City may be appropriated for any purpose, even a purpose contrary to the intended policy purpose of the reserve with a simple majority. Since the outbreak of the COVID-19 pandemic, the City has not appropriated any of its reserves to address budgetary imbalances caused by the pandemic. ~~According to the City's Fiscal Year 2021 Mid-Year Budget Monitoring Report, the City has a projected General Fund deficit of \$85.4 million for Fiscal Year 2021. Appropriation of reserves is one of the options the City is considering in covering this deficit.~~

General Fund Cash Management

In general, in each fiscal year, the City General Fund's expenditures fall largely evenly over the course of the fiscal year, whereas some of the City's most significant General Fund revenues, such as property tax revenues, fall largely to the second half of the fiscal year. To address this mismatch in receipts and expenditures, the City relies on cash balances from other eligible operating funds to smooth out the General Fund cash needs during the fiscal year. Additionally, the Charter permits interfund borrowing and the Chief Financial Officer has the authority under the annual Appropriation Ordinance to make interfund loans between funds to cover cash needs. The City can also issue tax revenue anticipation notes ("TRANS") if needed. The California Government Code, the City Charter, and federal tax laws permit the use of TRANS as a debt instrument if the City projects a temporary cash deficit to meet the City's projected appropriated expenditures for the fiscal year. The City has not issued TRANS since Fiscal Year 2013. See "Prospective Financings"

As of December 31, 2020, the City had available cash, including amounts on deposit in the City's General Fund, of approximately \$1.286 billion compared to December 31, 2019 available cash of approximately \$1.201 billion. This is based on the total cash for governmental activity categories as reported in the City's financial statements, including cash earmarked for capital and debt service, and other specific restricted governmental activities. This amount represents liquid cash that the City has for operations associated with governmental activities. This cash from other City funds is also available for General Fund activities through the Charter-permitted interfund borrowing authority. Based on the \$1.286 billion cash figure, the City ended December 31, 2020 with an estimated 189 days cash on hand for all governmental activities. As of June 30, 2020, the City had 281 days' cash on hand for all governmental activities.

As of December 31, 2020, the City's General Fund and Operating Funds had combined cash balance of \$360.3 million. The cash balance of \$360.3 million is a portion of the \$1.286 billion of cash for governmental activities. Comparatively, the cash balance for the General Fund and Operating Funds was \$370 million as of December 31, 2019.

Major Revenue Sources

General. The City depends on four major revenue sources to support core services. These sources are property tax, sales tax, transient occupancy tax, and franchise fees. In addition to these four major revenue sources, the General Fund receives revenues from various programs operated by the departments, which include parking fee revenues, court fees, various permits and fines, rental income from hotel leases, among others (the "Miscellaneous Revenues").

Property Taxes. Property tax revenue is the City's largest revenue source, representing 38.9% of the total General Fund revenue for the Fiscal Year 2021 Adopted Budget and the fiscal year 2020 adopted budget. 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

Table A-6 sets forth the ten largest secured and unsecured property taxpayers in the City for the tax roll of Fiscal Year 2020.

TABLE A-6
PRINCIPAL PROPERTY TAXPAYERS IN CITY OF SAN DIEGO
Tax Roll for Fiscal Year 2020
(in thousands (except for percentages))
(unaudited)

<u>Taxpayers</u>	<u>Type of Business</u>	<u>Taxable Assessed Value</u>	<u>Percent of Total City Taxable Assessed Value</u>
Qualcomm, Inc.	Electronics	\$ 2,138,154	0.81%
Irvine Co, LLC	Real Estate	1,490,959	0.57
Host Hotels Resorts, LP	Hotel Management	1,101,990	0.42
Kilroy Realty, LP	Real Estate	929,844	0.35
UTC Venture, LLC	Developer	818,067	0.31
One Park Boulevard, LLC	Hotel Management	505,922	0.19
Fashion Valley Mall, LLC	Developer	496,812	0.19
La Jolla Crossroad, LLC	Developer	488,173	0.18
BEX Portfolio, LLC	Developer	483,448	0.18
Bosa Development California II, Inc.	Real Estate	<u>430,983</u>	<u>0.16</u>
TOTAL		<u>\$ 8,884,352</u>	<u>3.36%</u>

Source: Fiscal Year 2020 Comprehensive Annual Financial Report Statistical Section, City of San Diego.

Sales Tax. Sales tax is collected and distributed by the California Department of Tax and Fee Administration. The statewide sales tax rate is established by the State Legislature. Sales tax is the City's second largest revenue source.

The total citywide sales tax rate is 7.75%, comprised of a 7.25% statewide sales tax (which includes a 0.50% sales tax known as the Proposition 172 safety sales tax for the purpose of funding local public safety expenditures) and a 0.50% local supplemental sales tax described below. 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 7.25 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"). The TransNet sales tax was renewed in April 2008 for an additional 40-year term. TransNet sales tax revenues are not City General Fund revenues, and are restricted to transportation projects and are not available to pay the City's General Fund lease obligations.

Fiscal Year 2021 Sales Tax Budget. The Fiscal Year 2021 Adopted Budget for sales tax revenues is \$274.4 million (excluding Proposition 172 safety sales tax), representing 16.9% of revenues in the Fiscal Year 2021 Adopted Budget. In Fiscal Year 2020, sales tax revenues represented approximately 19.2% of the General Fund adopted budget. The City performed a rate analysis by looking at each business sector and applying a declining rate to each sector based on assumed impacts by the COVID-19 pandemic. The Fiscal Year 2021 Adopted Budget for sales tax reflects the impact of the Marketplace Facilitator Act which requires online retailers to be responsible for collecting and paying the tax on retail sales made through their marketplace for delivery to California customers. The portion of sales tax attributable to online sales activity

has generally increased in recent years, as well as due to the Wayfair decision and the Marketplace Facilitator Act. Currently, Fiscal Year 2021 year to date receipts show sales tax revenue from online sales is approximately 17%.

Online purchases (as opposed to sales through brick and mortar retailers) have increased since the onset of the COVID-19 pandemic. As a result of such shift in consumer spending, the City receives a smaller portion of sales tax revenues. Sales tax revenues from online retailers are distributed to the City through the County pool at a rate of approximately 0.5% as opposed to 1.0% for instore point of sale City sales tax revenues.

In the Mid-Year Monitoring Report, the Fiscal Year 2021 sales tax revenue projection was updated to \$283.3 million, which is \$8.8 million over budget. Mid-year projections reflect revised assumptions to include higher than anticipated sales tax receipts in the first quarter and revised impacts from the Regional Stay at Home Order in the second quarter. This increase is a result of better than anticipated consumer behavior during the COVID-19 pandemic, including the use of government stimuli by consumers, the “Home Improvement” phenomena, and an increase in online sales. In response to the Regional Stay at Home Order, which began in early December, the second quarter now reflects a revised growth rate of negative 9.20 percent. The growth rate of negative 9.20 percent is consistent with impacts from the first Stay at Home Order issued in March 2020 and accounts for limitations set on business operations, including the closure of certain sectors such as wineries and bars, a 20 percent capacity limitation set on retail stores and shopping centers, and restaurant operations limited to takeout orders. In the Mid-Year Monitoring Report, the City projects growth rates for the third and fourth quarters of Fiscal Year 2021 of negative 5.70 percent and negative 2.40 percent, respectively.

See “CITY BUDGET AND RELATED MATTERS — Fiscal Year 2021 Adopted Budget” and “— Fiscal Year 2021 Budget Monitoring” and APPENDIX B—“DEMOGRAPHIC AND ECONOMIC INFORMATION REGARDING THE CITY – Table B-4.” There could be further reductions to sales tax revenues in the current Fiscal Year as a result of recent events.

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 the City 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.

Fiscal Year 2021 Transient Occupancy Tax Budget. The Fiscal Year 2021 Adopted Budget for TOT revenues is \$171.6 million. Of the total budgeted amount, \$90.5 million in TOT revenue is allocated to the General Fund, which comprises 5.6% of the General Fund revenue budget. In Fiscal Year 2020, TOT revenues represented approximately 8.8% of the General Fund adopted 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 (see “Miscellaneous Revenues” below). The Fiscal Year 2021 blended decline assumed the majority of the impacts of the pandemic will affect July 2020 to November 2020, with a gradually lessening impact beginning in December 2020. This includes the assumption of suspension of Convention Center activity into the spring, per the Governor’s phased reopening plan. International travel restrictions, a State-wide ban on gatherings and a high national unemployment rate resulting from the COVID-19 pandemic have greatly reduced tourism in the City. The ban on gatherings has led to many conventions being canceled in the City. The City cannot predict when, or if, conventions and tourism activity will return to the level of such activity which existed prior to the outbreak of the COVID-19 pandemic.

The Municipal Permit establishes water quality requirements and sets receiving water limitations for pollutants in the City's various water bodies and the storm drains discharging into them. Additionally, the Municipal Permit contains several regulatory requirements related to Total Maximum Daily Load (TMDL). Each TMDL requirement imposes certain interim deadlines and final deadlines to attain the prescribed water quality standards through Fiscal Year 2035 in specific watersheds. In addition to the Municipal Permit, the City is subject to other regulations adopted and enforced by RWQCB such as the San Diego River Investigative Orders and the State Trash Policy.

The City can be held liable for not attaining the prescribed water quality standards within the respective timeframes. The RWQCB or the citizen stakeholders can file enforcement actions and lawsuits for violations, with penalties for state lawsuits not to exceed \$10,000 per violation, per day, and penalties for federal lawsuits not to exceed \$54,000 per violation, per day.

The City is listed as a responsible party in the Bacteria TMDL; which was adopted by the RWQCB for numerous impaired water bodies in order to attain and maintain fecal indicator bacteria water quality standards. All responsible parties are required to reduce the levels of bacteria in their discharges to all listed water bodies. The City has not met its interim dry weather regulatory deadline (April 2019) related to the Bacteria TMDL in some watersheds based on updated water quality monitoring data. The City is also not projected to meet the rigorous final dry weather regulatory deadline (April 2021) for each creek and river outfall compliance monitoring locations related to the Bacteria TMDL due to insufficient funding and the time requirements to implement essential capital projects. However, the City is currently engaged in multiple efforts to comply with these requirements. First, the City is ramping up efforts to identify and eliminate human sources of bacteria, which are most harmful to human health. The City's efforts are being documented in a draft Bacteria Tactical Plan that describes the collaboration among three City departments to [capture/develop](#) current and potential new activities that can be initiated to address bacteria sources. Efforts include addressing homeless encampments, initiating an interdepartmental abatement team, and increased trash removal. Using the implementation activities in the draft Bacteria Tactical Plan as a basis, the City is negotiating with the RWQCB as a pathway to demonstrate the commitment in meeting the Bacteria TMDL requirements in the next Municipal Permit reissuance in Fiscal Year 2022. The City is also developing a strategy to implement the San Diego River Investigative Order (listed earlier) and use those results to consider whether amendments to the Bacteria TMDL, contingent on RWQCB approval, are warranted which may reduce the City's estimates of funding needs. If the RWQCB does not accept any of the compliance options currently being negotiated, it is expected that they will take some type of action against the City for non-compliance with the final dry weather regulatory deadline (April 2021); including but not limited to a Time Schedule Order, a Notice of Violation, and/or monetary penalties.

The City is listed as a responsible party regarding the sedimentation of Los Peñasquitos Lagoon. This TMDL was adopted by the State in July 2014. The TMDL included requirements for sediment reductions in the Los Peñasquitos Watershed and the establishment of 84 acres of new salt marsh habitat in the Los Peñasquitos Lagoon by July 2034. There is no measurable pollution remediation that can be identified. The City has initiated Phase I of this required restoration, which involves sediment and freshwater management, as well as a pilot salt marsh restoration component that will result in approximately 23 acres of restoration. Phase I is estimated to be completed in 2026. The estimated cost for Phase I is approximately \$36 million, which will be borne by the responsible parties named in this TMDL. A cost sharing agreement is currently being negotiated and the City's portion of the costs has not yet been finalized. Phase II of the restoration will be designed based on the results of various restoration techniques implemented during Phase I and will result in the restoration of the remaining acres required; however, any estimated costs cannot be reasonably determined at this time pending the development of the final concept design for Phase II.

The City developed improvement plans composed of operational activities and capital improvement projects to comply with these regulations. In October 2020, the City updated its Watershed Asset Management Plan to reflect updated costs for compliance implementation and flood risk management costs. For the period

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

The City is currently developing “*Climate Resilient SD*,” a comprehensive climate adaptation and resiliency plan to address the risks identified in the vulnerability assessments as well as build City capacity to respond to and recover from climate change related impacts. The City-wide plan addresses both City assets as well as community resilience. The plan will meet the legislative requirements of Senate Bill 379, which requires that cities and counties include a set of adaptation and resilience goals, policies, and implementation. In addition, the adaptation goals and strategies will address the vulnerabilities identified in the assessments and focus on actions that can increase the overall resilience of the communities. The City anticipates completing Climate Resilient SD by the end of 2021.

City’s Sustainability Programs. The City has several programs to address the sustainability goals and the CAP. The City made many pedestrian and bicycle infrastructure improvements such as constructing new sidewalks, improving sidewalks, adding bike lanes, and roundabouts as well as increasing the urban tree canopy by planting 1,634 trees. The City has a variety of fleet electrification programs. As of 2019, 65% of the City’s waste collection trucks are powered by compressed natural gas. The City has 57 electric vehicle charging stations at 15 locations.

The City is engaged in a phased multi-year water reuse program titled the “Pure Water Program” that is expected to provide a safe, secure, and sustainable local drinking water supply for San Diego. Advanced water purification technology will be used to produce potable water from advanced primary treated wastewater. The completion of Pure Water Program Phase 1 projects are expected to be completed in 2025 and produce 30 million gallons per day of purified water for the City residents.

Carbon Disclosure Project (“CDP”). Since 2012, the City has annually provided a report to CDP with the latest submittal made for 2020. The annual voluntary report provides information on the City’s goals to combat climate change including risk and vulnerability assessments, climate hazards, social impacts, and the vulnerable populations. The report also includes information on various related topics such as climate change and sustainability topics such as the City’s adaptation actions to reduce climate change risks, emissions data and goals, targets and goals for transportation projects, waste management projects and water supply management.

Climate Equity Index. The City’s CAP also addresses environmental justice and social equity concerns referred to as climate equity. The City’s Sustainability Department and the University of San Diego Energy Policy Initiatives Center created the Climate Equity Index (“CEI”) as a benchmark to this issue. The CEI establishes benchmarks and metrics to serve as a City-wide assessment of climate equity, by assessing census tracts that intersect with the City to calculate a score from 0-100. Based on the results of the assessment, recommendations are made by City staff to ensure the City is moving in the right direction to address climate equity when implementing the CAP and is considering the needs of all residents when planning for the City’s future. The average CEI score for the City was determined to be 61. Census tracts that scored below the average are considered to have less access to opportunity than the tracts that scored above the average. In total, 172 census tracts scored at or above the average, and 125 tracts scored below average with very low, low or moderate access to opportunity. In March 2021, the City Council approved the creation of the Climate Equity Fund (“CEF”), expected to be created and funded effective Fiscal Year 2022, to provide funding for building infrastructure for disadvantaged communities to be resilient and adapt to climate change.

The CEF would be funded annually through allocation of 1% of the total Gas Tax revenue, 1% of the total Transnet revenue, and 10% of the General Fund portion of the gas and electric franchise fee revenue. In Fiscal Year 2022, this funding is estimated at \$4.8 million.

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

Short-lived Climate Pollutants ("SLCP"): Organic Waste Methane Emissions Reductions. In September 2016, former Governor Brown signed Senate Bill 1383 ("SB 1383") into law which established methane emissions reduction targets in a State-wide effort to reduce emissions of SLCP in various sectors of California's economy. The law codifies the California Air Resources Board's Short-lived Climate Pollutant Reduction Strategy to achieve reductions in the State-wide emissions of short-lived climate pollutants. SB 1383 establishes targets of a 50 percent reduction in the level of the State-wide disposal of organic waste from the 2014 level by 2020 and a 75 percent reduction by 2025. By January 1, 2022, SB 1383 requires the City to have an adopted ordinance and enforcement mechanism for SB 1383. In addition, the City must implement the following: City-wide organics collection; establish an edible food recovery program; procure recovered organic waste products; track metrics and report to California's Department of Resources Recycling and Recovery (CalRecycle); and conduct education and outreach.

The City estimates up to \$120 million in expenditures over a period of approximately 5 years (Fiscal Year 2022 to Fiscal Year 2026) to comply with SB 1383 including upgrading facilities, equipment, and onboarding of new FTEs. Once implemented (Fiscal Year 2026) annual operational expenses of the program are estimated at \$22 million. Beginning January 1, 2022, the State can start enforcement upon jurisdictions. The City's Environmental Services Department expects to present the required ordinance to the City Council to approval in late fall of 2021.

Wildfires

The 2020 California fire season has seen over 8,300 wildfires that have burned over 4 million acres. The nature of wildfires is no longer typical, and California has experienced unprecedented fire growth and speed of spread. The increased fire activity State-wide draws resources away from the City's region. However, due to proactive measures and increased resources the City has been capably responding to local fires quickly to contain spread and significant losses while still providing support to neighboring regions and the State with firefighting and incident management efforts. Throughout the 2020 fire season (which certain observers view as the worst in California history) San Diego Fire-Rescue Department ("SDFD") deployed operational and overhead personnel to every major fire in the State. Resources were sent to notable incidents such as the "August Complex" (Northern California), "SCU Lightning Complex" (Central California) and the "Creek Fire" (Northern California) to assist as part of the State Mutual Aid System. The City's Fire-Rescue Department also entered into several agreements with surrounding fire agencies to ensure smooth coordination and appropriate cost sharing for incidents that cross jurisdictions. Despite an increase in activity (211 wildland fire starts in 2010 as compared to 408 starts in 2020), the City maintains an average containment of these fires to less than an acre (2010-2020 average acres of wildland fire containment 0.69 acre). The City has not lost a significant structure to wildland fire since 2007 (Witch Fire that started outside the City).

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 2021 State Budget

On June 29, 2020, the Governor signed into law the State budget for fiscal year 2020-21 (the “2021 State Budget”). The following information is drawn from the State Department of Finance’s summary of the 2021 State Budget

The 2021 State Budget acknowledges that the rapid onset of COVID-19 has had an immediate and severe impact on the State’s economy. The ensuing recession has caused significant job losses, precipitous drops in family and business income. The Governor’s May revision to the proposed State budget for Fiscal Year 2021 forecast included a peak unemployment rate of 24.5% in the second quarter of 2020 and a decline in personal income of nearly 9%. The 2020-21 State Budget reports that the official unemployment rate exceeded 16% in both April and May of 2020.

The 2021 State Budget includes a number of measures intended to address a projected deficit of \$54.3 billion ~~and that is~~ driven primarily by declines in the State’s three main tax revenues (personal income, sales and use and corporate, as discussed above). The measures included in the 2021 State Budget, and described below, are intended to close this deficit and set aside \$2.6 billion in the State’s traditional State General Fund reserve, including \$716 million for the State to respond to the changing conditions of the COVID-19 pandemic:

- *Drawdown of Reserves* – The 2021 State Budget draws down \$8.8 billion in total State reserves, including \$7.8 billion from the State’s Budget Stabilization Account (“BSA”), \$450 million from the Safety Net Reserve and all money in the Public School System Stabilization Account (“PSSSA”).
- *Triggers* – The 2021 State Budget includes \$11.1 billion in reductions and deferrals that would be restored if at least \$14 billion in federal funds are received by October 15, 2020. If the State receives less than this amount, reductions and deferrals would be partially restored. The triggers include \$6.6 billion in deferred spending on education, \$970 million in funding for the California State University and University of California systems, \$2.8 billion in State employee compensation and \$150 million for courts, as well as funding for various other State programs. The triggers would also fund an additional \$250 million for county programs to backfill revenue losses.

and mental health services, \$50.1 billion in business and transportation support, and \$10.1 billion for education. The Governor's May revision to the Proposed 2022 State Budget will include a revised revenue forecast that will reflect this federal assistance. The Proposed 2022 State Budget also acknowledges that further federal relief will be critical to assisting individuals and businesses survive and recover from the pandemic.

For State Fiscal Year 2021, the Proposed 2022 State Budget projects total State General Fund revenues and transfers of \$168.1 billion and expenditures of \$156 billion. The State is projected to end the State Fiscal Year 2021 with total available State General Fund reserves of approximately \$22.7 billion, including \$9 billion in the traditional State reserve, \$12.5 billion in the BSA, \$747 million in the PSSSA and \$450 million in the Safety Net Reserve Fund. For State Fiscal Year 2022, the Proposed 2022 State Budget projects total State General Fund revenues and transfers of \$170.6 billion and authorizes expenditures of \$164.5 billion. The State is projected to end State Fiscal Year 2022 with total available State General Fund reserves of approximately \$22 billion, including \$2.9 billion in the traditional State General Fund reserve, \$15.6 billion in the BSA, \$3 billion in the PSSSA and \$450 million in the Safety Net Reserve Fund.

In recognition of the need to address the various impacts of the COVID-19 pandemic, the Proposed 2022 State Budget includes a package of measures intended to be implemented through legislative action earlier than the traditional State budget timeline. For immediate action in January, this package includes \$3 billion in direct support for workers and small businesses and \$2 billion to support the re-opening of K-12 schools. For early action in the spring, the package includes \$4.7 billion in instructional support for K-14 school districts, \$973 million in jobs and workforce training, \$561 million in environmental sustainability measures and \$262 million in housing and homelessness-related measures.

There can be no assurance that additional legislation will not be enacted in the future to implement provisions relating to the State budget, address the COVID-19 pandemic or otherwise that may affect the City or its General Fund revenues.

The State expects to receive approximately \$26 billion of federal funds under the Rescue Act. If received, the use of such funds will be subject to negotiations between the Governor and the State legislature during the process for developing the State's Fiscal Year 2022 budget.

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 sets forth the City's six recognized employee organizations (REOs) which represent City employees and the number of budgeted positions by each organization. The City also employs a number of employees in the classified service and the unclassified service who are unrepresented. The Fiscal Year 2021 Budget included 1,014 unrepresented positions, excluding elected officials.

select the current \$9,956 (Waiver) and \$10,956 (Employee Only) and receive the current cash-back allotment. For new hired employees (hired on or after July 1, 2020), if the employee selects the Waiver option they can receive \$1,000 cash-back option if the employee can provide proof of a qualifying medical coverage outside of the City's Flexible Benefit Plan. If the employee is unable to show qualifying medical coverage they are not eligible for the \$1,000 cash-back. The City is currently in Fiscal Year 2022 contract negotiations with Local 127 for a successor MOU.

POA: The City is currently negotiating in good faith with POA on the successor MOU for Fiscal Year 2021 and as such their organization does not currently have a new contract in place for Fiscal Year 2021. These negotiations will not conclude until the parties are able to reach agreement and the Council approves the successor MOUs. Upon expiration of the current MOU, the City is legally required to maintain the status quo on items involving terms and conditions of employment until the parties negotiate an agreement or exhaust impasse procedures. The City continues to endeavor to reach agreement with POA on a successor MOU for Fiscal Year 2021. In addition, the City is also in Fiscal Year 2022 contract negotiations with POA for a successor MOU.

IAFF Local 145: For Fiscal Year 2021, IAFF Local 145 has a one year MOU with no general salary increases but with increases to the Flexible Benefits Plan for the Employee + tiers (i.e. Employee + Spouse/Domestic Partner; Employee + Children; and Employee + Family (Spouse/Domestic Partner/Children)) ranging from an increase of \$1,547 to \$2,653. If an employee selects one of the Employee + tiers they are not eligible for any cash-back after selecting their applicable plan. However, if an existing employee (hired before July 1, 2020) selects Waiver or Employee Only medical coverage the employee can select the current \$1,750 (Waiver) and \$9,830 (Employee Only) and receive the current cash-back allotment. For new hired employees (hired on or after July 1, 2020), if the employee selects the Waiver option they can receive \$1,000 cash-back option if the employee can provide proof of a qualifying medical coverage outside of the City's Flexible Benefit Plan. If the employee is unable to show qualifying medical coverage they are not eligible for the \$1,000 cash-back. The City is currently in Fiscal Year 2022 contract negotiations with Local 145 for a successor MOU.

Teamsters Local 911: The City is currently negotiating in good faith with Teamsters Local 911 on the successor MOU for Fiscal Year 2021 and as such their organization does not currently have a new contract in place as for Fiscal Year 2021. These negotiations will not conclude until the parties are able to reach agreement and the Council approves the successor MOUs. Upon expiration of the current MOU, the City is legally required to maintain the status quo on items involving terms and conditions of employment until the parties negotiate an agreement or exhaust impasse procedures. The City continues to endeavor to reach agreement with Teamsters Local 911 on a successor MOU for Fiscal Year 2021. In addition, the City is also in Fiscal Year 2022 contract negotiations with Local 911 for a successor MOU.

DCAA: For Fiscal Year 2021, DCAA has a one year MOU with no general salary increases but with increases to the Flexible Benefits Plan for the Employee + tiers (i.e. Employee + Spouse/Domestic Partner; Employee + Children; and Employee + Family (Spouse/Domestic Partner/Children)) ranging from an increase of \$82 to \$6,579. If an employee selects one of the Employee + tiers they are not eligible for any cash-back after selecting their applicable plan. However, if an existing employee (hired before July 1, 2020) selects Waiver or Employee Only medical coverage the employee can select the current \$9,942 (Waiver) and \$13,643 (Employee Only) and receive the current cash-back allotment. For new hired employees (hired on or after July 1, 2020), if the employee selects the Waiver option they can receive \$1,000 cash-back option if the employee can provide proof of a qualifying medical coverage outside of the City's Flexible Benefit Plan. If the employee is unable to show qualifying medical coverage they are not eligible for the \$1,000 cash-back. The City is currently in Fiscal Year 2022 contract negotiations with DCAA for a successor MOU.

SAN DIEGO CITY EMPLOYEES' RETIREMENT SYSTEM

The City has an unfunded pension liability of approximately \$3.34 billion and an ADC of \$414.9 million as of June 30, 2020. ~~The~~ Based on the Fiscal Year 2020 Actuarial Valuation, the ADC is projected to remain ~~relatively stable until~~ at current levels through Fiscal Year 2028, with payments decreasing by approximately \$80 million from Fiscal Years 2029 through 2039. Payments are projected to decrease again in Fiscal Years 2040 and 2041 when the Unfunded Actuarial Liability ("UAL") is fully paid, which is expected to occur in Fiscal Year 2041. ~~be fully paid.~~ 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.

Defined Benefit Plan

General. The City has a defined benefit pension plan (the "Pension Plan") and various defined contribution pension plans covering substantially all of its employees. See "OTHER RETIREMENT PLANS" below.

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 was closed to most new City employees, except for the Police plan, which remained 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 2020 CAFR. SDCERS also prepares its own Comprehensive Annual Financial Report, the most recent of which is for Fiscal Year 2020.

The amounts and percentages set forth under this caption relating to SDCERS, including, for example, actuarial liabilities and funded ratios, are based upon numerous demographic and economic assumptions, including investment return rates, inflation rates, salary increase rates, cost of living adjustments, postemployment mortality, active member mortality, and rates of retirement. Prospective purchasers of the 2021 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 2021 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 2021 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 July 1, 2020**

	<u>General</u>	<u>Safety</u>	<u>Total by Classification</u>
Active Members	3,319	2,216	5,535
Deferred Vested	2,219	679	2,898
Retirees	5,872	3,641	9,513
DROP Participants ⁽¹⁾	<u>637</u>	<u>259</u>	<u>896</u>
Total Members, as of July 1, 2020	12,047	6,795	18,842

⁽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: Cheiron Actuarial Valuation Report as of June 30, 2020.

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 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 2020 Actuarial Valuation. The 2020 Actuarial Valuation serves as the basis for the City’s pension contribution for Fiscal Year 2022. 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.

Proposition B and its Current Status. On June 5, 2012, City voters approved Proposition B, a pension reform initiative amending the Charter. As a result, subject to the outcome of the litigation discussed below, most employees hired on or after July 20, 2012, other than sworn police officers, are no longer eligible to participate in the City’s defined benefit plan and are only eligible to participate in a defined contribution plan.

In December 2015, the Public Employment Relations Board (“PERB”) issued a decision (the “PERB Order”) in an Unfair Practice Charge (“UPC”) filed by certain REOs, ruling that the City had violated the Meyers-Milias-Brown Act (“MMBA”) when it failed to meet and confer with the REOs over the language of Proposition B prior to placing it on the June 2012 ballot.

Between January 2016 and January 2021, the matter was adjudicated at the California Superior Court, California Appellate Court and California Supreme Court levels. On January 5, 2021, the California Superior Court, in a quo warranto proceeding, ruled that Proposition B is invalid. The impacts from this ruling on the Pension Plan are unknown at this time. See “LITIGATION POTENTIALLY ADVERSELY AFFECTING THE GENERAL FUND.

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 actuarial liability (“UAL”)~~ UAL, and the expected administrative expenses. The normal cost (associated with active employees only) is the present value of the benefits that

Supplemental Pension Savings Plan

Pursuant to the City's withdrawal from the Federal Social Security System effective January 8, 1982, the City established the Supplemental Pension Savings Plan ("SPSP"). Pursuant to the Federal Government's mandate of a Social Security Medicare tax for all employees not covered by Social Security hired on or after April 1, 1986, the City established the Supplemental Pension Savings Plan-Medicare ("SPSP-M"). The SPSP and SPSP-M were merged into a single plan, the SPSP, on November 12, 2004 for administrative simplification, without a change in benefits. Pursuant to the requirements of the Omnibus Budget Reconciliation Act of 1990 requiring employee coverage under a retirement system in lieu of coverage under the Federal Insurance Contributions Act effective July 1, 1991, the City Council established the Supplemental Pension Savings Plan-Hourly ("SPSP-H"). These supplemental plans are defined contribution plans administered by Wells Fargo to provide retirement benefits for eligible employees. The City Council can amend any provisions of the plans that are not part of any employee's vested retirement benefit. If the City amends any non-legally mandated provisions, it must first comply with procedural requirements, including collective bargaining under the MMBA and for the SPSP plan, after approval by a simple majority vote of all active members. There are no plan members who belong to an entity other than the City. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings, less investment losses. The City's general members, lifeguard members and elected officers participate in the plan. Eligible employees may participate from the date of employment; however, the SPSP plan was closed to general and lifeguard members hired on or after July 1, 2009 and January 1, 2011, respectively. As of June 30, 2020, there were 5,923 participants in the SPSP Plan and 9,020 participants in the SPSP-H plan.

The SPSP requires that both the employee and the City contribute an amount equal to 3% of the employee's total salary each pay period. Participants in the plan hired before July 1, 1986 may voluntarily contribute up to an additional 4.5% and participants hired on or after July 1, 1986 may voluntarily contribute up to an additional 3.05% of total salary, with the City matching each. Hourly employees contribute 3.75% on a mandatory basis, which is matched by City contributions except for employees represented by the MEA and the Teamsters Local 911 (for MEA and Teamsters Local 911 hourly employees, the City contribution is 6%). Under the SPSP, the City's contributions for each employee (and interest allocated to the employee's account) are fully vested after five years of continuous service at a rate of 20% for each year of service. Hourly employees are immediately 100% vested. The unvested portion of City contributions and interest forfeited by employees who leave employment before five years of service are used to reduce the City's SPSP cost.

401(a) Plan Under Proposition B

Proposition B amended the City Charter to provide all new City employees initially hired on or after July 20, 2012, except sworn police officers, with a 401(a) plan that is administered along with SPSP but with different contribution rates, vesting periods and employer match. Non-public safety employees contribute an amount equal to 9.2% of salary, and firefighters, lifeguards, and police recruits contribute 11% of salary (including overtime) on a mandatory basis. The City matches all such contributions and contributions are fully vested immediately upon employment. Police recruits participate in SDCERS upon acceptance of full-time police employment. Due to ongoing litigation regarding Proposition B, the City has not established a new 401(a) plan for eligible employees. Instead, the City has contributed funds to SPSP-H, an existing 401(a) plan, to eligible employees in accordance with the SPSP-H plan provisions. The City will continue to contribute funds for such employees through the SPSP-H, pending resolution of Proposition B litigation and negotiation. See "LITIGATION POTENTIALLY ADVERSELY AFFECTING THE GENERAL FUND. In Fiscal Year 2020, the City and the covered ~~roughly 4,000 City~~ employees ~~who~~ contributed \$42.0 million and \$39.4 million, respectively, including contributions made under the 401(a) Plan under Proposition B. As of June 30, 2020, the plan fiduciary net position totaled \$928.9 million. SPSP, which includes SPSP-H, is not considered part of the City's financial reporting entity.

language governs situations when the City acts to "authorize the issuance of revenue bonds." The City's supplemental brief argued that (a) Section 90.1 only applies to bonds repaid with water and sewer ratepayer funds; (b) Section 90.1 only applies to revenue bonds issued by and in the name of the City, not bonds issued by the Authority; and (c) Section 90.1 applies only to revenue bonds and not lease revenue bonds issued by the Authority pursuant to the Act. The Court of Appeal held will hold oral arguments on April 15, 2021, and is expected to provide its ruling within ~~the next 90~~ days following the hearing.

LITIGATION POTENTIALLY ADVERSELY AFFECTING THE GENERAL FUND

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. In Fiscal Year 2020, a total of 1,711 claims were filed against the City, of which 1,467 were related to the General Fund. Of the 1,467 General Fund claims received in Fiscal Year 2020, 14% resulted in a settlement or judgement payment. Most of these claims were eligible to be covered by the City's insurance but the amount of each such claim did not exceed the City's self-insured retention or deductible, so the City's insurance coverage was not utilized. Further, all of the payments for claims in Fiscal Year 2020 were made from the City's Public Liability Fund (which is an Operating Fund) without the need to draw on the Public Liability Fund Reserve. See "RISK MANAGEMENT—Self Insurance—*Public Liability Insurance*" and "CITY BUDGET AND RELATED MATTERS—Reserves—*Risk Management Reserves*."

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 to the City's General Fund (after giving effect to amounts that the City would expect to be covered by insurance) 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 Note 18 of the City's CAFR for Fiscal Year 2020 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.

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 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 has collected approximately \$225 million during the relevant time-period and the

The City believes that it has a number of defenses to the Ash Complainants' claims including, but not limited to, (1) the action by and on behalf of the Ash Complainants who are City employees is barred because civil suits for workplace-related injuries must be pursued through the worker's compensation system, and (2) the relevant testing results demonstrate that the levels at which the asbestos fibers were present in 101 Ash failed to rise to the level that would increase the Ash Complainants' risk of developing disease. Further, the City may pursue cross-complaints against the general contractor and the asbestos abatement subcontractor(s) performing work at 101 Ash because they may be liable to the Ash Complainants who have worked in the building or to the City under California law.

While the City believes it has defenses to the claims, should the Ash Complainants prevail the potential liability to the City could be significant and could have an adverse impact on the City's financial condition. Further additional claims of injury resulting from alleged asbestos exposure at 101 Ash are possible.

City as Plaintiff. The City is not presently able to occupy 101 Ash. As of September 1, 2020, the City ceased making monthly rent payments of \$534,726.50 until the City can occupy 101 Ash. A notice to such effect was voluntarily filed on September 1, 2020 by the City on the Municipal Securities Rulemaking Board's Electronic Municipal Market Access System maintained on the Internet at <http://emma.msrb.org/>. On November 10, 2020, the City received a Continuing Reservation of Rights and Notice of Default sent on behalf of Wilmington Trust, National Association ("Wilmington Trust," the trustee for the holders of securities secured by lease payments related to 101 Ash).

The City has filed a declaratory relief action against 101 Ash, LLC and Wilmington Trust seeking a judicial declaration that under the terms of the lease for 101 Ash the City is entitled to rent abatement (i) during the period that it cannot occupy or use such building as a result of asbestos contamination, and (ii) as a result of the issuance of a Public Nuisance Violation by the County Air Pollution Control District. In the alternative, the City contends that if the lease agreement related to 101 Ash were interpreted to require the City to pay rent while it cannot occupy the premises, there is no consideration and therefore no contractual obligation. The City further contends that if such lease agreement were interpreted to require the City to pay rent, it would violate the California Constitution's debt limitation provision which prohibits the City from entering into a long-term lease unless the terms include customary commercial terms such as a provision that requires abatement of rent if the City cannot occupy the premises.

The lease for 101 Ash includes certain provisions that obligate the City to repair and maintain the leased premises. Depending upon the outcome of the litigation, the City may be required to make a number of capital improvements to the leased premises. The cost of these capital improvements is unknown, but could be significant.

101 Ash is not part of the Leased Property under the Lease and does not secure the debt service on any other loans, bonds or other instruments issued by or on behalf of the City.

Proposition B and its Current Status

On June 5, 2012, City voters approved Proposition B, a pension reform initiative amending the Charter. As a result, most employees hired on or after July 20, 2012, other than sworn police officers, are no longer eligible to participate in the City's defined benefit plan and are only eligible to participate in a defined contribution plan (subject to appellate court ruling as discussed below).

In December 2015, the Public Employment Relations Board ("PERB") issued a decision (the "PERB Order") in an Unfair Practice Charge ("UPC") filed by certain Recognized Employee Organizations (REOs), ruling that the City had violated the MMBA when it failed to meet and confer with the REOs over the language of Proposition B prior to placing it on the June 2012 ballot.

Between January 2016 and March 2019, the matter was adjudicated at both the California Appellate Court and California Supreme Court levels. The California Supreme Court ultimately upheld PERB's determination of an MMBA violation and remanded the matter back to the Court of Appeal for further proceedings to determine the appropriate judicial remedy. The City sought review with the United States Supreme Court, however, it was denied.

On March 25, 2019, the Court of Appeal affirmed the PERB Order with the following modifications (the "Modified PERB Order"): (1) The City must meet and confer with the REOs over the effects of Proposition B; (2) For the time period that ends with the completion of the bargaining process (including the exhaustion of impasse measures, if an impasse occurs), the City must pay the affected current and former employees represented by the REOs the difference, plus seven percent annual interest between the compensation (including retirement benefits) the employees would have received prior to when Proposition B took effect and the compensation those employees received after Proposition B took effect (the "Make-Whole Provision"); and (3) The City must meet and confer at the REOs' request and is precluded from placing a charter amendment on the ballot that is advanced by the City that affects employee pension benefits and/or other negotiable subjects until the bargaining process is complete.

The REOs requested that the Court of Appeal invalidate Proposition B, however, the court declined to do so, concluding that the question of Proposition B's validity would be more appropriately decided in a separate *quo warranto* proceeding. In June 2019, the City Council directed the City Attorney's Office to "take appropriate and affirmative action to invalidate Proposition B, which would include working with the [REOs]." On June 25, 2019, the REOs served the California Attorney General with an Application for Leave to Sue in *quo warranto*. The Attorney General granted the REOs Leave to Sue and on September 27, 2019, the REOs filed their complaint in Superior Court. The City answered the REO's complaint agreeing invalidation was appropriate. The REOs and other unions stipulated to the proponents of Proposition B entering the case as defendants-in-intervention. On January 5, 2021, the Court conducted a one-day virtual bench trial at the request of all parties following the Court's ruling issued on December 18, 2020, denying, without prejudice, the parties' dueling motions for summary judgement. At the conclusion of the trial the court ruled that Proposition B is invalid and awarded costs to the REOs and the City. Notice of Entry of Judgement was served on the proponents on February 8, ~~2021 and the deadline for the proponents to file a notice of appeal is April 9, 2021.~~ The City can make no assurances as to whether the Proponents will file an appeal, or if any other party may attempt to allege standing. If the judgement is appealed, it could take until 2024 before there is final resolution of Proposition B's validity if the *quo warranto* action is ultimately reviewed by the California Supreme Court.

Neither PERB nor the Appellate Court clearly defined how the value of the benefits under the Make-Whole Provision should be calculated; meaning the ultimate cost to the City, if any, will likely be the subject of negotiations between the City and the REOs. The City's preliminary analysis and work performed by SDCERS' actuary has provided a preliminary understanding of what disparity exists between the benefits provided under Proposition B versus what employees would have otherwise received under the City's defined benefit plan. That preliminary analysis identified several assumptions that would be the subject of negotiations between the City and REOs including, but not limited to, the investment rate of return, the discount rate, and how interest earnings are calculated. Any one of these assumptions could significantly alter the estimated one-time and ongoing costs to the City and such costs could be material. A further consideration in implementing any compensatory remedy is compliance with federal tax laws and regulations, which may also restrict the remedies available through labor negotiations. Accordingly, it would not be meaningful or informative for the City to provide any such preliminary cost estimates at this time.

TABLE A-16
CITY OF SAN DIEGO
STATEMENT OF DIRECT AND OVERLAPPING BONDED DEBT
As of June 30, 2020
(in thousands, except for percentages)
(unaudited)

	<i>Total Debt</i> <i>6/30/20</i>	<i>% Appllicable⁽¹⁾</i>	<i>City's Share of</i> <i>Debt 6/30/20</i>
<u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u>			
Metropolitan Water District	\$ 37,300	8.551%	\$ 3,189
Palomar Community College District	610,658	23.574	143,956
San Diego Community College District	1,321,653	99.937	1,320,821
Poway Unified School District School Facilities Improvement District Nos. 2002-1 and 2007-1	301,542	55.418 & 56.124	168,317
San Diego Unified School District	3,827,677	99.940	3,825,380
San Dieguito Union High School District	347,365	34.038	118,236
San Ysidro School District	115,873	84.712	98,158
Other School, High School and Community College Districts	2,556,759	Various	292,371
Grossmont Healthcare District	254,648	8.016	20,413
Palomar Pomerado Health System	422,024	27.999	118,163
City of San Diego Special Assessment/Special Tax Bonds ⁽²⁾	74,815	100.000	74,815
Del Mar Unified School District Community Facilities District No. 99-1 & 95-1	52,615	100.000	52,615
North City West School District Community Facilities District	40,268	100.000	40,267
Poway Unified School District Community Facilities Districts	311,791	100.000	311,791
San Dieguito Union High School District Community Facilities Districts	66,470	81.063-100.000	61,031
Sweetwater Union High School District Community Facilities Districts	9,216	8.935-100.000	6,875
Solana Beach School District Community Facilities Districts	29,475	100.000	29,475
Other Special District 1915 Act Bonds	51,229	Various	42,615
TOTAL NET DIRECT OVERLAPPING TAX AND ASSESSMENT DEBT			<u>\$ 6,728,489</u>
<u>DIRECT AND OVERLAPPING DEBT:</u>			
San Diego County General Fund Obligations	\$ 231,350	47.554%	\$ 110,016
San Diego County Pension Obligation Bonds	456,040	47.554	216,865
San Diego Superintendent of Schools Certificates of Participation	9,350	47.554	4,446
Poway Unified School District Certificates of Participation	55,650	65.002	36,174
Sweetwater Union High School District Certificates of Participation	38,060	19.586	7,454
Chula Vista School District General Fund Obligations	152,895	5.118	7,825
San Ysidro School District Certificates of Participation	51,845	84.712	43,919
Other School, High School and Community College District Certificates of Participation	122,068	Various	5,147
City of San Diego Obligations ⁽³⁾	879,626	100.000	879,626
TOTAL NET DIRECT AND OVERLAPPING DEBT			<u>\$ 1,311,472</u>
OVERLAPPING TAX INCREMENT DEBT (Successor Agencies):	\$ 363,422	0.816-100%	\$
			<u>364,066</u>
TOTAL DIRECT DEBT			\$ 879,626
TOTAL GROSS OVERLAPPING DEBT			\$ 7,494,766
GROSS COMBINED TOTAL DEBT⁽⁴⁾			\$ 8,374,392

⁽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 2020 CAFR, Total Special Assessment/Special Tax Bonds.

⁽³⁾ Amounts for Total Debt reconcile to Note 5 in the Fiscal Year 2020 CAFR and include Capital Lease Obligations, QECB Lease Obligations, Loans Payable, Section 108 Loans Payable, General Fund CP Notes, Lease Revenue Bonds and Tobacco Settlement Bonds. Excludes I-Bank Loan to SDCCC and the City as co-lessees.

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

Source: Fiscal Year 2020 Comprehensive Annual Financial Report, 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

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 is historical in nature and speaks only as of the dates indicated. 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. In particular, certain of the information provided in this Appendix B predates the COVID-19 pandemic. See "INTRODUCTION—COVID-19 RELATED IMPACTS ON THE CITYRelated Impacts on the City" and "CERTAIN RISK FACTORS — Impacts and Potential Impacts of ~~Coronavirus~~ COVID-19 on the City" in the forepart of this Official Statement and APPENDIX A—"COVID-19" and "CITY BUDGET AND RELATED MATTERS." The 2021 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 1,430,489 as of January 1, 2020 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 2010 through 2020. The City's population increased by approximately 9.90% between 2010 and 2020, with an average annual increase of approximately 12,887.

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Tourism

The following Table B-5 sets forth total visitor spending in the County for the calendar years ~~2015~~2016 through ~~2019 and through September for calendar year~~ 2020.

**TABLE B-5
COUNTY OF SAN DIEGO
TOTAL VISITOR SPENDING
Calendar Years ~~2015~~2016 through ~~2019, and September~~ 2020
(In Millions)**

<i>Calendar Year</i>	<i>Amount</i>
2015	— \$9,921
2016	<u>\$10,402</u>
2017	10,828
2018	11,490
2019	11,643
2020 ⁽⁴⁾	<u>4,021</u> <u>5,163</u>

⁽⁴⁾ ~~Preliminary information as of September 2020.~~

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 2016 through 2020. See APPENDIX A – “CITY GOVERNMENT AND FINANCIAL INFORMATION – CITY BUDGET AND RELATED MATTERS – Major Revenue Sources” for a discussion of the City’s transient occupancy tax.

**TABLE B-6
CITY OF SAN DIEGO
TRANSIENT OCCUPANCY TAX⁽¹⁾
Fiscal Years 2016 through 2020
(in thousands)**

<i>Fiscal Year</i>	<i>Amount</i>
2016	\$200,612
2017	222,228
2018	231,863
2019	250,883
2020	181,181

⁽¹⁾ Includes both the General Fund portion of the transient occupancy tax (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 2020 Comprehensive Annual Financial Report, 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 2020, 64.8% of hotel rooms in the County were located within the City. For calendar year 2020, the San Diego Tourism Authority

Property Value and Construction

Total issued building permits and permit valuation (residential and non-residential) are used as indicators of overall construction activity. In Fiscal Year ~~2019,2020~~, construction permits valuation ~~decreased~~increased by ~~23.336.5%~~, or ~~\$676227~~ million, from Fiscal Year ~~2018,2019~~. Through the first ~~three~~two quarters of Fiscal Year ~~2020,2021~~, there were ~~2,937,1,959~~ building permits issued for residential units with an estimated total value of ~~\$707 million, as compared to 1,162 building permits issued with an estimated total value of \$301 million through the same period in Fiscal Year 2019,591 million.~~

With respect to non-residential construction, through the first ~~three~~two quarters of Fiscal Year ~~2020,2021~~, there were ~~11851~~ building permits issued with an estimated total value of ~~\$1.2 billion, as compared to 80 building permits issued with an estimated total value of \$1.1 billion through the same period in Fiscal Year 2019,743 million.~~

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 ~~20152016~~ through ~~2019,2020~~.

TABLE B-9
CITY OF SAN DIEGO
Assessed Value and Construction Permit Valuation
Fiscal Years ~~20152016~~ through ~~20192020~~
(\$ in thousands)
(unaudited)

Fiscal Year	Residential ⁽¹⁾		Non-Residential ⁽²⁾		Total Permit Assessed Value Estimate ⁽³⁾
	Dwelling Units	Assessed Value ⁽³⁾	Permits	Assessed Value ⁽³⁾	
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
2018	5,546	1,296,929	187	1,607,466	2,904,395
2019	2,532	620,970	112	1,607,675	2,228,645
<u>2020</u>	<u>3,757</u>	<u>847,817</u>	<u>143</u>	<u>1,692,770</u>	<u>2,540,587</u>

(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.

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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 2021A.

Approving Authority	Approver	Approval Date
OFFICE OF THE CITY ATTORNEY DEPARTMENT APPROVER	JORDAN, JEAN	02/25/2021