



The City of San Diego

Staff Report

DATE ISSUED: 3/1/2023

TO: Public Facilities Financing Authority

FROM: Office of the City Attorney

**SUBJECT: Approval of the Form and Authorization of the Distribution of the Preliminary Official Statement and Authorization of 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 2023A Lease Revenue Bonds.**

Primary Contact: Bret A. Bartolotta Phone: (619) 533-5894

Council District(s): Citywide

OVERVIEW:

This resolution will authorize the form of Preliminary Official Statement (POS) and Official Statement (OS) and other actions in connection with the Public Facilities Financing Authority of the City of San Diego's (Authority's) issuance and sale of its 2023A Lease Revenue Bonds (Bonds) in an amount not to exceed \$175,000,000 to repay the Authority's outstanding Lease Revenue Commercial Paper Notes, Series A (CP Notes) and finance the costs of the acquisition, design, construction, installation, improvement, replacement and equipping of certain capital improvement projects and the acquisition of certain equipment.

PROPOSED ACTIONS:

Approve the form and authorize the distribution of the POS for the Bonds and the execution, delivery, and distribution of the OS in connection with the Authority's issuance and sale of its Bonds.

DISCUSSION OF ITEM:

Please see Staff Report to City Council dated March 7, 2023, that is attached to the related City Council item.

Environmental Impact:

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

Previous City Council and/or Committee Actions:

On December 6, 2022, the Board of Commissioners of the Authority authorized the Authority's issuance and sale of its Bonds in an amount not to exceed \$175,000,000. By Ordinance Number O-21586 with a date of final passage of December 14, 2022, City Council approved same.

Bret A. Bartolotta  
Deputy General Counsel

PUBLIC FACILITIES FINANCING AUTHORITY  
OF THE CITY OF SAN DIEGO

RESOLUTION NUMBER FA-2023-1

ADOPTED ON MARCH 21, 2023

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 as of January 1, 2013 (the “Joint Powers Agreement”), which created and established the Public Facilities Financing Authority of the City of San Diego (the “Authority”), a California joint exercise of powers authority duly organized 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-21586 (the “Bond Ordinance”) requested the Authority to issue lease revenue bonds in one or more series (the “2023 Bonds”), in a total aggregate principal amount not to exceed \$175,000,000 to finance the costs of the acquisition, design, construction, installation, improvement, replacement and equipping of certain capital improvement projects, and the acquisition of certain equipment 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, which has been succeeded as trustee thereunder by Computershare Trust Company, National Association, 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 2023 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-2022-5 which authorized the issuance of the 2023 Bonds pursuant to the Indenture; and

WHEREAS, there has been presented to this meeting a proposed form of Preliminary Official Statement relating to the 2023 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 2023 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 (together, the “Authorized Signatories” and each, an “Authorized Signatory”) shall determine are necessary and desirable and 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 2023 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 are necessary and desirable and may 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 2023 Bonds is hereby authorized and approved. The Authorized Signatories are, and each of them acting alone is hereby authorized to certify on behalf of the Authority that the Preliminary Official Statement is deemed final as of its date, within the meaning of Rule 15c2-12 promulgated by the Securities and Exchange Commission (except for the omission of certain information as permitted by such Rule).

3. All actions heretofore taken by any Authorized Signatory or by any officers, employees or agents of the Authority with respect to: (i) the issuance, delivery, or sale of the 2023 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 of 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 2023 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 21<sup>st</sup> day of March 2023, by the following vote:

AYES: \_\_\_\_\_

NAYS: \_\_\_\_\_

ABSENT: \_\_\_\_\_

VACANT: \_\_\_\_\_

ABSTAIN: \_\_\_\_\_

PUBLIC FACILITIES FINANCING AUTHORITY  
OF THE CITY OF SAN DIEGO

\_\_\_\_\_

Chair, Board of Commissioners

Attest:

\_\_\_\_\_  
Secretary to Board of Commissioners

PRELIMINARY OFFICIAL STATEMENT DATED \_\_\_\_\_, 2023

NEW ISSUE — FULL BOOK-ENTRY-ONLY

Fitch: “—”  
S&P: “—”  
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 2023 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 2023 Bonds is exempt from State of California personal income tax. See the caption “TAX MATTERS” with respect to tax consequences relating to the 2023 Bonds, including with respect to the alternative minimum tax imposed on certain large corporations for tax years beginning after December 31, 2022.

§ \_\_\_\_\_\*  
**PUBLIC FACILITIES FINANCING AUTHORITY  
OF THE CITY OF SAN DIEGO  
LEASE REVENUE BONDS,  
SERIES 2023A  
(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 2023A (Capital Improvement Projects) (the “2023 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”), the Sixth Supplemental Indenture, dated as of April 1, 2021 (the “Sixth Supplemental Indenture”) and the Seventh Supplemental Indenture, dated as of April 1, 2023 (the “Seventh 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, the Sixth Supplemental Indenture and the Master Indenture, the “Indenture”), each by and between the Authority and Computershare Trust Company, National Association (the “Trustee”), as successor trustee thereunder to Wells Fargo Bank, National Association.

The 2023 Bonds are being issued to (i) repay 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 and the acquisition of certain equipment of The City of San Diego (the “City”) and (iii) pay costs of issuance incurred in connection with the issuance of the 2023 Bonds. See “PLAN OF FINANCE.”

The 2023 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 2023 Bonds will be made in book-entry form only, in the principal amount of \$5,000 or any multiple thereof. Interest on the 2023 Bonds will be payable on April 15 and October 15 of each year, commencing October 15, 2023. See “THE 2023 BONDS.”

The 2023 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 2023 Bonds are payable on a parity with nine 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 2023 Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2023 BONDS” and “CERTAIN RISK FACTORS.”

The 2023 Bonds are subject to optional, mandatory sinking fund, and special mandatory redemption, as more fully set forth herein. See “THE 2023 BONDS – Redemption Provisions.”

THE 2023 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 NOR THE TAXING POWER OF THE CITY NOR THE STATE OF CALIFORNIA ARE PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE 2023 BONDS. THE AUTHORITY HAS NO TAXING POWER. THE 2023 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 2023 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 2023 Bonds will be available for delivery through the facilities of DTC in book-entry form on or about April \_\_, 2023.

**RBC Capital Markets  
Siebert Williams Shank & Co., LLC**

**Raymond James**

**Academy 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: \_\_\_\_\_, 2023

MATURITY SCHEDULE

\$ \_\_\_\_\_<sup>\*</sup>  
**PUBLIC FACILITIES FINANCING AUTHORITY  
OF THE CITY OF SAN DIEGO  
LEASE REVENUE BONDS,  
SERIES 2023A  
(CAPITAL IMPROVEMENT PROJECTS)**  
**(BASE CUSIP NUMBER: 797299)<sup>†</sup>**

<i>Maturity Date (October 15)</i>	<i>Principal Amount</i>	<i>Interest Rate</i>	<i>Yield</i>	<i>Price</i>	<i>CUSIP<sup>†</sup></i>
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\$ \_\_\_\_\_ % Term Bond due October 15, 20\_\_ ; Yield: \_\_\_\_\_ ; Price: \_\_\_\_\_ ; CUSIP<sup>†</sup> \_\_\_\_\_

\$ \_\_\_\_\_ % Term Bond due October 15, 20\_\_ ; Yield: \_\_\_\_\_ ; Price: \_\_\_\_\_ ; CUSIP<sup>†</sup> \_\_\_\_\_

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<sup>\*</sup> Preliminary, subject to change.

<sup>†</sup> CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services (CGS), which is managed on behalf of the American Bankers Association by FactSet Research Systems, Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CGS database. CUSIP numbers have been assigned by an independent company not affiliated with the Authority or the City and are included solely for the convenience of the registered owners of the applicable 2023 Bonds. None of the City, the Authority, Bond Counsel, Disclosure Counsel, the Underwriters or the Municipal Advisor are responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the applicable 2023 Bonds or as included herein. The CUSIP number for a specific maturity is subject to being changed after the issuance of the 2023 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 2023 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>	Kent Lee	<i>(District 6)</i>
Stephen Whitburn	<i>(District 3)</i>	Raul Campillo	<i>(District 7)</i>
Monica Montgomery Steppe	<i>(District 4)</i>	Vivian Moreno	<i>(District 8)</i>
<i>City Council President Pro Tem</i>		Sean Elo-Rivera	<i>(District 9)</i>
		<i>City Council President</i>	

**CITY ATTORNEY**

Mara W. Elliott

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**CITY OFFICIALS**

Eric K. Dargan, *Chief Operating Officer*  
Matthew Vespi, *Chief Financial Officer*  
Elizabeth Correia, *City Treasurer*  
Andy Hanau, *City Auditor*  
Rolando Charvel, *Director of Department of Finance and City Comptroller*  
Charles Modica, *Independent Budget Analyst*  
Diana J.S. Fuentes, *Interim City Clerk*

**BOND COUNSEL AND DISCLOSURE COUNSEL**

Stradling Yocca Carlson & Rauth, a Professional Corporation

**MUNICIPAL ADVISOR**

KNN Public Finance, LLC

**TRUSTEE**

Computershare Trust Company, National Association

No dealer, broker, salesperson or other person has been authorized by the Authority or the City to give any information or to make any representations other than those contained herein, and if given or made, such other information or representation must not be relied upon as having been authorized by the Authority or the City. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the 2023 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 2023 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 2023 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.

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## OFFICIAL STATEMENT

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**PUBLIC FACILITIES FINANCING AUTHORITY  
OF THE CITY OF SAN DIEGO  
LEASE REVENUE BONDS,  
SERIES 2023A  
(CAPITAL IMPROVEMENT PROJECTS)**

### INTRODUCTION

*This Introduction contains only a brief summary of certain terms of the 2023 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 2023A (Capital Improvement Projects) (the “2023 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 2023 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 2023 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”), the Sixth Supplemental Indenture, dated as of April 1, 2021 (the “Sixth Supplemental Indenture”) and the Seventh Supplemental Indenture, dated April 1, 2023 (the “Seventh Supplemental Indenture” and, together with the Master Indenture, 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, the “Indenture”), each by and between the Authority and Computershare Trust Company, National Association (the “Trustee”), as successor trustee thereunder to Wells Fargo Bank, National Association.

The 2023 Bonds are being issued to (i) repay 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 and the acquisition of certain equipment of The City of San Diego (the “City”); and (iii) pay costs of issuance incurred in connection with the issuance of the 2023 Bonds. See “PLAN OF FINANCE.”

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\* Preliminary, subject to change.

Pursuant to the Master Indenture, the Authority previously issued nine series of Lease Revenue Bonds, which as of March 1, 2023 were outstanding in the aggregate principal amount of \$401,535,000 (the “Prior Bonds”). The Prior Bonds, the 2023 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 2023 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 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”), the Fifth Amendment to Site Lease, dated as of April 1, 2021 (the “Fifth Amendment to Site Lease”) and the Sixth Amendment to Site Lease, dated as of April 1, 2023 (the “Sixth 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, the Fourth Amendment to Site Lease and the Fifth Amendment to Site Lease, the “Site Lease”), each by and between the City and the Authority.

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”), the Sixth Amendment to Facilities Lease, dated as of April 1, 2021 (the “Sixth Amendment to Facilities Lease”) and the Seventh Amendment to Facilities Lease, dated April 1, 2023 (the “Seventh 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, the Fifth Amendment to Facilities Lease and the Sixth 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 and the Site Lease. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2023 BONDS — Substitution, Removal or Addition of Leased Property.”

The Leased Property consists of twenty separate sites, as described herein (collectively, the “Leased Property”) and, except for certain ground leases, the improvements thereon. Four 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 2023 BONDS — Fire and Extended Coverage Insurance,” “— Ground Lease Sites” and “CERTAIN RISK FACTORS — Limited Recourse on Default; Re-Letting of Leased Property.”

**MTS Property No Longer Part of Leased Property.** In 2013, the Authority issued a series of Prior Bonds to finance facilities of the San Diego Metropolitan Transit System (also known as the San Diego Metropolitan Transit Development Board) (“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 were fully paid on October 15, 2022, and the MTS Property has been released from the provisions of the Lease, and MTS Site Lease has terminated, in each case in accordance with the terms of those documents. As of October 15, 2022, the MTS Property was no longer part of the Leased Property under the Lease.

***Release of University of California San Diego Site From Leased Property.*** In connection with the issuance of the 2023 Bonds, a City-owned site that has been leased to the Regents of the University of California (and was one of the Ground Lease Sites) will be removed from the Site Lease and the Lease. Effective upon the issuance of the 2023 Bonds, such property will no longer be part of the Leased Property, and the Leased Property will consist of the twenty sites described herein (four of which are the Ground Lease Sites). See “SECURITY AND SOURCES OF PAYMENT FOR THE 2023 BONDS — Substitution, Removal or Addition of Leased Property.”

***Lease Payments.*** On or before each Lease Payment Date (occurring on April 10 and October 10 of each year, which is five days prior to each Interest Payment Date (as defined herein)) 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 2023 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 2023 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.

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 2023 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 2023 Bonds are secured under the Indenture solely by the Revenues (defined below) and other amounts pledged 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.

The Bonds, including the 2023 Bonds, are special, limited obligations of the Authority and do not constitute a debt, liability or obligation of the City, the State of California (the “State”) or any of its political subdivisions, and neither the faith and credit nor the taxing power of the City nor the State are pledged to the payment of the principal of, or interest on the 2023 Bonds. The Authority has no taxing power. The 2023 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.

There is no debt service reserve fund for the 2023 Bonds or any of the Prior 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 2023 BONDS – Additional Bonds.”

### **Bondholders’ Risks**

There are a number of risks associated with the purchase of the 2023 Bonds. See “APPENDIX A— “CITY GOVERNMENT AND FINANCIAL INFORMATION” and “CERTAIN RISK FACTORS” for a discussion of certain 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 2023) 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 Annual Comprehensive Financial Report for Fiscal Year 2022 (“ACFR”), which includes the City’s audited basic financial statements as of and for the Fiscal Year ended June 30, 2022. The ACFR is available through the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access system (“EMMA”) at <https://emma.msrb.org/P11697756.pdf>, and is incorporated by reference herein and constitutes a part of this Official Statement.

Brief descriptions of the 2023 Bonds, the Indenture, the Lease, the 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 Computershare Trust Company, National Association, 600 South 4<sup>th</sup> Street, 7<sup>th</sup> Floor, Minneapolis, Minnesota 55415; Corporate Trust Department, Phone: (667) 300-9344.

## THE 2023 BONDS

### General Terms

The 2023 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 2023 Bonds will be payable on April 15 and October 15 of each year, commencing October 15, 2023 (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 2023 Bonds. The 2023 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 2023 Bonds will not receive physical certificates representing their interest in the 2023 Bonds. So long as the 2023 Bonds are registered in the name of Cede & Co., as nominee of DTC, references herein to the Owners of the 2023 Bonds will mean Cede & Co., and will not mean the Beneficial Owners of the 2023 Bonds. Payments by the Trustee of the principal of and interest on the 2023 Bonds and any notice with respect to any 2023 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 2023 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 2023 Bonds maturing on or before October 15, 20\_\_ are not subject to optional redemption prior to their respective stated maturities. The 2023 Bonds maturing on or after October 15, 20\_\_ will 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 2023 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 certificate (and, if no specific order of redemption is designated by the City, *pro rata* among maturities in integral multiples of \$5,000).

***Mandatory Sinking Fund Redemption.*** The 2023 Bonds maturing on October 15, 20\_\_ (the “20\_\_ Term Bonds”) are also subject to mandatory redemption prior to their stated maturity, in part by lot, from sinking account payments derived from scheduled Base Rental Payments made by the City and deposited in the Series 2023A Bonds Sinking Account, on each sinking fund redemption date for the 20\_\_ 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:

<b><i>Sinking Fund Redemption Date (October 15, 20__)</i></b>	<b><i>Principal Amount to be Redeemed</i></b>
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\* Maturity date.

The 2023 Bonds maturing on October 15, 20\_\_ (the “20\_\_ Term Bonds” and together with the 20\_\_ Term Bonds, the “Term Bonds”) are also subject to mandatory redemption prior to their stated maturity, in part by lot, from sinking account payments derived from scheduled Base Rental Payments made by the City and deposited in the Series 2023A Bonds Sinking Account, on each sinking fund redemption date for the 20\_\_ 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:

<b><i>Sinking Fund Redemption Date (October 15, 20__)</i></b>	<b><i>Principal Amount to be Redeemed</i></b>
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\* 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 2023 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, plus interest accrued thereon to the date fixed for redemption, without premium.

***Selection for Redemption.*** If less than all of the 2023 Bonds of a particular maturity are to be redeemed, the Trustee will select the 2023 Bonds to be redeemed from all 2023 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 2023 Bond as consisting of separate \$5,000 portions and each such portion will be subject to redemption as if such portion were a separate 2023 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 2023 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 2023 Bonds.

Notice of redemption will be given by the Trustee, not less than 30 nor more than 60 days before any redemption date, to the respective Owners of any 2023 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 2023 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 2023 Bonds (or all 2023 Bonds of a single maturity) are to be redeemed, the CUSIP numbers and (in the event that not all 2023 Bonds within a maturity and series are called for redemption) bond numbers of the 2023 Bonds to be redeemed, the maturity or maturities of the 2023 Bonds to be redeemed and in the case of 2023 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 2023 Bonds the redemption price thereof, and that from and after such redemption date interest thereon will cease to accrue, and will require that such 2023 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 2023 Bonds, the notice of redemption will state that the redemption is conditioned upon receipt by the Trustee of sufficient moneys to redeem the 2023 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 2023 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 2023 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 2023 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 2023 Bonds called for optional redemption or for such lesser portion of such 2023 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 2023 Bonds called for optional redemption. Any such direction to the Trustee must: (i) be in writing; (ii) state either that all the 2023 Bonds called for redemption therein identified are to be purchased or, if less than all of the 2023 Bonds called for redemption are to be purchased, identify those 2023 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 2023 Bonds on the date which otherwise would be the redemption date of such 2023 Bonds. Any of the 2023 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 2023 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 2023 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 2023 Bonds on the scheduled redemption date for such redemption. To pay the purchase price of such 2023 Bonds, the Trustee will use money deposited by the City with the Trustee for such purpose. The Trustee will not purchase the 2023 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 in a written request 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 an agent 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 2023 Bonds to repay the principal portion of the Authority’s outstanding 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 Trust Company, 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 2023 Bonds, the Authority expects to transfer a portion of the proceeds of the 2023 Bonds, together with other available funds of the City, to U.S. Bank Trust Company, National Association, which will be sufficient to repay on or about the date of issuance of the 2023 Bonds, \$53.7 million principal amount of the Commercial Paper Notes and the interest accrued thereon, to the date of repayment.

The City also expects to apply a portion of the proceeds of the 2023 Bonds to finance the acquisition, design, construction, installation and equipping of various capital improvement projects and equipment 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 2023 Bonds and the proposed uses of the 2023 Bond proceeds are estimated to be in the amounts shown below.

	<i><b>TOTAL</b></i>
<b>SOURCES OF FUNDS</b>	
Principal Amount	\$
Plus [Net] Original Issue Premium	
Total Sources	<u>\$</u>
<b>USES OF FUNDS</b>	
Transfer to Issuing and Paying Agent for Commercial Paper Notes	\$
Deposit to Series 2023A Construction Fund	
Costs of Issuance <sup>(1)</sup>	
Total Uses	<u>\$</u>

<sup>(1)</sup> Includes fees and costs associated with the issuance of the 2023 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 2023 Bonds, assuming no optional or special mandatory redemptions.

<i>Date</i>	<i>Debt Service on Outstanding Prior Bonds<sup>(1)</sup></i>	<i>2023 Bonds</i>		<i>Aggregate Parity Debt Service<sup>(2)</sup></i>	<i>Fiscal Year Total</i>
		<i>Principal</i>	<i>Interest</i>		
4/15/2023	\$9,971,938.04				
10/15/2023	23,600,288.04				
4/15/2024	9,704,903.11				
10/15/2024	24,101,728.11				
4/15/2025	8,465,402.63				
10/15/2025	24,415,202.61				
4/15/2026	8,163,648.61				
10/15/2026	24,718,048.61				
4/15/2027	7,852,779.06				
10/15/2027	20,936,679.06				
4/15/2028	7,589,784.16				
10/15/2028	21,203,284.16				
4/15/2029	7,319,575.66				
10/15/2029	21,502,200.66				
4/15/2030	7,036,434.43				
10/15/2030	21,798,440.68				
4/15/2031	6,730,277.63				
10/15/2031	22,126,358.88				
4/15/2032	6,412,963.73				
10/15/2032	21,748,407.48				
4/15/2033	5,375,665.98				
10/15/2033	22,095,665.98				
4/15/2034	5,021,043.15				
10/15/2034	22,476,043.15				
4/15/2035	4,644,342.55				
10/15/2035	22,869,342.55				
4/15/2036	4,249,572.85				
10/15/2036	23,299,572.85				
4/15/2037	3,825,526.30				
10/15/2037	23,745,526.30				
4/15/2038	3,381,765.10				
10/15/2038	24,201,765.10				
4/15/2039	2,916,915.15				
10/15/2039	17,871,915.15				
4/15/2040	2,574,706.45				
10/15/2040	18,229,706.45				
4/15/2041	2,216,094.55				
10/15/2041	18,606,094.55				
4/15/2042	1,840,250.00				
10/15/2042	14,755,250.00				
4/15/2043	1,519,175.00				
10/15/2043	12,884,175.00				
4/15/2044	1,235,050.00				
10/15/2044	13,185,050.00				
4/15/2045	936,300.00				
10/15/2045	6,426,300.00				
4/15/2046	799,050.00				
10/15/2046	6,569,050.00				
4/15/2047	654,800.00				
10/15/2047	8,354,800.00				
4/15/2048	500,800.00				
10/15/2048	8,515,800.00				
4/15/2049	340,500.00				
10/15/2049	8,680,500.00				
4/15/2050	173,700.00				
10/15/2050	8,858,700.00				
4/15/2051	-				
10/15/2051	-				

4/15/2052	-
10/15/2052	-
<b>TOTAL</b>	<b>\$629,228,859.51</b>

- (1) Represents total debt service on the outstanding Prior Bonds. See APPENDIX A — “CITY GOVERNMENT AND FINANCIAL INFORMATION – BONDED AND OTHER INDEBTEDNESS – Long-Term Obligations.”
- (2) Represents total debt service on the outstanding Prior Bonds and the 2023 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 2023 Bonds and has pledged none of its moneys, funds or assets toward the payment of any amount due in connection with the 2023 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 2022” for information with respect to the City’s ACFR.

## SECURITY AND SOURCES OF PAYMENT FOR THE 2023 BONDS

### General

The 2023 Bonds are special, limited obligations of the Authority and do not constitute a debt, liability or obligation of the City, the State or any of its political subdivisions, and neither the faith and credit nor the taxing power of the City nor the State are pledged to the payment of the principal of, or interest on the 2023 Bonds. The Authority has no taxing power.

The Bonds, including the 2023 Bonds are secured under the Indenture solely by the Revenues (and other amounts pledged 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 2023 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 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.

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 2023 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 2023 BONDS — Additional Bonds.” Also see APPENDIX C — “SUMMARY OF LEGAL DOCUMENTS” for a summary of certain provisions of the Indenture and the Lease.

### **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 2023 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 2023 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 2023 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 Leased Property (excluding the Ground Lease Sites) but, other than with respect to the San Diego Police Headquarters, does not include earthquake insurance 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.”

As a result of the COVID-19 pandemic, the City 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 restrictions to such facilities have since been lifted. The City did not believe that the temporary restriction of public access, in and of itself, caused damage or destruction to such portions of the Leased Property which would have resulted in an abatement event under the Lease.

### **No Debt Service Reserve Fund**

Neither the Authority nor the City will establish or maintain a debt service reserve fund for the 2023 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 2023 Bonds.

### **Parity Bonds**

As of March 1, 2023, the Authority had \$401,535,000 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.*” Also see “THE LEASED PROPERTY—Base Rental Determinations” below for a description of a certification to be provided by the City with respect to the total fair rental value of the Leased Property at the time of issuance of a Series of Additional Bonds, including the 2023 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 will, at its own cost and expense, maintain, preserve and keep 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 will provide, or cause to be provided, at its own expense, all power, gas, telephone, light, heating and water, and other public utility services for 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.

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.

## **Fire and Extended Coverage Insurance**

The City is required to procure and maintain, or cause to be procured and maintained, throughout the term of the Lease, insurance against loss or damage to 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 Outstanding Bonds, 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; 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 elects to obtain insurance for the Leased Property and one or more additional parcels of real property and the amount of the insurance proceeds available to pay all claims thereunder is not sufficient to cover the replacement values of all such properties, then any such proceeds will be used first to rebuild or repair any affected Leased Property or to repay the Bonds. Such insurance may be part of a joint-purchase insurance program. The provider of such insurance will be rated at least “A-” by A.M. Best & Company. As an alternative to providing the fire and extended coverage insurance required by the Lease, or any portion thereof, the City 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 currently purchases insurance coverage for 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 is 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 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 may obtain use and occupancy insurance covering the Leased Property as well as other parcels of property owned by the City, 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 the Leased Property and any agreements relating to Financed Property in respect of which Obligations are outstanding; in the event the City 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 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 Leased Property (except the Ground Lease Sites) is currently provided to the City through its participation in the PRISM Pool. The City in its discretion, may elect at any time to modify the designation of covered properties in the future, in which case it is possible that none of the 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 Leased Property that has any earthquake coverage, which is purchased through the PRISM Pool. 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.

### **Title Insurance**

The Lease provides that the City will have or obtain, on or before the Closing Date for the 2023 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 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.”

### **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 2023 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 2023 Bonds, the Leased Property will consist of the twenty 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 2023 BONDS — Substitution, Removal or Addition of Leased Property.”

The Leased Property consists of twenty sites owned by the City. Four of the sites of Leased Property are the Ground Lease Sites. The City does not own, and the Leased Property does not include, any of the buildings and other improvements on the Ground Lease Sites. 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 Leased Property to the Authority pursuant to the Site Lease. The Authority is leasing the Leased Property to the City pursuant to the Lease.

Based on various appraisals completed over time from 2010 – 2022, the aggregate value of the Leased Property is estimated to be \$448 million. This includes \$117.7 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 2023 Bonds. See “—Base Rental Determinations” for additional information.

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.

The following table summarizes the Leased Property included under the Lease. Additional information regarding each property comprising the Leased Property is set forth below.

*[Remainder of Page Intentionally Left Blank]*

## SUMMARY OF LEASED PROPERTY

	<i>Site<sup>(1)(2)</sup></i>	<i>Address<sup>(3)</sup></i>	<i>General Description</i>	<i>Original Completion Date</i>	<i>Approx. Acreage of Site</i>	<i>Approx. Building Square Footage</i>
1.	San Diego Mission Bay Resort (Ground Lease) <sup>(4)</sup>	1775 E. Mission Bay Dr., 92109	Ground Lease under a resort hotel	Not applicable	17.74	Not applicable
2.	Hyatt Regency Mission Bay Spa and Marina (Ground Lease) <sup>(4)</sup>	1441 Quivera Rd., 92109	Ground Lease under a resort hotel	Not applicable	9.73	Not applicable
3.	The Lodge at Torrey Pines (Ground Lease) <sup>(4)</sup>	11480 N. Torrey Pines Rd., 92037	Ground Lease under a resort hotel	Not applicable	6.05	Not applicable
4.	Scripps Health Land (Ground Lease) <sup>(4)</sup>	10820 N. Torrey Pines Rd., 92037	Ground Lease under a sports center on the Scripps Health Clinic campus	Not applicable	3.50	Not applicable
5.	Fire Communications Center	3750 Kearny Villa Road, 92123	Fire communications building and related facilities	1990	1.47	11,563
6.	Fire Station #2	875 W. Cedar Street, 92101	Fire Station	2018	0.24	24,680
7.	Fire Station #9	7870 Ardath Lane, 92037	Fire Station	1979	1.15	6,482
8.	Fire Station #11	945 25 <sup>th</sup> St., 92102	Fire station	1995	0.29	11,050
9.	Fire Station #16	2110 Via Casa Alta, 92037	Fire station	1983	0.82	3,036
10.	Fire Station #37	11640 Spring Canyon, 92131	Fire station	2001	1.09	8,400
11.	Fire Station #44	10011 Black Mountain Rd., 92126	Fire station	2000	1.64	9,430
12.	San Diego Police Headquarters	1401 E. Broadway, 92101	Police administration facility	1987	2.76	165,000
13.	San Diego Police Plaza	4020 Murphy Canyon Road, 92123	Police station, training fields, pool, maintenance facility	1998	50.12	69,078
14.	Southern Division Police Station	1120 27 <sup>th</sup> St., 92154	Police station and police vehicle maintenance facility	1993	3.30	22,558
15.	Northeastern Police Station	13396 Salmon River Rd., 92129	Police station and police vehicle maintenance facility	1989	3.22	17,860
16.	Mission Valley Library	2123 Fenton Parkway, 92108	Public library and parking	2002	2.00	19,760
17.	Mission Hills Library	215 W. Washington Street, 92103	Public library and parking	2019	0.45	14,500
18.	Scripps Miramar Ranch Library Center	10301 Scripps Lake Drive, 92131	Public library and parking	1993	9.14	21,700
19.	Mingei International Museum and Art Institute Building (House of Charm)	1439 El Prado, Balboa Park, 92101	Two museums and three theater rehearsal spaces	1996	1.01	71,510
20.	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	18.51	23,150 (total for 3 buildings)

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

(Footnotes continued on following page)

(Continued from previous page)

- (2) Based on various appraisals completed over time from 2010 – 2022, the aggregate value of the Leased Property is estimated to be \$448 million. This includes \$117.7 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 2023 Bonds. See “—Base Rental Determinations” for additional information.
- (3) All properties are located in San Diego, California.
- (4) 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” below.

Source: City of San Diego.

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## **Base Rental Determinations**

As a condition of issuing the 2023 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 will rely on, among other factors, various appraisals done over time (the earliest of which was completed in 2010), its evaluation of the condition of the Leased Property and, with respect to the Ground Lease Sites, the rental received from those sites in Fiscal Year 2022.

The City's practice has been to attribute Base Rental Payments to the Ground Lease Sites based on the rental income that the City receives from the tenants of those sites. 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 other than the series of Prior Bonds issued in 2021, the City based such calculation on Fiscal Year rental income. As a result of the effects of the COVID-19 pandemic (see "Ground Lease Sites — *The Lodge at Torrey Pines Site*" below), with respect to the series of Prior Bonds issued in 2021, the City made the recalculation based on calendar year 2020 rental income, rather than Fiscal Year 2020 rental income. Based on the recalculation made at the time of issuance of the last series of Prior Bonds in 2021, the City attributed 33.6% of the Base Rental Payments to the five Ground Lease Sites which were subject to the Lease at the time of such issuance. Based on the expected debt service on the 2023 Bonds, the City expects that approximately \_\_\_% of the Base Rental Payments will be attributable to the Ground Lease Sites which will be subject to the Lease upon the issuance of the 2023 Bonds. See "THE LEASED PROPERTY— Ground Lease Sites" below.

## **Ground Lease Sites**

**General.** A portion of the Leased Property consists of the 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 2023 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 2023 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 2023 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.

***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 17.74 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 9.73 acres comprised of 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 6.05 acres 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 3.50 acres 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.

**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. Between March 2020 and June 2021, the Lodge at Torrey Pines Partnership, elected to defer a portion of its monthly rent payments under its Existing Lease. In calendar years 2020 and 2021, Torrey Pines Lodge (approximately \$2.4 million annual minimum) paid approximately 74.7% of its aggregate annual minimum. The Lodge at Torrey Pines Partnership is expected to repay its deferred rental payments between July 2022 and June 2023 and has not deferred any additional rent payments. The Pebblebrook Hotel Trust (San Diego Mission Bay Resort) and the CHSP Mission Bay LLC (Hyatt Regency Mission Bay Spa) deferred certain rent payments at the onset of the COVID-19 pandemic and repaid all of such deferred rent in approximately March 2020. Scripps Health has not deferred any rental payments during the COVID-19 pandemic.

Circumstances in the future could result in additional deferral or non-payment of rental payments by the lessees under the Existing Leases. 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 2023 Bonds.

## **Public Safety Facilities**

**Fire Station #2 – Bayside** is a three-story 24,680 square-foot, LEED Gold certified fire station located across the street from the 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 11,563 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 6,482 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, 11,050 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 3,036 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 an 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 9,430 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 at 4020 Murphy Canyon Road, between Balboa Avenue and Aero Drive in Kearny Mesa. The approximately 69,078-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, 22,558 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.

## **Library Facilities**

***Mission Hills Library*** is located on the corner of Washington Street and Front Street. The Mission Hills Library is a 14,500-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 is approximately 21,700 square feet and 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 71,510 square foot, 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 2023 Bonds.

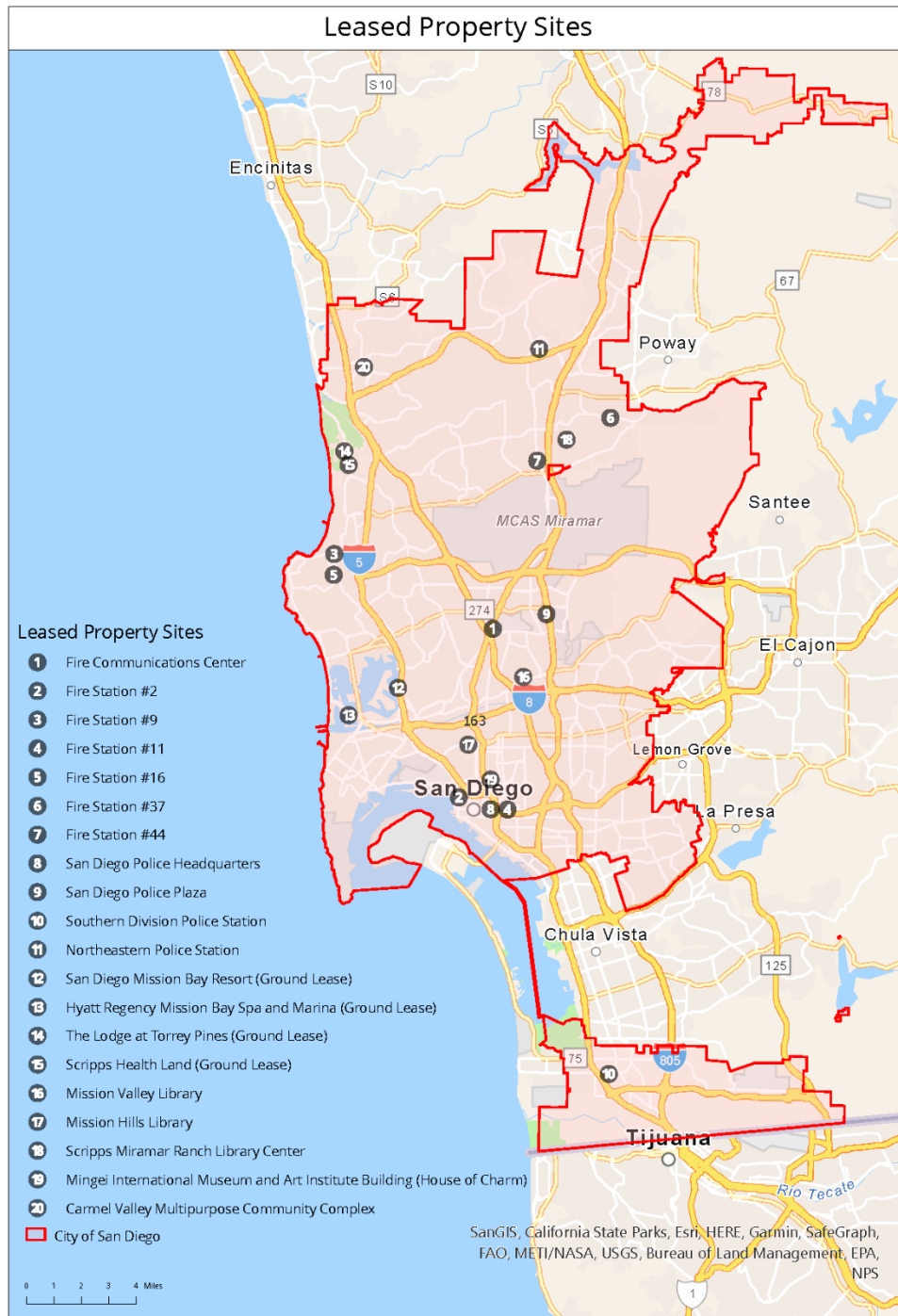
The Mingei International Museum (in the House of Charm) temporarily closed after Labor Day in September 2018 in order to undergo a \$55 million renovation project. The renovation project consisted of a comprehensive interior physical renovation (with some exterior work) which added approximately 10,000

square-feet of new public space. The renovation was completed in the fall of 2021 and the Mingei International Museum (in the House of Charm) has resumed operations.

***Carmel Valley Multipurpose Community Complex*** is an 18.51-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.

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# MAP OF LEASED PROPERTY SITES



## **Existing Encumbrances on Leased Property**

Pursuant to the 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 2023 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 2023 Bonds. The following discussion is not meant to be a comprehensive or definitive list of the risks associated with an investment in the 2023 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 2023 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 2023 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 2023 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 2023 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 2023 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 2023 Bonds. Abatement, therefore, could have an uncertain and material adverse effect on the security for and payment of the 2023 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 2023 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 2023 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 2023 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 2023 Bonds.

#### **No Limitation on Incurring Additional Obligations**

The Authority currently has outstanding Prior Bonds issued under the Indenture. 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 2023 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 2023 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 2023 Bonds (including Bond Counsel's legal opinion) will be qualified, as to the enforceability of the 2023 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 2023 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 the County of San Diego (the “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 the 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. Seven of the twenty 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. 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 2023 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 Leased 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 2023 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 Leased 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 Leased Property damaged by flood or to rebuild such property.

The Mission Valley Library, which is a portion of the Leased Property, is 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 and tsunamis. 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 the 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 the County destroyed several hundred homes, some of which were in the City. In May 2014 and December 2017, wildfires in the 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.

The United States Forest Service and the Department of Forestry and Fire Protection of the State of California have jointly developed a map which shows areas designated “Tier 1.” Tier 1 areas are near communities, roads, and utility lines where a wildfire could pose a direct threat to public safety. In addition, the California Public Utilities Commission has developed a map which shows areas designated as “Tier 2” and “Tier 3.” Tier 2 fire-threat areas outline areas where there is a higher risk (including likelihood and potential impacts on people and property) from utility-related wildfires. Tier 3 fire-threat areas outline areas where there is an extreme risk (including likelihood and potential impacts on people and property) from utility-related wildfires. None of the twenty sites which comprise the Leased Property are located in Tier 1, Tier 2, or Tier 3

zones identified in the current versions of the foregoing maps. However, there still remains the risk that the Leased Property could be destroyed by wildfires and no assurance can be given as to the severity or frequency of wildfires occurring within the vicinity of the Leased Property.

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, 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 Department of General Services – Fleet Operations Division operates and maintains the above-ground and underground storage tanks on the Leased Property to ensure compliance with all applicable codes and regulations governing their operation and maintenance. Despite such measures, however, it is possible that loss or damage to the Leased Property or adjacent property, or injury to persons on or near the sites, could result from the City’s use of these sites and that an abatement of Base Rental Payments as a result of such loss or damage to the Leased Property could occur.

### **Potential Additional Impacts of COVID-19 on the City**

Following the COVID-19 pandemic, which initially had an adverse impact on the City’s economy, the City’s revenue sources have rapidly recovered due to positive impacts of high vaccination rates in the County, a continued low transmission rate of COVID-19, and the resumption of business and international travel. The City’s General Fund’s major revenue sources in Fiscal Year 2022, in the aggregate, surpassed pre-pandemic

levels (i.e., Fiscal Year 2019). General Fund revenues are projected to continue to exceed pre-pandemic levels in Fiscal Year 2023. However, another surge in COVID-19 cases, a more severe variant with higher hospitalization and death rates, or a global increase in cases could negatively impact employment growth, business travel and tourism and exacerbate supply chain disruptions, all of which could negatively impact the City's finances and economic outlook. There is no assurance that there would be additional, significant federal aid to assist the City with future negative impacts of the COVID-19 pandemic. See APPENDIX A— "CITY BUDGET AND RELATED MATTERS" on information related to the Fiscal Year 2023 Mid-Year Budget Monitoring Report, the Fiscal Year 2023 Adopted Budget and the City's Fiscal Year 2024-2028 Five-Year Financial Outlook.

### **Impact of Economic Conditions on the City**

The City notes that there is a certain level of uncertainty in its financial outlook due to inflation and interest rates movements, as well as persistent supply chain issues and global market instability caused by the war in Ukraine. While the City has not forecasted a recession, a continued aggressive interest rate policy by the Federal Reserve Board and/or other factors could result in a recession. A recession or general economic slowdown could 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 could place a strain the City's fiscal condition. Other than the recession resulting in large part from the COVID-19 pandemic, prior recessions reduced the City's major revenue sources in the aggregate by approximately 1% to 5%. In addition, the failure by the federal government to enact appropriations or debt limit increases on a timely basis in the future could have a material adverse effect on financial markets and economic conditions in general, which could affect the City's financial condition and outlook.

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 65.4% of the expenditures in the Fiscal Year 2023 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 February 2023, the City is projecting that General Fund expenditures for salaries and wages will be approximately \$2.5 million below the adopted budget and that fringe benefits will be approximately \$19.7 million below the adopted budget, primarily due to the impacts of unwinding Proposition B.

Based on the most recent actuarial analysis for the San Diego City Employees' Retirement System ("SDCERS") delivered in February 2023, the City-wide actuarially determined contribution for Fiscal Year 2024 increased from the Fiscal Year 2023 actuarially determined contribution of \$384.2 million to \$448.1 million. The ADC for Fiscal Year 2024 includes the normal costs and amortized unfunded liability for employees reinstated to SDCERS as a result of the invalidation of Proposition B (totaling approximately \$47.6 million). The continued unwinding of Proposition B could further impact the City's Fiscal Year 2024 actuarially determined contribution. See APPENDIX A — "CITY GOVERNMENT AND FINANCIAL INFORMATION — SAN DIEGO CITY EMPLOYEES' RETIREMENT SYSTEM."

The City has reached agreements with three of the six recognized labor organizations for Fiscal Years 2023 and 2024. The City has reached agreements with the remaining three of the six recognized labor organizations for Fiscal Year 2023. The City is currently in negotiations for successor agreements with the three labor organizations which have agreements in place through Fiscal Year 2023. 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 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 2022 San Diego Military Economic Impact Report (the “Military Report”) prepared 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, 2022 were directly and indirectly related to the military. According to the Military Report, as of September 30, 2022, there were more than 115,000 active duty and reserve military personnel and 29,290 full-time civilian workers directly employed by the military throughout the County. The Military Report concludes that overall spending in the County related to the military in the federal fiscal year ended September 30, 2022 represented approximately 24.5% 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 2022 was less than 1% of revenues and is also less than 1% of revenues in the Fiscal Year 2023 Adopted Budget (as defined in Appendix A). However, the City received increased amounts of federal and State funding in Fiscal Years 2020 through 2022 as compared with prior years to help offset increased expenditures resulting from the COVID-19 pandemic. The City spent certain of such additional funding in Fiscal Years 2021 and 2022. The City has budgeted to spend additional amounts of such federal funding in Fiscal Year 2023 and expects to spend additional amounts of such federal funding in Fiscal Year 2024. See APPENDIX A— “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 2023 Bonds (including Bond Counsel's approving opinion) will be qualified as to the enforceability of the various agreements relating to the 2023 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 2023 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 2023 Bonds, and Owners could experience partial or total loss of their investment in the 2023 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 2023 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 Leased Property for repair or replacement in the event of damage or destruction to the 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. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2023 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 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 2023 Bonds.

The Lease allows the City 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 Department of Information Technology 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. The City, like many other large public and private entities, has been the subject of cybersecurity incidents. Each such incident was addressed in accordance with the City’s then-applicable protocol. The City consistently maintains an annual Key Performance Indicator of percentage of security incidents per month per 10,000 users of < 1.0%.

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. For the period between Fiscal Year 2023 and Fiscal Year 2035, the operating cost estimate for the City’s Storm Water Program (as defined in Appendix A hereto) is projected at approximately \$2.56 billion and the capital cost estimate is projected at approximately \$2.64 billion (for a total operating and capital cost estimate of approximately \$5.20 billion). 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 and for additional time to comply with regulatory requirements; pursuing alternative funding sources such as grants, loans and inspection fees; identifying cost efficiencies by utilizing adaptive management strategies and optimizing operations and maintenance efforts; assessing program innovation to maximize projects multiple benefits and realize cost savings; and evaluating options for a dedicated long term funding mechanism. 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.

## **Secondary Market**

There can be no guarantee that there will be a secondary market for the 2023 Bonds or, if a secondary market exists, that the 2023 Bonds can be sold for any particular price. Occasionally, because of general market conditions or because economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then prevailing circumstances. Such prices could be substantially different from the original purchase price.

## **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 2023 due April 10, 2024 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 2023 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 2023 Bonds.

As noted in official statements for the applicable series of Prior Bonds, the MTS Property was scheduled to be released, and was released, from the Lease on October 15, 2022. The City filed the notice of the release of

the MTS Property on EMMA two days after the date required under its continuing disclosure undertakings entered into in accordance with the Rule.

## **FINANCIAL STATEMENTS FOR FISCAL YEAR 2022**

The City's ACFR for Fiscal Year 2022, which includes the City's audited basic financial statements as of and for the Fiscal Year ended June 30, 2022, is available through EMMA at <https://emma.msrb.org/P11697756.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, 2022 and for the year then ended have been audited by Macias Gini & O'Connell LLP as stated in its report dated December 28, 2022, 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 (and original issue discount) on the 2023 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. However, it should be noted that for tax years beginning after December 31, 2022, with respect to applicable corporations as defined in Section 59(k) of the Internal Revenue Code of 1986, as amended (the "Code"), generally certain corporations with more than \$1,000,000,000 of average annual adjusted financial statement income, interest (and original issue discount) with respect to the 2023 Bonds might be taken into account in determining adjusted financial statement income for purposes of computing the alternative minimum tax imposed by Section 55 of the Code on such corporations. In the further opinion of Bond Counsel, interest on the 2023 Bonds is exempt from State of California personal income tax.

The excess of the stated redemption price at maturity of a 2023 Bond over the issue price of a 2023 Bond (the first price at which a substantial amount of the 2023 Bonds of a maturity is to be sold to the public) 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 the Beneficial Owner will increase the Beneficial Owner's basis in the applicable 2023 Bond.

Bond Counsel's opinion as to the exclusion from gross income for federal income tax purposes of interest (and original issue discount) on the 2023 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 Code, that must be satisfied subsequent to the issuance of the 2023 Bonds to assure that interest (and original issue discount) on the 2023 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 2023 Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 2023 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 2023 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 2023 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 2023 Bond is sold by the Beneficial Owner for an amount equal to or less (under certain circumstances) than the original cost of the 2023 Bond to the Beneficial Owner. Purchasers of the 2023 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 2023 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 2023 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 2023 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 2023 Bonds and the accrual or receipt of interest (and original issue discount) with respect to the 2023 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 2023 Bonds, all potential purchasers should consult their tax advisors with respect to collateral tax consequences relating to the 2023 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 2023 Bonds will be selected for audit by the IRS. It is also possible that the market value of the 2023 Bonds might be affected as a result of such an audit of the 2023 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 2023 Bonds to the extent that it adversely affects the exclusion from gross income of interest (and original issue discount) on the 2023 Bonds or their market value.

SUBSEQUENT TO THE ISSUANCE OF THE 2023 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 2023 BONDS INCLUDING THE IMPOSITION OF ADDITIONAL FEDERAL INCOME OR STATE TAXES ON OWNERS OF TAX-EXEMPT STATE OR LOCAL OBLIGATIONS, SUCH AS THE 2023 BONDS. THESE CHANGES COULD ADVERSELY AFFECT THE MARKET VALUE OR LIQUIDITY OF THE 2023 BONDS. NO ASSURANCE CAN BE GIVEN THAT SUBSEQUENT TO THE ISSUANCE OF THE 2023 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 2023 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 2023 BONDS.

A copy of the proposed form of opinion of Bond Counsel with respect to the 2023 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 2023 Bonds or the related documents, or in any way contesting or affecting the validity of the

2023 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 2023 Bonds or the use of the 2023 Bond proceeds.

There is litigation pending against the City unrelated to the 2023 Bonds. See APPENDIX A— “NO PENDING LITIGATION REGARDING THE 2023 BONDS” and “—LITIGATION POTENTIALLY ADVERSELY AFFECTING THE GENERAL FUND.”

### **CERTAIN LEGAL MATTERS**

Certain legal matters incident to the authorization, issuance and sale of the 2023 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 2023 Bonds will be delivered to the initial purchasers of the 2023 Bonds at the time of original delivery of the 2023 Bonds. The proposed form of the legal opinion of Bond Counsel for the 2023 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 2023 Bonds.

### **RATINGS**

Fitch Ratings and S&P Global Ratings (“S&P”) have assigned the ratings of “\_\_\_” with \_\_\_\_\_ outlook and “\_\_\_” with \_\_\_\_\_ outlook, respectively, to the 2023 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 2023 Bonds.

The City will covenant in the Disclosure Certificate to file on EMMA, notices of any rating changes on the 2023 Bonds. See the caption “CONTINUING DISCLOSURE — Continuing Disclosure Certificate for 2023 Bonds” above and Appendix F hereto. Notwithstanding such covenant, information relating to ratings changes on the 2023 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 2023 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 2023 Bonds after the initial issuance of the 2023 Bonds.

## **UNDERWRITING**

The 2023 Bonds are being purchased by RBC Capital Markets, LLC, Siebert Williams Shank & Co., LLC, Raymond James & Associates, Inc. and Academy Securities, Inc. (collectively, the “Underwriters”). The Underwriters have agreed to purchase the 2023 Bonds at a price of \$\_\_\_\_\_ (being \$\_\_\_\_\_ aggregate principal amount thereof, plus original issue premium of \$\_\_\_\_\_, and less Underwriters’ discount of \$\_\_\_\_\_). The purchase agreement for the 2023 Bonds provides that the Underwriters will purchase all of the 2023 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 2023 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 that may include securities trading, commercial and investment banking, municipal advisory, brokerage, and asset management. In the ordinary course of business, the Underwriters and their respective affiliates may actively trade debt and, if applicable, equity securities (or related derivative securities) and provide financial instruments (which may include bank loans, credit support or interest rate swaps). The Underwriters and their respective affiliates may engage in transactions for their own accounts involving the securities and instruments made the subject of this securities offering or other offering of the Authority. The Underwriters and their respective affiliates may make a market in credit default swaps with respect to municipal securities in the future. The Underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and publish independent research views in respect of this securities offering or other offerings of the Authority.

Academy Securities, Inc. has entered into Third-Party Distribution Agreements with TD Ameritrade Inc, Janney Montgomery Scott LLC, and InspereX LLC for the retail distribution of certain municipal securities at the original issue prices. Pursuant to these Third-Party Distribution Agreements (if applicable to the 2023 Bonds), Academy Securities may share a portion of its underwriting compensation with these firms.

## **MUNICIPAL ADVISOR**

KNN Public Finance, LLC (the “Municipal Advisor”) has acted as Municipal Advisor to the City in conjunction with the issuance of the 2023 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 2023 Bonds. The Municipal Advisor will receive compensation contingent upon the sale and delivery of the 2023 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 2023 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

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**APPENDIX A**

**CITY GOVERNMENT AND FINANCIAL INFORMATION**

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**APPENDIX B**

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

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## 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. The 2023 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 1,374,790 as of January 1, 2022 and a land area of approximately 325 square miles (and an additional 47 square miles of water area for an aggregate total of 372 square miles), is the eighth largest city in the nation and the second largest city in California. The City is the county seat for the County. 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 2012 through 2022. The City’s population increased by approximately 3.4% between 2012 and 2022, with an average annual increase of approximately 4,574.

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**TABLE B-1**  
**CITY OF SAN DIEGO, COUNTY OF SAN DIEGO, AND STATE OF CALIFORNIA**  
**POPULATION GROWTH**  
**Calendar Years 2012 through 2022**

<i>Calendar Year<sup>(1)</sup></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>
2012	1,329,050	--%	3,161,808	--%	37,924,661	--%
2013	1,346,820	1.34	3,199,900	1.20	38,269,864	0.91
2014	1,361,732	1.11	3,232,762	1.03	38,556,731	0.75
2015	1,378,973	1.27	3,264,706	0.99	38,865,532	0.80
2016	1,388,940	0.72	3,283,009	0.56	39,103,587	0.61
2017	1,400,582	0.84	3,303,366	0.62	39,352,398	0.64
2018	1,416,956	1.17	3,321,118	0.54	39,519,535	0.42
2019	1,421,675	0.33	3,333,319	0.37	39,605,361	0.22
2020	1,421,462	(0.01)	3,331,279	(0.06)	39,648,938	0.11
2021	1,371,832	(3.49)	3,288,503	(1.28)	39,303,157	(0.87)
2022	1,374,790	0.22	3,287,306	(0.04)	39,185,605	(0.30)

<sup>(1)</sup> 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 2017 through 2021 and as of December 2022.

**TABLE B-2**  
**LABOR FORCE – ESTIMATED AVERAGE ANNUAL EMPLOYMENT AND**  
**UNEMPLOYMENT OF CITY OF SAN DIEGO CIVILIAN LABOR FORCE**  
**Calendar Years 2017 through 2021**  
**(Not Seasonally Adjusted)**

	<i>Calendar Year<sup>(1)</sup></i>					<i>December 2022<sup>(1)(2)</sup></i>
	<i>2017</i>	<i>2018</i>	<i>2019</i>	<i>2020</i>	<i>2021</i>	
<b>Civilian Labor Force</b>						
City of San Diego						
Employed	682,300	692,800	695,100	634,100	656,000	701,200
Unemployed	27,800	23,400	22,500	64,500	43,500	19,800
<b>Unemployment Rates</b>						
City	3.9%	3.3%	3.1%	9.2%	6.2%	2.7%
County	4.0	3.4	3.3	9.5	6.5	2.9%
California	4.8	4.3	4.1	10.2	7.3	3.7
United States	4.4	3.8	3.7	8.4	5.2	3.3

<sup>(1)</sup> County and State 2017-2021 data based on March 2021 Benchmark Report. City information updated December 2022 by State of California Employment Development Department.

<sup>(2)</sup> 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 2022 was 721,000, of which approximately 19,800 persons were unemployed. Based on the EDD as of December of 2022, the City’s unemployment rate 2.7% in December of 2022, on a seasonally unadjusted basis, was below that of the County at 2.9%, was below the unemployment rate of the State, which was 3.7% and was below the unemployment rate of the United States, which was 3.3%. 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 2017 through 2021. 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 2017 through 2021<sup>(1)</sup>**  
**(In Number of Jobs By Industry)**

<i>Industry Category</i>	<i>2017</i>	<i>2018</i>	<i>2019</i>	<i>2020</i>	<i>2021</i>
Services <sup>(2)</sup>	717,400	736,600	754,000	670,900	711,700
Total Government	246,300	248,100	248,600	237,100	237,300
Federal	46,900	47,100	47,600	48,600	47,700
State and Local	199,400	201,000	201,000	188,500	189,600
Total Trade	192,700	191,700	189,600	174,500	179,500
Wholesale	43,800	43,800	44,000	41,300	41,700
Retail	148,900	147,900	145,600	133,200	137,800
Total Manufacturing	109,400	112,300	115,700	113,800	114,100
Nondurable Goods	27,900	28,600	29,400	28,400	30,300
Durable Goods	81,500	83,700	86,300	85,400	83,800
Financial Activities <sup>(3)</sup>	74,600	76,000	76,500	74,800	75,500
Construction	79,500	83,700	84,000	81,300	83,400
Transportation, Warehousing & Utilities	32,000	33,300	34,300	33,300	36,800
Mining & Logging	<u>300</u>	<u>400</u>	<u>400</u>	<u>300</u>	<u>300</u>
<b>TOTAL NONFARM<sup>(4)</sup></b>	<b><u>1,452,200</u></b>	<b><u>1,482,200</u></b>	<b><u>1,503,200</u></b>	<b><u>1,385,800</u></b>	<b><u>1,438,500</u></b>

<sup>(1)</sup> Based on March 2021 Benchmark Report.

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

<sup>(3)</sup> Includes finance, insurance, and real estate.

<sup>(4)</sup> Line items may not add to totals due to independent rounding.

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 2017 through 2021. 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 2017 through 2021<sup>(1)</sup>**  
**(In Thousands)**

	2017	2018	2019	2020	2021
Retail and Food Services					
Apparel	\$ 1,884,703	\$1,932,777	\$ 1,928,007	\$ 1,182,539	\$ 1,895,916
General Merchandise	1,633,756	1,710,621	1,722,070	1,530,207	1,823,348
Food	1,078,711	1,125,759	1,140,809	1,213,776	1,250,946
Eating and Drinking	4,307,507	4,466,904	4,711,805	2,934,483	4,420,223
Home Furnishings and Appliances	1,140,892	1,163,314	1,138,187	1,030,204	1,234,739
Building Materials	1,041,763	1,081,396	1,094,514	1,172,196	1,276,380
Motor Vehicles and Parts	2,747,732	2,873,480	2,876,886	2,762,935	3,276,839
Service Stations	1,571,570	1,782,322	1,738,773	1,309,673	1,807,736
Other Retail Stores	<u>1,782,546</u>	<u>1,836,103</u>	<u>1,904,751</u>	<u>1,902,447</u>	<u>2,232,497</u>
Total Retail and Food Services	\$17,189,186	\$ 17,972,680	\$18,255,804	\$15,038,462	\$19,218,625
All Other Outlets	<u>6,566,238</u>	<u>6,999,132</u>	<u>7,339,763</u>	<u>6,151,701</u>	<u>7,858,185</u>
TOTAL ALL OUTLETS <sup>(1)</sup>	<u>\$23,755,424</u>	<u>\$24,971,813</u>	<u>\$25,595,567</u>	<u>\$21,190,163</u>	<u>\$27,076,810</u>

<sup>(1)</sup> Line items may not add to totals due to independent rounding.

Source: California Department of Tax and Fee Administration (“CDTFA”), CDTFA Open Data Portal 2017-2021.

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## Tourism

The following Table B-5 sets forth total visitor spending in the County for the calendar years 2018 through 2022.

**TABLE B-5**  
**COUNTY OF SAN DIEGO**  
**TOTAL VISITOR SPENDING**  
**Calendar Years 2018 through 2022**  
**(In Millions)**

<i>Calendar Year</i>	<i>Amount</i>
2018	\$11,490
2019	11,643
2020	5,163
2021	7,452
2022	13,622

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 2018 through 2022. 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<sup>(1)</sup>**  
**Fiscal Years 2018 through 2022**  
**(in thousands)**

<i>Fiscal Year</i>	<i>Amount</i>
2018	\$231,863
2019	250,883
2020	181,181
2021	129,530 <sup>(2)</sup>
2022	259,231 <sup>(2)</sup>

<sup>(1)</sup> 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.

<sup>(2)</sup> Decreases in Fiscal Years 2020 and 2021 and increase in Fiscal Year 2022 as a result of the impacts of the COVID-19 pandemic and recovery therefrom.

Source: Fiscal Year 2022 ACFR.

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 2022, 66.6% of hotel rooms in the County were located within the City. For calendar year 2022, the San Diego Tourism Authority reported that hotel occupancy in the City averaged 73.4%, which increased from the 59.0% 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 2022 there were 28.8 million visitors to San Diego County, and they spent approximately \$13.6 billion. In calendar year 2021, there were 23.8 million visitors to San Diego County, and they spent approximately \$7.5 billion. In calendar year 2022, approximately 16.5 million of the 28.8 million visitors stayed overnight in private homes or hotels. In calendar year 2022, there were 10.8 million airport arrivals, up from 7.8 million in calendar year 2021 (representing a 38.5% increase).

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, 2022, events in the Convention Center generated approximately \$863 million in economic impact for the San Diego regional economy through direct attendee spending, tax revenues, and hotel room nights. Due to the COVID-19 pandemic, events were suspended and the Convention Center was temporarily converted as a homeless shelter from April 1, 2020 through March 31, 2021 as part of the City's Operation Shelter to Home program. The Convention Center resumed normal activity on August 1, 2021.

## **Military**

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

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 147,000 uniformed military personnel and civilians working for the Department of Defense, Department of Homeland Security or the Veterans Administration within in the County, including approximately 115,000 active duty military and veteran personnel, 2,745 reserves and 29,290 full-time civilian workers. The estimated direct defense-related spending by the military in the County for the fiscal year ending September 30, 2022 increased approximately 1.8% to \$36 billion from \$35.3 billion for the federal fiscal year ending September 30, 2021.

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 Report estimates that in addition to direct hiring by the military, this spillover effect resulted in approximately 209,000 jobs for the federal fiscal year ending September 30, 2022. Approximately 23% (356,058) of the jobs in the County were directly and indirectly related to the military in the fiscal year ended September 30, 2022 and the gross regional product in the County related to the military was estimated at \$56.2 billion, up from \$55.2 billion in the prior

federal fiscal year. It is estimated that the military’s total impact on the region represents about 24.5% 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 2022.

**TABLE B-7  
CITY OF SAN DIEGO  
TOP TEN PRINCIPAL EMPLOYERS  
Fiscal Year 2022  
(unaudited)**

<i>Employer</i>	<i>Number of Employees</i>	<i>Percentage of Total Employment<sup>(1)</sup></i>
Naval Base, San Diego <sup>(2)</sup>	41,321	5.78%
University of California, San Diego <sup>(3)</sup>	37,064	5.18
Sharp Healthcare <sup>(4)</sup>	18,839	2.63
County of San Diego	16,744	2.34
Scripps Health <sup>(5)</sup>	13,787	1.93
San Diego Unified School District <sup>(6)</sup>	13,559	1.90
Qualcomm, Inc. <sup>(7)</sup>	11,546	1.61
City of San Diego <sup>(8)</sup>	11,466	1.59
Kaiser Permanente <sup>(9)</sup>	9,632	1.35
Northrop Grumman Corporation	<u>6,075</u>	<u>0.85</u>
Total Top Employers	<u>180,033</u>	<u>25.16%</u>

(1) Percentage based on total employment of 715,500 for Fiscal Year 2022.  
 (2) Employee count includes Active Duty Navy and 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 County-wide.  
 (5) Scripps Health employees within City limits, not including Mercy Hospital in the City of Chula Vista.  
 (6) Employee count from previous Fiscal Year; current year unavailable as of report date.  
 (7) Excludes temporary employees and interns.  
 (8) As of the last pay-period of the fiscal year.  
 (9) Includes physicians.

Source: Fiscal Year 2022 ACFR, 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 2017 through 2021.

**TABLE B-8  
COUNTY OF SAN DIEGO, STATE OF CALIFORNIA AND UNITED STATES  
PER CAPITA PERSONAL INCOME<sup>(1)</sup>  
Calendar Years 2017 through 2021**

<i>Calendar Year</i>	<i>County of San Diego</i>	<i>State of California</i>	<i>United States</i>
2017	\$56,802	\$58,942	\$51,811
2018	58,719	61,663	54,098
2019	62,533	64,919	56,250
2020	67,830	70,647	59,765
2021	72,637	76,614	64,143

<sup>(1)</sup> 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 2022, construction permits valuation increased by 46%, or approximately \$777 million, from Fiscal Year 2021. Through the first half of Fiscal Year 2023, there were 226 building permits issued for residential units with an estimated total value of \$524 million.

With respect to non-residential construction, through the first two quarters of Fiscal Year 2023, there were 66 building permits issued with an estimated total value of approximately \$835 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 2018 through 2022.

**TABLE B-9**  
**CITY OF SAN DIEGO**  
**Assessed Value and Construction Permit Valuation<sup>(1)</sup>**  
**Fiscal Years 2018 through 2022**  
**(\$ in thousands)**  
**(unaudited)**

<i>Fiscal Year</i>	<i>Residential<sup>(2)</sup></i>		<i>Non-Residential<sup>(3)</sup></i>		<i>Total Permit Assessed Value Estimate<sup>(4)</sup></i>
	<i>Dwelling Units</i>	<i>Assessed Value<sup>(4)</sup></i>	<i>Permits</i>	<i>Assessed Value<sup>(4)</sup></i>	
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
2020	3,757	847,817	143	1,692,770	2,540,587
2021	3,977	1,066,184	103	618,592	1,684,776
2022	3,948	1,367,461	116	1,094,696	2,462,157

<sup>(1)</sup> Assessed Values are estimates provided by customers at the time permits are issued; actuals may vary.

<sup>(2)</sup> Residential reflects construction of new structures.

<sup>(3)</sup> Non-residential reflects construction of new structures whose intended use includes commercial, industrial, and other uses. Each permit is a separate structure.

<sup>(4)</sup> Valuation figures only include valuation of newly created structures. These figures do not include minor modification work such as interior remodels, reroofs, etc.

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

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**APPENDIX C**  
**SUMMARY OF LEGAL DOCUMENTS**

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## APPENDIX C

### SUMMARY OF LEGAL DOCUMENTS

*The following is a brief summary of the provisions of the Indenture, the Lease and the Site Lease pertaining to the 2023 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.*

**APPENDIX D**

**FORM OF BOND COUNSEL OPINION**

\_\_\_\_\_, 2023

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 2023A (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 2023A (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”), the Fifth Amendment to Site Lease, dated as of April 1, 2021 (the “Fifth Amendment to Site Lease”) and the Sixth Amendment to Site Lease, dated as of April 1, 2023 (the “Sixth 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, the Fourth Amendment to Site Lease and the Fifth 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”), the Sixth Amendment to Facilities Lease, dated as of April 1, 2021 (the “Sixth Amendment to Facilities Lease”) and the Seventh Amendment to Facilities Lease, dated as of April 1, 2023 (the “Seventh 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, the Fifth Amendment to Facilities Lease and the Sixth Amendment to Facilities Lease the “Lease”), each by and between the Authority

and the City; (iii) 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”), the Sixth Supplemental Indenture, dated as of April 1, 2021 and the Seventh Supplemental Indenture, dated as of April 1, 2023 (the “Seventh 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, the Sixth Supplemental Indenture and the Master Indenture, the “Indenture”), each by and between the Authority and Computershare Trust Company, National Association (the “Trustee”), as successor trustee thereunder to Wells Fargo Bank, National Association; (iv) opinions of the City Attorney, as counsel to the City and the Authority, and counsel to the Trustee; (v) certificates of the City, the Trustee, the Authority and others; and (vi) such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture and the Lease.

We have assumed the genuineness of all documents and signatures presented to us, the authenticity of documents submitted as originals and the conformity to originals of documents submitted as copies. We have not undertaken to verify independently, and have assumed, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions referred to in the preceding paragraphs of this opinion. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture, the Lease, the Site Lease and the Tax Certificate. We call attention to the fact that the rights and obligations under the Bonds, the Indenture, the 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 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 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 Site Lease and the Lease have been duly authorized and executed by the City and the Authority and the Site Lease and the Lease constitute valid and binding agreements of the City and the Authority and are enforceable in accordance with their respective 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; however, for tax years beginning after December 31, 2022, with respect to applicable corporations as defined in Section 59(k) of the Internal Revenue Code of 1986, as amended (the “Code”), interest (and original issue discount) with respect to the Bonds might be taken into account in determining adjusted financial statement income for purposes of computing the alternative minimum tax imposed on such corporations. The foregoing opinion is subject to the condition that the Authority and the City comply with all requirements of 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.

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 at 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 2023 Bonds paid to DTC or its nominee as the registered owner, or will distribute any redemption 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 2023 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 2023 Bonds. The 2023 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 2023 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](http://www.dtcc.com).

Purchases of 2023 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2023 Bonds on DTC’s records. The ownership interest of each actual purchaser of each 2023 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 2023 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 2023 Bonds, except in the event that use of the book-entry system for the 2023 Bonds is discontinued.

To facilitate subsequent transfers, all 2023 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 2023 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 2023 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2023 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 2023 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2023 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of 2023 Bonds may wish to ascertain that the nominee holding the 2023 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 2023 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 2023 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 2023 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 2023 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the 2023 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 2023 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 2023 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.

*Risks Regarding the Book-Entry Only System*

AS LONG AS CEDE & CO. OR ITS SUCCESSOR IS THE REGISTERED HOLDER OF THE 2023 BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE REGISTERED HOLDERS OF THE 2023 BONDS SHALL MEAN CEDE & CO., AS AFORESAID, AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE 2023 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 2023 BONDS CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE. Each person for whom a Participant acquires an interest in the 2023 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 2023 BONDS TO BE REDEEMED IN THE EVENT OF REDEMPTION OF LESS THAN ALL 2023 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 2023 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 2023 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 2023 Bonds, and the Authority does not select another qualified securities depository, the Authority shall deliver one or more 2023 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 2023 Bonds will be governed by the provisions of the Indenture.

**APPENDIX F**  
**FORM OF CONTINUING DISCLOSURE CERTIFICATE**

**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 2023) shall mean the Fiscal Year ending June 30 of the referenced year).*

*As explained under "SECURITY AND SOURCES OF PAYMENT FOR THE 2023 BONDS" in the front part of this Official Statement, the 2023 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 Lease and certain other money held by the Trustee under the Indenture. The 2023 Bonds are not a debt of the City, the State of California (the "State"), or any of its political subdivisions, and none of the City, the State nor any of its political subdivisions is liable thereon.*

### GENERAL

#### Profile of the City of San Diego

The City was incorporated in 1850. The City is comprised of 325 square miles of land area and an additional 47 square miles of water area for an aggregate total of 372 square miles. As the eighth largest city in the nation and the second largest city in California, the City's total population was estimated at 1,374,790 as of January 1, 2022. The City, with approximately 12,777 full-time equivalent employees budgeted for Fiscal Year 2023, provides a full range of governmental services, which include police and fire protection, sanitation and health services, construction and maintenance of streets and infrastructure (including storm water drainage facilities), 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 ("TOT"), 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 by district 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, 2022 were audited by Macias Gini & O’Connell LLP, CPAs and are included in the City’s Annual Comprehensive Financial Report (“ACFR”) for such Fiscal Year.

## **CITY BUDGET AND RELATED MATTERS**

### **Budget Process**

#### ***Budget Development***

The City’s budgetary process begins with the development of a Five-Year Financial Outlook, which serves as a guiding document for long-range fiscal planning and provides the framework for the development of the City’s annual operating budget for the General Fund. The City’s most recently published outlook is the Fiscal Year 2024-2028 Five-Year Financial Outlook (the “Five-Year Outlook”), which was released on November 10, 2022 and will serve as the framework for the development of the Fiscal Year 2024 budget. 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 receipt of the 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 17, 2022 for Fiscal Year 2023 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, which establishes salary or wages of City officers and employees. The Appropriation Ordinance is presented to the City Council, and may be passed by the City Council on the day of its introduction, in accordance with City Charter Section 275. The Appropriation Ordinance for Fiscal Year 2023 was introduced and adopted by the City Council on June 28, 2022. 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 other 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. Additionally, on a quarterly basis, the Department of Finance prepares an analysis of actual and projected financial activity for the entire Fiscal Year by issuing four budget monitoring reports during the year (First Quarter, Mid-Year, Third-Quarter Budget Monitoring Reports and the Year-End Performance Report) as further described below.

- 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 certain programmatic expenses.
- The Mid-Year Budget Monitoring Report includes five months of actual budgetary data and provides a detailed analysis of revenue and expenditure Fiscal Year-end projections. In accordance with the City's Municipal Code Section 22.0229 (the "Municipal Code"), the

Mayor shall recommend to the City Council mid-year budget appropriation adjustments for any projected deficit or surplus.

- 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 2018 through 2022.

In Fiscal Year 2022, the City implemented Governmental Accounting Standards Board (“GASB”) Statement No. 87 (Leases), which requires the recognition of certain lease receivables and lease liabilities that were previously classified as operating leases and recognized as inflows of resources or outflows of resources, based on the payment provisions of the contract. As a result of the implementation of GASB Statement No. 87, the City recognized in Fiscal Year 2022 amounts relating to operating leases as assets and deferred inflow of resources, resulting in significantly increased amounts in such categories, as shown in Table A-1 below. In addition, as a result of such implementation, in the Fiscal Year 2022 ACFR, capital assets and long-term liabilities as of June 30, 2021 were each restated by \$100,975,000 and leases receivable and deferred inflows of resources as of June 30, 2021 were each restated by \$659,396,000. Such restatements had no impact to beginning net position as of July 1, 2021.

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**TABLE A-1**  
**CITY OF SAN DIEGO**  
**BALANCE SHEET FOR THE GENERAL FUND**  
**Fiscal Years 2018 through 2022**  
**(in thousands (except for footnotes))**

<b>ASSETS</b>	<b><u>2018</u></b>	<b><u>2019</u></b>	<b><u>2020</u></b>	<b><u>2021</u></b>	<b><u>2022</u></b>
Cash and Investments <sup>(1)</sup>	\$ 267,033	\$ 332,016	\$ 552,417	\$ 517,194	\$ 627,325
Receivables:					
Taxes – Net <sup>(2)</sup>	106,294	107,621	92,048	117,093	130,657
Accounts – Net	37,274	27,670	28,960	29,450	33,453
Accrued Interest	1,053	1,477	1,742	922	1,169
From Other Funds <sup>(3)</sup>	27,117	31,121	10,181	27,940	45,444
From Other Agencies	10,404	1,805	3,015	4,927	1,863
Contributions	968	-	1,159	1,154	1,191
Leases <sup>(4)</sup>	-	-	-	-	604,355
Advances to Other Funds	733	733	-	-	-
Advances to Other Agencies	-	-	733	733	674
Prepaid Items	130	421	-	-	-
Restricted Cash and Investments <sup>(5)</sup>	6,087	8,945	1,534	2,139	2,320
<b>Total Assets</b>	<b>\$ 457,093</b>	<b>\$ 511,809</b>	<b>\$ 691,789</b>	<b>\$ 701,552</b>	<b>\$ 1,448,451</b>
<b>LIABILITIES</b>					
Accounts Payable <sup>(6)</sup>	\$ 42,769	\$ 44,338	\$ 46,395	\$ 44,005	\$ 70,145
Accrued Wages and Benefits	31,647	35,514	46,421	46,939	52,232
Due to Other Funds	-	-	-	-	-
Due to Other Agencies	9	15	-	-	-
Unearned Revenue <sup>(7)</sup>	-	-	156,665	150,213	201,095
Contract Deposits	-	-	-	-	125
Other Accrued Liabilities	1,276	1,508	10,541	9,963	15,009
<b>Total Liabilities</b>	<b>\$ 75,701</b>	<b>\$ 81,375</b>	<b>\$ 260,022</b>	<b>\$ 251,120</b>	<b>\$ 338,606</b>
<b>TOTAL DEFERRED INFLOWS OF RESOURCES<sup>(4)</sup></b>	<b>\$ 27,588</b>	<b>\$ 18,267</b>	<b>\$ 21,301</b>	<b>\$ 20,990</b>	<b>\$ 629,185</b>
<b>FUND BALANCE</b>					
Nonspendable	\$ 863	\$ 1,154	\$ -	\$ -	\$ -
Restricted <sup>(8)</sup>	132,307	160,400	195,085	193,301	200,861
Committed	100,483	92,189	88,665	89,203	100,866
Assigned <sup>(9)</sup>	24,717	42,842	2,133	10,598	20,036
Unassigned <sup>(10)</sup>	95,434	115,582	124,583	136,340	158,897
<b>Total Fund Balance</b>	<b>\$ 353,804</b>	<b>\$ 412,167</b>	<b>\$ 410,466</b>	<b>\$ 429,442</b>	<b>\$ 480,660</b>
<b>Total Liabilities &amp; Fund Balance</b>	<b>\$ 457,093</b>	<b>\$ 511,809</b>	<b>\$ 691,789</b>	<b>\$ 701,552</b>	<b>\$ 1,448,451</b>

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

- 
- (1) Cash increased in Fiscal Year 2019 due to an excess of revenue over expenditures compared to prior years. The increased amounts in Fiscal Years 2020 through 2022 cash is primarily due to unspent Coronavirus Relief Economic Securities Act (the “CARES Act”) and American Rescue Plan Act (“ARPA”) funding.
  - (2) The Tax Receivables decrease in Fiscal Year 2020 and subsequent increases in Fiscal Years 2021 and 2022 are due to a reduction in the Sales Tax accrual and TOT due to the impacts from the COVID-19 pandemic and the subsequent gradual recovery in the following Fiscal Years.
  - (3) The Fiscal Year 2020 decrease in Receivables from Other Funds is due to an increase in cash funded grants resulting in reduced need for interfund loans to cover unreimbursed expenditures. Increases in subsequent years are due to grants carrying an un-reimbursed balance that required interfund loans.
  - (4) Increase in Fiscal Year 2022 is a result of the implementation of GASB Statement No. 87 (Leases). See the paragraph immediately preceding Table A-1.
  - (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. Due to a certain building being non-operational, the City requested a return of cash in Fiscal Year 2020 for these operating agreements, resulting in a decrease in Restricted Cash and Investments. See “BONDED AND OTHER INDEBTEDNESS—Long-Term Obligations” and Table A-15.
  - (6) Increase in Accounts Payable is primarily due to the increase of unpaid invoices for equipment purchases in Department of Information & Technology.
  - (7) Unearned Revenue amounts represent the balance of CARES Act/ARPA funding that was received and remained unspent at the end of each respective Fiscal Year.
  - (8) The City’s Emergency Reserve is included in the Restricted Fund Balance. See “— Reserves.”
  - (9) The increase in Assigned Fund Balance for Fiscal Year 2019, and subsequent decrease in Fiscal Year 2020, is due to the budgeted use of fund balance for the Fiscal Year 2020 budget. The increases in Assigned Fund Balance in Fiscal Year 2021 and Fiscal Year 2022 are primarily the result of setting aside deferred rent payments on a non-operational building until a settlement could be reached. The settlement was reached in early Fiscal Year 2023. See “BONDED AND OTHER INDEBTEDNESS—Long-Term Obligations” and Table A-15.
  - (10) The City’s Stability Reserve and the Pension Reserve are included in the Unassigned Fund Balance. See “— Reserves.”
- Source: Table: Fiscal Years 2018-2022 ACFRs, 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, 2018 through 2022**  
**(in thousands (except for footnotes))**

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
<b>REVENUES</b>					
Property Taxes	\$ 535,481	\$ 570,627	\$ 609,297	\$ 641,395	\$ 663,142
Sales Taxes	282,321	314,362	292,525	313,858	387,872
Transient Occupancy Taxes <sup>(1)(2)</sup>	121,904	131,926	95,243	68,086	136,468
Franchises <sup>(3)</sup>	96,208	97,259	93,336	93,979	114,621
Other Local Taxes	52,608	66,375	68,026	72,302	75,727
Licenses and Permits	22,000	28,366	37,756	44,211	43,842
Fines, Forfeitures and Penalties	30,708	28,582	27,918	23,978	30,506
Revenues from Federal Agencies <sup>(4)</sup>	2,053	1,454	92,462	157,790	100,123
Revenues from Other Agencies	10,012	8,558	9,685	12,579	9,679
Revenues from Private Sources	1,225	858	688	155	220
Revenues from Use of Money and Property <sup>(5)</sup>	71,994	83,544	75,343	50,520	59,396
Charges for Current Services <sup>(6)</sup>	263,266	291,439	296,599	271,786	322,149
Other Revenue	12,236	12,418	13,080	15,331	13,881
<b>Total Revenues</b>	<b>\$ 1,502,016</b>	<b>\$ 1,635,768</b>	<b>\$ 1,711,958</b>	<b>\$ 1,765,970</b>	<b>\$ 1,957,626</b>
<b>EXPENDITURES</b>					
Current:					
General Government and Other Support Services	\$ 333,591	\$ 361,134	\$ 421,306	\$ 411,709	\$ 449,925
Neighborhood Services <sup>(7)</sup>	33,650	34,796	43,398	74,660	46,712
Public Safety <sup>(8)</sup>	740,775	768,568	829,819	865,690	919,224
Parks, Recreation and Culture	167,965	173,627	173,080	171,546	184,384
Transportation	121,837	119,226	117,705	121,946	141,408
Sanitation and Health	91,166	94,711	102,279	88,982	99,329
Capital Outlay	34,602	16,671	11,517	13,967	12,851
Debt Service:					
Principal Retirement <sup>(9)(10)</sup>	7,058	9,180	13,081	10,658	20,073
Interest <sup>(10)</sup>	7,713	7,969	8,367	4,952	3,383
<b>Total Expenditures</b>	<b>\$ 1,538,357</b>	<b>\$ 1,585,882</b>	<b>\$ 1,720,552</b>	<b>\$ 1,764,110</b>	<b>\$ 1,877,289</b>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(36,341)</u>	<u>49,886</u>	<u>(8,594)</u>	<u>1,860</u>	<u>80,337</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers from Proprietary Funds <sup>(11)</sup>	\$ -	\$ 8,239	\$ 4,915	\$ 16,700	\$ -
Transfers from Other Funds <sup>(12)</sup>	47,231	33,836	40,498	22,839	37,714
Transfers to Proprietary Funds	(1,862)	(235)	(2,073)	(1,380)	(217)
Transfers to Other Funds <sup>(13)</sup>	(44,319)	(42,904)	(37,796)	(20,960)	(68,499)
Proceeds from the Sale of Capital Assets	-	53	-	853	3
Capital Leases <sup>(14)</sup>	15,636	9,488	1,349	-	-
Leases <sup>(15)</sup>	-	-	-	-	851
Proceeds from Financed Purchases <sup>(15)</sup>	-	-	-	-	1,029
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>\$ 16,686</b>	<b>\$ 8,477</b>	<b>\$ 6,893</b>	<b>\$ 18,052</b>	<b>\$ (29,119)</b>
Extraordinary Gain/Loss	\$ -	\$ -	\$ -	\$ -	\$ -
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	<u>(19,655)</u>	<u>58,363</u>	<u>(1,701)</u>	<u>19,912</u>	<u>51,218</u>
<b>FUND BALANCE AT JULY 1</b>	<u>373,459</u>	<u>353,804</u>	<u>412,167</u>	<u>409,530</u>	<u>429,442</u>
<b>FUND BALANCE AT FOLLOWING JUNE 30</b> <sup>(16)</sup>	<b><u>\$ 353,804</u></b>	<b><u>\$ 412,167</u></b>	<b><u>\$ 410,466</u></b>	<b><u>\$ 429,442</u></b>	<b><u>\$ 480,660</u></b>

(Footnotes (unaudited) to Table A-2)

- (1) Amounts only include the General Fund portion of TOT revenues, which is 5.5% of the 10.5% levy. The balance of TOT revenues (i.e. 5.0% of the 10.5% levy) is allocated to the TOT Special Revenue Fund. Of this 5.0% balance, approximately 1% may be used to reimburse the General Fund for tourism promotion costs or transferred to the General Fund for any purpose approved by the City Council. Such amounts transferred to the General Fund, if any, are shown in “Other Revenue.” See “Major Revenue Sources — *Transient Occupancy Tax*.”
- (2) Increase in Fiscal Year 2022 primarily due to the San Diego area’s tourism industry experiencing a recovery from the COVID-19 pandemic.
- (3) Increase in Fiscal Year 2022 primarily due to a new franchise agreement with San Diego Gas & Electric (“SDG&E”) which took effect in June 2021. See “Major Revenue Sources — *Franchise Fees*.”
- (4) The increases in Fiscal Years 2020 through 2022 are primarily due to recognition of revenues received under the CARES Act and ARPA. See “COVID-19 Related City Programs — *COVID-19 Funding*.”
- (5) Revenue from Use of Money and Property decreased in Fiscal Year 2021 primarily due to reduced rent payments from City tenants and lessees, with the largest decrease resulting from Mission Bay lessees. This decrease was largely attributed to reduced rent payments from SeaWorld, which comprises 30 to 40 percent of all Mission Bay revenue and has been operating at a reduced capacity.
- (6) The increase in Fiscal Year 2022 is primarily due to additional reimbursement for qualifying expenses related to the safety and maintenance of visitor-related facilities, and increased assessments from the San Diego Tourism Marketing District, both of which were related to the San Diego area’s tourism industry recovery from the COVID-19 pandemic.
- (7) The increase in Neighborhood Services expenses in Fiscal Year 2021 is primarily due to additional services associated with the maintenance of visitor-related facilities as needed with the impact of COVID-19. The reduction in Fiscal Year 2022 is a result of reduced maintenance expenses and reduced funding for programs intended to mitigate the financial impact of the COVID-19 pandemic on businesses and residents (e.g. rental assistance programs and small business relief programs).
- (8) The increase in Public Safety expenses in Fiscal Year 2021 and Fiscal Year 2022 is primarily due to additional services associated with safety and maintenance of visitor-related facilities due to the impact of COVID-19.
- (9) As a result of the implementation of GASB Statement No. 87, Principal Retirement in Fiscal Year 2022 includes recording of entries associated with operating leases. See the paragraph immediately preceding Table A-1.
- (10) Includes principal and interest associated with capital leases and amounts associated with GASB Statement No. 87 qualifying leases beginning in Fiscal Year 2022. Does not include debt service on the Prior Bonds, which amounts are shown in Transfers to Other Funds.
- (11) Increase in Transfers From Proprietary Funds in Fiscal Year 2021 due to the transfer of funds held in an internal service fund to the General Fund to be used to purchase replacement vehicles. Amount being held exceeded anticipated needs and difference was returned to contributing funds.
- (12) Transfers from Other Funds in Fiscal Year 2022 increased primarily increases in from TOT Special Revenue Fund (see footnote 1 above).
- (13) Increase in Transfer to Other Funds in Fiscal Year 2022 primarily due to the resumption of transfers that had been waived during the pandemic in addition to new budgeted transfers. Transfers include funding for infrastructure needs, park improvements, climate equity, and arts & culture. Includes transfers for debt service on the Prior Bonds.
- (14) With implementation of GASB Statement No. 87, beginning Fiscal Year 2022, this category will no longer be reported. See the paragraph immediately preceding Table A-1.
- (15) Proceeds from Financed Purchases and Leases are new categories in Fiscal Year 2022 due to the implementation of GASB Statement No. 87. See the paragraph immediately preceding Table A-1.
- (16) The \$936,000 difference between Ending Balance for Fiscal Year 2020 and Beginning Balance for Fiscal Year 2021 is due to a reclassification of the Storm Drain Revenue Fund as a special revenue fund. The reclassification was undertaken in an effort to ensure compliance with Proposition 218, which places restrictions on the collection and uses of Storm Drain fees.

Source: Tables: Fiscal Years 2018-2022 ACFRs, 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 2021 and 2022, and the Fiscal Year 2023 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.

**TABLE A-3  
CITY OF SAN DIEGO  
GENERAL FUND  
OPERATING BUDGET SUMMARY  
Fiscal Years 2021 through 2023  
(in thousands (except for footnotes))**

	<b>Fiscal Year 2021</b>	<b>Fiscal Year 2022</b>	<b>Fiscal Year 2023</b>
	<b>Actuals on a Budgetary Basis<sup>(1)</sup></b>	<b>Actuals on a Budgetary Basis<sup>(1)</sup></b>	<b>Adopted Budget<sup>(2)</sup></b>
<b>REVENUE SOURCES:</b>			
Property Tax	\$ 641,395	\$ 663,141	\$ 706,244
Sales Tax <sup>(3)</sup>	303,665	375,602	380,245
Property Transfer Tax <sup>(4)</sup>	13,701	17,404	15,492
Transient Occupancy Tax <sup>(5)</sup>	68,086	136,468	135,182
Licenses and Permits	44,211	43,841	56,469
Fines, Forfeitures, and Penalties <sup>(6)</sup>	23,895	30,279	34,473
Interest Earnings	2,293	996	3,408
Franchises <sup>(7)</sup>	77,826	91,403	95,596
Other Rents and Concessions <sup>(8)</sup>	52,014	70,301	60,476
Revenue from Other Agencies/Private Sources	10,653	8,005	5,333
Charges for Current Services <sup>(9)</sup>	124,695	174,506	203,459
Transfers from Other Funds <sup>(10)</sup>	235,839	189,456	250,378
Other Revenue	6,907	7,539	2,050
<b>Total General Fund Revenues and Transfers</b>	<b>\$ 1,605,180</b>	<b>\$ 1,808,942</b>	<b>\$ 1,948,805</b>
<b>EXPENDITURES:</b>			
Public Safety	\$ 861,967	\$ 928,464	\$ 852,598
Parks, Recreation, Culture and Leisure	172,794	190,469	181,440
Sanitation and Health	91,337	102,697	97,554
Transportation	69,611	79,219	70,787
Neighborhood Services <sup>(11)</sup>	70,286	47,111	75,522
General Government and Support	271,429	305,455	278,524
Capital Projects	917	1,701	1,487
Debt Service <sup>(12)</sup>	15,041	14,167	21,754
Transfers to Other Funds <sup>(13)</sup>	36,611	90,947	41,270
<b>Total General Fund Expenditures and Transfers</b>	<b>\$ 1,589,993</b>	<b>\$ 1,760,230</b>	<b>\$ 1,620,936</b>

*(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) Based on the adopted budget for Fiscal Year 2023.
- (3) Fiscal Year 2022 increase in Sales Tax revenues is primarily due to recovery from the COVID-19 pandemic.
- (4) Fiscal Year 2022 increase in Property Transfer Tax revenues is due to higher collections from the sale of new property and new construction.
- (5) Fiscal Year 2022 increase in TOT revenues is primarily due to the San Diego area’s tourism industry experiencing a recovery from the COVID-19 pandemic.
- (6) Fiscal Year 2022 increase in Fines, Forfeitures and Penalties is primarily attributable to the recovery from the COVID-19 pandemic.
- (7) Increase in Franchises in Fiscal Year 2022 is attributed to the new agreement with SDG&E. See “Major Revenue Sources — Franchise Fees.”
- (8) Fiscal Year 2022 increase in Other Rents and Concessions is primarily attributable to the recovery from the COVID-19 pandemic.
- (9) The increase in Charges for Current Services in Fiscal Year 2022 is primarily due to additional reimbursement for qualifying expenses related to the safety and maintenance of visitor-related facilities, and increased assessments from the San Diego Tourism Marketing District, both of which were related to the San Diego area’s tourism industry recovery from the COVID-19 pandemic.
- (10) Fiscal Year 2022 decrease in Transfers from Other Funds is due to less funding from CARES Act funding as compared to Fiscal Year 2021.
- (11) The Fiscal Year 2022 decrease in Neighborhood Services is a result of reduced maintenance expenses and reduced funding for programs intended to mitigate the financial impact of the COVID-19 pandemic on businesses and residents (e.g. rental assistance programs and small business relief programs).
- (12) Includes principal and interest associated with capital leases and amounts associated with GASB Statement No. 87 qualifying leases beginning in Fiscal Year 2022. Does not include debt service on the Prior Bonds, which amounts are shown in Transfers to Other Funds.
- (13) Increase in Transfer to Other Funds in Fiscal Year 2022 primarily due to the resumption of transfers that had been waived during the pandemic in addition to new budgeted transfers. Transfers include funding for infrastructure needs, park improvements, climate equity, and arts & culture. Includes transfers for debt service on the Prior Bonds.

Source: Table: Fiscal Year 2021 and Fiscal Year 2022 ACFRs, City of San Diego; Fiscal Year 2023 Adopted Budget, City of San Diego.

Footnotes: Department of Finance, City of San Diego.

## **Fiscal Year 2023 Adopted Budget**

The City’s General Fund budget for Fiscal Year 2023 (the “Fiscal Year 2023 Adopted Budget”) was adopted in June 2022 and reflected a balanced General Fund budget of \$1.96 billion. The General Fund budget is approximately 38.5% of the City’s total Fiscal Year 2023 Adopted Budget of \$5.07 billion. The General Fund budgeted expenditures for Fiscal Year 2023 reflected a net increase of \$211.5 million, or 12.1%, compared to the Fiscal Year 2022 adopted General Fund budget of \$1.74 billion.

The Fiscal Year 2023 Adopted Budget includes General Fund revenues of \$1.95 billion, which represents an increase of \$205.3 million, or 11.8%, from the Fiscal Year 2022 adopted budget (the “Fiscal Year 2022 Adopted Budget”). The City’s four major General Fund revenue sources account for approximately \$1.32 billion, or 67.6%, of the City’s General Fund revenue in the Fiscal Year 2023 Adopted Budget. These sources are property taxes (36.2%), sales taxes (19.5%), TOT (6.9%), and franchise fees (4.9%). Major General Fund revenues sources in the Fiscal Year 2023 Adopted Budget were projected to increase by \$148.7 million, or 12.7%, from the Fiscal Year 2022 Adopted Budget.

The Fiscal Year 2023 Adopted Budget includes property tax revenues of \$706.2 million. This represents an increase of \$34.0 million, or 5.1%, from the Fiscal Year 2022 Adopted Budget. The Property tax revenues in the Fiscal Year 2023 Adopted Budget reflect a 6.0% growth. The Fiscal Year 2023 Adopted Budget assumes a collection rate of 99.2%, which represents a projected return to pre-pandemic levels. The Fiscal Year 2023 Adopted Budget also includes a projected increase in “property tax in-lieu of motor vehicle license fee” payments, which is property tax revenue received from the State to replace the Motor Vehicle License fee (“MVLFF”) that was repealed in 2004. The Fiscal Year 2024-2028 Five-Year Outlook, which will

inform the preparation of the Fiscal Year 2024 budget, shows projected property tax growth which is relatively consistent the projections in the Fiscal Year 2023 Adopted Budget. See “Major Revenue Sources — Property Taxes” below.

The Fiscal Year 2023 Adopted Budget includes sales tax revenues of \$380.2 million. This represents an increase of \$59.4 million, or 18.5%, from the Fiscal Year 2022 Adopted Budget. Sales tax revenues in the Fiscal Year 2023 Adopted Budget reflect a growth rate of 3.0% and is based on decreasing unemployment rates, increased consumer confidence, and the rise in price of goods due to elevated inflation. The growth in sales tax is considered moderate, when compared to the accelerated growth and recovery experienced since the inception of the COVID-19 pandemic. See “Major Revenue Sources — Sales Tax” below.

The Fiscal Year 2023 Adopted Budget includes total TOT revenue of \$256.7 million, \$135.2 million of which is allocated to the General Fund (i.e. the 5.5 cent portion of the 10.5 cent per dollar TOT rate). The General Fund allocation represents an increase of \$39.7 million, or 41.6%, from the Fiscal Year 2022 Adopted Budget. TOT revenues in the Fiscal Year 2023 Adopted Budget reflect a 5.47% growth rate and assumes that leisure travel, which has led the recovery for TOT revenues towards pre-pandemic levels, will continue to increase based on favorable economic conditions, including improving employment levels, reduced public health concerns with respect to COVID-19, and pent-up consumer demand for travel and services resulting from the pandemic-related business closures and travel restrictions. Additionally, progressive increases in group and international travel are anticipated as pandemic-related restrictions are revised. The gradual return of group travel is contingent on the type of group. For instance, large events are anticipated to recover at a slower pace. These assumptions are consistent with assumptions and data reported by Tourism Economics in the May 2022 San Diego Lodging Forecast. See “Major Revenue Sources — Transient Occupancy Tax” below.

The Fiscal Year 2023 Adopted Budget includes Franchise Fee revenue of \$95.6 million which represents 4.9% of the General Fund revenue budget; this is an increase of \$15.6 million, or 19.5%, from the Fiscal Year 2022 Adopted Budget. Franchise Fee revenue is generated from agreements with private utility companies in exchange for use of the City's rights-of-way. See “Major Revenue Sources — Franchise Fees” below.

In addition to increases in the four major General Fund revenues, other General Fund revenue sources reflect an increase of \$56.6 million, primarily attributed to reimbursements from the TOT Special Revenue Fund to support the safety and maintenance of visitor related facilities, new or revised user fee revenue as a result of the Fiscal Year 2023 Comprehensive User Fee Study, and one-time revenue increases related to the implementation of the Short-Term Residential Occupancy Program. The Short-Term Residential Occupancy Program requires a license for all short-term residency occupancy of a dwelling unit, or a part thereof, for less than one month with the City. See “—Major Revenue Sources—*Transient Occupancy Tax*—Short-Term Rental Occupancy Licenses.”

Total General Fund expenditures included in the Fiscal Year 2023 Adopted Budget equal \$1.96 billion, which represents an increase of \$211.5 million, or 12.1% from the Fiscal Year 2022 Adopted Budget. The Fiscal Year 2023 General Fund Adopted Budget addressed the Fiscal Year 2023 baseline shortfall that was projected in the Fiscal Year 2023-2027 Five-Year Financial Outlook and includes funding to maintain current service levels and adds enhanced and new services. New services include support for storm water regulatory compliance, the Climate Action Plan, additional homelessness services and programs and operational support for new parks and recreation facilities. Notable increases to maintain current services include parking enforcement, SB 1383 - Organics Waste Diversion, homelessness services and programs, maintenance of the City right-of-way, responding to residents’ requests for service, and cost increases for non-discretionary expenditures, salaries and fringe benefits. The Fiscal Year 2023 Adopted Budget included 8,336.39 budgeted full-time equivalent (“FTE”) positions in the General Fund, which reflects a net increase of 605.36 FTE positions, or 7.8%, from the Fiscal Year 2022 Adopted Budget. The Fiscal Year 2023 Adopted

Budget included the use of funding received under ARPA. See “COVID-19 Related Funding and Programs — COVID-19 Funding.”

To meet the City Charter requirement of a balanced budget, the City has a policy of supporting ongoing expenditures with ongoing revenues. However, given that the City was still recovering from revenue losses associated with the COVID-19 pandemic, the City budgeted to use a significant number of one-time resources, including ARPA funds, to balance the Fiscal Year 2023 Adopted Budget to maintain core services. Of the Fiscal Year 2023 General Fund expenditures budgeted increase of \$211.5 million, approximately \$203.4 million were budgeted to be funded with one-time resources. In contrast, approximately \$165.2 million of the budgeted expenditure increases were one-time in nature. The City currently anticipates General Fund revenues to continue to exceed pre-pandemic levels in future fiscal years. However, if the addition of ongoing expenditures in Fiscal Year 2024 and future fiscal years outpace projected revenue growth, budget deficits will persist, which would require actions to maintain a balanced budget.

### **Fiscal Year 2023 Budget Monitoring**

The City released the Mid-Year Budget Monitoring Report on February 3, 2023 (the “Mid-Year Monitoring Report”). The Mid-Year Monitoring Report includes updates on major General Fund revenue projections and expenses for Fiscal Year 2023. The Fiscal Year 2023 Adopted Budget assumed that major General Fund revenues would exceed pre-pandemic levels. As projected in the Mid-Year Monitoring Report, the major General Fund revenues are generally surpassing the expectations in the Fiscal Year 2023 Adopted Budget.

Based on receipts through November 30, 2022, an increase of \$33.2 million in General Fund revenues is projected at the end of Fiscal Year 2023 from the amount included in the Fiscal Year 2023 Adopted Budget. The increase is comprised of General Fund major revenues projected to exceed the amounts included in the Fiscal Year 2023 Adopted Budget by \$44.0 million, which increase is partially offset by projected reductions in departmental revenues of \$10.8 million. The projected increase is primarily due to the following: (i) a \$20.6 million increase in TOT revenues as a result of higher than anticipated room prices, driven by inflation and continued pent-up demand for leisure travel; (ii) an increase of \$9.4 million in property tax revenues driven by an increase in home sales, assessed values in properties, redevelopment and new construction, and an unanticipated increase of recaptured revenue from Proposition 8 properties from prior years; and (iii) an increase in sales tax revenues of \$4.3 million attributed to sustained consumer spending and the increasing impact of inflation on taxable goods.

The Mid-Year Monitoring Report projects General Fund expenditures to be \$6.1 million below the amount in the Fiscal Year 2023 Adopted Budget at the end of Fiscal Year 2023, with net savings projected in both personnel expenditures and non-personnel expenditures. While variances exist at a categorical level, the savings are primarily due to allocations included in the Fiscal Year 2023 Adopted Budget as placeholders to cover anticipated expenditures for various labor-related items for which the ultimate costs and fund distribution were unknown when the budget was adopted.

The Mid-Year Monitoring Report projects General Fund revenues of \$1,982.0 million to exceed expenditure projections of \$1,954.9 million, resulting in an increase to projected ending fund balance in Fiscal Year 2023 in excess of reserves (“Excess Equity”) of \$27.1 million. The Fiscal Year 2023 projections in the Mid-Year Monitoring Report include the City’s use of approximately \$147.6 million in ARPA funds to provide continued City operations without having to reduce services.

With the Mid-Year Monitoring Report, the Mayor is recommending budget appropriation adjustments for the City Council’s consideration to allow for continued departmental operations. These budget reallocations are supported by savings in departments and are not expected to impact the General Fund’s bottom-line budget.

## Five-Year Financial Outlook

The City's Five-Year Outlook was released in November 2022. The Five-Year Outlook is focused on the City's General Fund, guides long-range fiscal planning and serves as the framework for the development of each Fiscal Year budget including the Fiscal Year 2024 budget. However, the Five-Year Outlook is itself not a budget document and is intended to provide the City Council, key stakeholders, and the public with information to facilitate an informed discussion in preparation for the development of the Fiscal Year 2024 budget. Actual expenditures and reserve contributions (if any) in future Fiscal Year budgets (including the Fiscal Year 2024 budget) will be subject to Council approval.

The City monitors economic indicators, developments and authorized policies, including, for example, federal and State monetary policy responses to persistently high inflation, ongoing supply chain issues, the risk of recession and international instabilities. However, the Five-Year Outlook may not reflect in its forecast, economic indicators and policies which effect on the City's financial operations cannot be determined or reasonably quantified at the time that the outlook is prepared.

The Five-Year Outlook focuses on baseline revenues and expenditures, including updating forecasts for revenues and expenditures necessary to maintain the City's service levels as reflected in the Fiscal Year 2023 Adopted Budget. In addition to the baseline forecast, the Five-Year Outlook includes projected costs to operate new facilities and for planned commitments. The Five-Year Outlook was developed based on certain information available and known at the time of the preparation of the report; however, risks to the projections include events that may or will occur during the outlook period whose outcomes cannot be predicted or reasonably quantified. As of the publication date of the Five-Year Outlook, the City's Fiscal Year 2024-2028 baseline expenditure projections will exceed revenue projections for the next three Fiscal Years (\$50.5 million projected deficit in Fiscal Year 2024, \$22.6 million projected deficit in Fiscal Year 2025, and \$20.9 million projected deficit in Fiscal Year 2026). The Five-Year Outlook projects baseline revenues exceeding projected baseline expenditures by \$0.7 million in Fiscal Year 2027 and \$6.1 million in Fiscal Year 2028. However, this does not include ongoing expenditure additions which may occur during each annual budget process.

The Five-Year Outlook forecasts the continuance of the economic recovery from the effects of the COVID-19 pandemic in Fiscal Year 2024 and moderate growth rates throughout the outlook period. The Five-Year Outlook revenue forecast balances current favorable, yet softening economic conditions with moderate growth in the City's General Fund revenues. 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 key expenditure assumptions in the Five-Year Outlook include:

With respect to salaries and wages, the Five-Year Outlook assumes the continuation of the current MOUs, anticipated step increases, and annualizations of positions that were prorated in the Fiscal Year 2023 Adopted Budget. Additionally, the Five-Year Outlook assumes a general wage increase of 3.05% for all recognized employee organizations ("REOs") following the current MOUs. The 3.05% annual general wage increase is consistent with the salary inflation assumptions included in the SDCERS actuarial report as of June 30, 2021. The final negotiated salary compensations will be reported in the Fiscal Year 2024 adopted budget once those fiscal impacts have been determined. Any future negotiated general wage increases that deviate from the 3.05% assumption will impact future year personnel costs included in the outlook period. Additional information regarding approved labor agreements with the REOs is described in the "LABOR RELATIONS" section.

The City's pension contribution or Actuarially Determined Contribution ("ADC") is assumed to increase as projected in the San Diego City Employees' Retirement System ("SDCERS") City of San Diego

Actuarial Valuation Report as of June 30, 2021 (“2021 Actuarial Valuation”). The Five-Year Outlook also includes estimated increases to the ADC based on estimated amortization of Fiscal Year 2022 investment losses and an estimated amortization of Proposition B-related unfunded actuarial liability.

In accordance with City Charter section 77.1, the Five-Year Outlook assumes an Infrastructure Fund deposit of \$21.9 million in Fiscal Year 2024 and additional contributions projected each year of the outlook period. The projected deposits represent the portion of the sales tax increment, as no new deposits are anticipated for the General Fund pension cost savings.

The Five-Year Outlook assumes General Fund reserve contributions throughout the outlook period to reach reserve target levels of 16.7 percent by Fiscal Year 2030. The impacts of the COVID-19 pandemic on City’s revenues and expenditures resulted in anticipated contributions to the General Fund reserve in Fiscal Year 2021 and Fiscal Year 2022 being deferred to future Fiscal Years. The Five-Year Outlook assumes General Fund reserve contributions resuming in Fiscal Year 2024. The General Fund reserve replenishment plan in the Five-Year Outlook includes a \$5.0 million contribution in Fiscal Year 2024, and contributions ranging from \$19.1 million to \$22.3 million in Fiscal Years 2025 through 2028. Reserve contributions, if any, will depend on the revenues and expenditure needs in future Fiscal Years and may be subject to additional deferrals.

As described below under the caption “—Reserves,” the General Fund reserve has two components – the Emergency Reserve and the Stability Reserve. The following table shows the assumed General Fund reserve (i.e. the Emergency Reserve and the Stability Reserve) contribution amounts and the reserve level targets for each Fiscal Year through the Fiscal Year 2028 projection period in the current Five-Year Outlook. Such contributions, if made, would allow the City to reach such reserve target by Fiscal Year 2030. Future Fiscal Year reserve contributions will require approval through the annual budget process. There can be no assurances that such reserve contributions will be made and that such reserve level targets will be reached.

**TABLE A-4**  
**CITY OF SAN DIEGO**  
**PROJECTED GENERAL FUND RESERVE**  
**CONTRIBUTIONS AND TARGETS**  
**Fiscal Years 2024 through 2028**  
**(in millions)**

	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>
General Fund Reserve Target (%)	13.6%	13.6%	14.1%	14.7%	15.4%
General Fund Reserve Level Projection (\$)	\$212.1	\$231.2	\$251.5	\$273.3	\$295.6
General Fund Reserve Contribution	\$5.0	\$19.1	\$20.3	\$21.7	\$22.3

Source: Five-Year Outlook (Fiscal Years 2024-2028), City of San Diego.

No reserve contributions are projected for the Pension Payment Stabilization Reserve (the “Pension Reserve”) through the Fiscal Year 2028 projection period in the current Five-Year Outlook. Instead, contributions to the Pension Reserve are projected to commence after the City has reached the 16.7% reserve target for the General Fund reserves.

Any changes to the California Consumer Price Index and/or changes to projected revenues can have impacts on the final reserve contribution and infrastructure deposit. See “—Reserves” below.

While the Five-Year Outlook does not demonstrate a structurally balanced budget each year, prior Five-Year Outlooks have historically projected budget deficits as well. The Five-Year Outlook does not assume any ongoing budget balancing measures, and therefore deficits are compounded from year to year. The projected revenues and expenditures for future fiscal years reflect the impacts of current year assumptions

and need not reflect a balanced budget, as any shortfalls will be addressed at the adoption of the budget for the applicable fiscal year. Pursuant to the Charter, the Fiscal Year 2024 proposed budget is required to be released by April 15, 2023, 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.

The Five-Year Outlook presents potential mitigation actions that could be proposed to address the projected deficits in Fiscal Years 2024 through 2026 including: (1) use of ARPA funds (with a projected remaining balance of \$52.1 million that must be used by December 31, 2024), and (2) use of Excess Equity (projected at \$103.9 million for Fiscal Year 2023 in the Mid-Year Monitoring Report).

## **Reserves**

***City Reserve Policy.*** The City maintains a formal reserve policy (the “City Reserve Policy”), which establishes funding targets for the City’s General Fund Reserve, Pension Payment Stabilization Reserve, and Risk Management Reserves, as well as reserves in various special and enterprise funds. The City Reserve Policy is reviewed biennially and any changes are approved by the City Council and incorporated into Council Policy 100-20. The most recent updates to the City Reserve Policy were approved by the City Council in December 2022. The current City Reserve Policy (i.e. which includes the updates approved in December 2022) sets a General Fund Reserve target of 16.7% of the most recent three-year average of annual audited General Fund operating revenues by June 30, 2030 and contributions to the Pension Reserve to begin once the General Fund Reserve target has been met.

***General Fund Reserve.*** The City’s General Fund Reserve is comprised of two separate components – the Emergency Reserve and the Stability Reserve. The City Reserve Policy establishes a schedule of targets for both components of the General Fund Reserve, with the goal of reaching a target for the two reserves in the aggregate of 16.7% of the most recent three-year average of annual audited General Fund operating revenues by June 30, 2030. The target for Fiscal Year 2023 was 14.3%, which, based on the Mid-Year Monitoring Report, is currently projected to be met.

***Emergency Reserve.*** The Emergency Reserve was funded at \$106.1 million as of June 30, 2022, which is consistent with the funding schedule for such Fiscal Year in the updated City Reserve Policy. Based on the Mid-Year Monitoring Report, the City currently projects the Emergency Reserve balance to be funded at \$107.6 million as of June 30, 2023, which would be consistent with the funding schedule for such Fiscal Year in the updated City Reserve Policy.

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, 2022, which is consistent with the funding schedule for such Fiscal Year in the updated City Reserve Policy. Based on the Mid-Year Monitoring Report, the City currently projects the Stability Reserve balance to be funded at \$99.5 million as of June 30, 2023, which would be consistent with the funding schedule for such Fiscal Year in the updated City Reserve Policy.

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 General Fund Reserve is referred to in the City Reserve Policy as Excess Equity. The City ended Fiscal Year 2022 with Excess Equity of \$67 million and a total General Fund balance (General Fund Reserves, Excess Equity and adjustments to show fund balance on a budgetary basis), of approximately \$283.9 million. As reported in the Mid-Year Monitoring Report for Fiscal Year 2023, the Excess Equity balance was projected to be \$103.9 million for Fiscal Year 2023. Excess Equity is not treated as a part of the General Fund Reserves and may be used to fund one-time expenditures.

*Pension Payment Stabilization Reserve.* The Pension Reserve is used to mitigate service delivery risk due to any unanticipated increases in the pension ADC. Under the City Reserve Policy, the Pension Payment Reserve funding target is 8% of the average of the three most recent ADC contributions. The Pension Reserve was funded at \$10.6 million as of June 30, 2022, which met the Fiscal Year 2022 target.

The Fiscal Year 2023 Adopted Budget included the use of the balance of the Pension Reserve as a one-time resource to mitigate potential increases associated with the reversal of Proposition B. In accordance with the updated City Reserve Policy approved by the City Council in December 2022, contributions to the Pension Reserve will not restart until the General Fund's Emergency Reserve and Stability Reserve target levels are met. The Pension 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 consist 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 2023. In the Mid-Year Monitoring Report, the City is projecting increases in contributions of \$600,000 to each of the Workers' Compensation Reserve and the Long-Term Disability Reserve and a projected increase in the contribution to the Public Liability Reserve of \$5 million.

*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 actuarial liabilities for the three most recent Fiscal Years. As of June, 30, 2022, the Workers' Compensation Reserve was funded at \$33.3 million, which met the Fiscal Year 2022 target. The Mid-Year Monitoring Report projects that the Workers' Compensation Reserve is on target to meet the projected target for Fiscal Year 2023 of \$34.2 million. The Workers' Compensation Reserve is a component of committed fund balance in the General Fund.

*Long-Term Disability Reserve.* The Long-Term Disability Reserve provides non-industrially disabled City employees with partial income replacement 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, 2022, the Long-Term Disability Reserve was funded at \$4.3 million, which was below the Fiscal Year 2022 target of \$4.7 million. As of the Mid-Year Monitoring Report, the Long-Term Disability Reserve is on target to meet the projected \$4.9 million target for Fiscal Year 2023. 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 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, inverse condemnation, false arrest, and errors and omissions. The reserve target is equal to 50% of the average outstanding liability for the three most recent Fiscal Years. As of June, 30, 2022, the Public Liability Reserve was funded at \$33.8 million, which was below the Fiscal Year 2022 target of \$36.9 million. As of the Mid-Year Monitoring Report, the Public Liability Reserve is on target to meet the projected \$38.8 million target for Fiscal Year 2023. The Public Liability Reserve is reported as committed fund balance in 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 as of June 30, 2022, 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 Risk Management Reserves, which the City has set aside to fund claims against the City, which General Fund portion was collectively funded at approximately \$65.3 million as of June 30, 2022 (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 amount of the General Fund Reserve, which, based on the Mid-Year Monitoring Report, is projected to be \$103.9 million as of June 30, 2023; 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 City 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. Throughout the COVID-19 pandemic, the City did not require appropriating any of its reserves to address budgetary imbalances that the City attributed to the pandemic. However, the City suspended reserve contributions anticipated based on the City’s reserve policy and, as part of the recovery from the pandemic the City has revised its annual funding targets, including a \$1.5 million contribution to the Emergency Reserve during Fiscal Year 2023.

### **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, particularly 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.

As of June 30, 2022, the City’s General Fund and other eligible Operating Funds had a combined cash balance of approximately \$950.3 million, which is a portion of the \$2.0 billion cash for reported governmental activities on the Statement of Net Position. Comparatively, the cash balance for the General Fund and Operating Funds was approximately \$858.7 million as of June 30, 2021. 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 cash from other City funds is also available for General Fund activities through the Charter-permitted interfund borrowing authority.

The City can also issue tax and revenue anticipation notes ("TRANs") if needed. The California Government Code and the City Charter 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.

## **Major Revenue Sources**

**General.** The City depends on four major revenue sources to support core services funded by the General Fund. These sources are property tax, sales tax, TOT, 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 36.2% of the total General Fund revenue for the Fiscal Year 2023 Adopted Budget. The County of San Diego (the "County") assesses and collects secured and unsecured property taxes for the cities, school districts, and special districts within the County, including the City. The delinquency dates for property tax payments are December 10 for the first installment and April 10 for the second installment. Once the property taxes are collected, the County conducts its internal reconciliation for accounting purposes and distributes such taxes among local taxing agencies, including the City, on the basis of a formula established by State law 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 SDG&E, 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 MVLF that formerly went to the City. The City is compensated for the loss in MVLF revenue with increased property tax revenues from the State in lieu of the MVLF 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. 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.

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 2023 Property Tax Budget.* The Fiscal Year 2023 Adopted Budget includes budgeted property tax revenues of \$706.2 million, or 36.2% of the General Fund budget. The property tax revenues in the Fiscal Year 2023 Adopted Budget reflects a 6.0% growth. The Fiscal Year 2023 Adopted Budget also assumes a property tax collection rate of 99.2%, which represents a return to pre-pandemic levels. The Fiscal Year 2023 Adopted Budget includes a projected increase in MVLF payments. The projected growth in property tax revenue in the Fiscal Year 2023 Adopted Budget is relatively consistent with the growth forecasted in the Fiscal Year 2023-2027 Five-Year Financial Outlook as market conditions remain relatively unchanged at the time of the development of the Fiscal Year 2023 Adopted Budget. The \$706.2 million

property tax budget consists of an estimated \$478.7 million in base property tax, \$178.6 million in MVLFF payments, \$10.9 million in tax sharing pass-through payments from the Former RDA, and \$38.1 million in anticipated residual property tax payments, including \$5.8 million in one-time total tax sharing from the RPTTF associated with the sale of Tailgate Park, which is set to be transferred to the Bridge to Home Program (see “PRIORITY CITY INITIATIVES AND RELATED PROGRAMS — Homeless Programs and Services”). In the Mid-Year Monitoring Report, property tax revenue for Fiscal Year 2023 is projected to be \$715.7 million, which exceeds the adopted budget by \$9.4 million, primarily due to an increase in 1% property tax collections and an increase in MVLFF payments.

Table A-5 sets forth the assessed valuation within the City for Fiscal Years 2014 through 2023.

**TABLE A-5**  
**CITY OF SAN DIEGO**  
**ASSESSED VALUATION <sup>(1)(2)</sup>**  
**Fiscal Years Ended June 30, 2014 through 2023**  
**(in thousands (except for percentages and footnotes))**  
**(unaudited)**

<b>Fiscal Year</b>	<b>Secured Property</b>	<b>Unsecured Property</b>	<b>Total Gross Taxable Assessed Valuation<sup>(3)</sup></b>	<b>Annual Assessed Valuation % Change</b>
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	279,223,618	11,787,320	291,010,938	5.10
2022	290,246,230	10,635,870	300,882,100	3.39
2023 <sup>(4)</sup>	312,878,911	12,863,651	325,742,562	8.26

<sup>(1)</sup> The official date of assessment is the first day of January preceding the Fiscal Year during which taxes are levied. For example, January 1, 2022 is the official assessment date for property taxes due during Fiscal Year 2023.

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

<sup>(3)</sup> Total gross taxable assessed valuation before various exemptions are deducted. Fiscal Year 2023 exemptions are assessed at approximately \$13.8 billion. See Table 6 in the City’s Fiscal Year 2022 ACFR for additional information with respect to the categories of assessed properties and amounts of exemptions.

<sup>(4)</sup> Preliminary based upon the San Diego County Assessor’s Report dated July 5, 2022 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 2023.

Source: Fiscal Year 2022 ACFR Statistical Section, City of San Diego; Fiscal Year 2023 data, San Diego County Assessor.

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Table A-6 sets forth the City's secured tax collections as of June 30, 2022 for Fiscal Years 2013 through 2022.

**TABLE A-6**  
**CITY OF SAN DIEGO**  
**SECURED TAX LEVIES AND COLLECTIONS<sup>(1)</sup>**  
**Fiscal Years 2013 through 2022**  
**(in thousands (except for percentages))**  
**(unaudited)**

<b>Fiscal Year</b>	<b>Tax Levy<sup>(2)</sup></b>	<b>Current Year Collections<sup>(2)</sup></b>	<b>Current Year Collections as Percentage of Current Tax Levy</b>	<b>Total Tax Collections<sup>(3)</sup></b>	<b>Total Collections as Percentage of Current Tax Levy</b>
2013	\$299,332	\$293,577	98.08%	\$296,432	99.03%
2014	315,060	308,606	97.95	311,237	98.79
2015	331,187	325,794	98.37	328,613	99.22
2016	330,483	327,903	99.22	330,355	99.96
2017	349,650	346,510	99.10	349,361	99.92
2018	370,127	367,047	99.17	369,676	99.88
2019	391,665	388,224	99.12	391,097	99.85
2020	432,393	422,798	97.78	427,766	98.93
2021	443,719	439,043	98.95	442,478	99.72
2022	476,111	464,274	97.51	464,274	97.51

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

<sup>(2)</sup> Taxes levied and collected for the year include the local assessment only.

<sup>(3)</sup> Includes delinquent collections, net of penalties and interest.

Source: Fiscal Year 2022 ACFR Statistical Section, City of San Diego.

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Table A-7 sets forth the ten largest secured and unsecured property taxpayers in the City for the tax roll of Fiscal Year 2022.

**TABLE A-7**  
**PRINCIPAL PROPERTY TAXPAYERS IN CITY OF SAN DIEGO**  
**Tax Roll for Fiscal Year 2022**  
**(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	\$2,428,483	0.85%
Irvine Co, LLC	Real Estate	1,796,267	0.63
Kilroy Realty, LP	Real Estate	1,254,876	0.44
UTC Venture, LLC	Developer	1,188,756	0.42
A A T La Jolla Commons LLC	Property Management	852,724	0.30
Host Hotels And Resorts LP	Real Estate	827,526	0.29
One Park Boulevard, LLC	Hotel Management	521,387	0.18
Fashion Valley Mall, LLC	Developer	509,611	0.18
BEX Portfolio, LLC	Developer	498,442	0.17
La Jolla Crossroad, LLC	Developer	496,880	0.17
<b>TOTAL</b>		<b>\$10,374,952</b>	<b>3.63%</b>

Source: Fiscal Year 2022 ACFR 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 City-wide 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. The local public safety sales tax amounts are deposited in the General Fund. 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.

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. While the City receives a portion of TransNet sales tax revenues, they are not deposited in the General Fund, and are restricted to transportation projects and not available to pay the City’s General Fund lease obligations.

Online purchases (as opposed to sales through brick and mortar 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. Since the onset of the COVID-19 pandemic, there has been a slight increase in online purchases. However, with the rise in the costs of goods, the City has not experienced any impact to sales tax revenue as a result of this shift in consumer spending.

Fiscal Year 2023 Sales Tax Budget. The Fiscal Year 2023 Adopted Budget includes budgeted sales tax revenues of \$380.2 million, or 19.5%, of the General Fund revenue budget. This represents an increase of \$59.4 million, or 18.5%, from the Fiscal Year 2022 Adopted Budget. The sales tax revenues in the Fiscal Year

2023 Adopted Budget reflects a growth rate of 3.0% and is supported by decreasing unemployment rates, increasing consumer confidence, and the rise in price of goods due to elevated inflation. The growth in sales tax is considered moderate, when compared to the accelerated growth and recovery experienced since the initial reopening of business and lifting of travel restrictions resulting from the COVID-19 pandemic.

In the Mid-Year Monitoring Report, the Fiscal Year 2023 sales tax revenue projection was updated to \$384.6 million, which is \$4.3 million over budget. Projections in the Mid-Year Monitoring Report reflect revised assumptions following updated information from the City's sales tax consultant, Avenu Insights and Analytics. While the growth rate of 3.40% projected in the first quarter budget monitoring report for Fiscal Year 2023 remains unchanged and consistent with the City's sales tax consultant, sales activity through November 2022 reflects a shift in consumption patterns, seen by certain industry commentators<sup>1</sup> in the form of reduced purchase quantity, particularly for goods as a result of rising prices. However, total spending remains relatively flat as this amount is boosted by elevated inflation. Although employment, disposable income and consumer spending remains steady, the Mid-Year Monitoring Report reflects \$1.4 million lower than anticipated sales tax receipts in the second quarter of Fiscal Year 2023. Actual local sales tax growth rates could be impacted by potential federal interest rate increases, inflation impacts, higher unemployment, and changes in consumer spending. All of these factors could impact consumer confidence and/or business-to-business growth. Any potential increase or decrease in local taxable sales performance will directly impact the City's sales tax projection.

See "CITY BUDGET AND RELATED MATTERS — Fiscal Year 2023 Adopted Budget" and "— Fiscal Year 2023 Budget Monitoring" and APPENDIX B—"DEMOGRAPHIC AND ECONOMIC INFORMATION REGARDING THE CITY – Table B-4."

***Transient Occupancy Tax.*** The City's TOT is levied at 10.5 cents per dollar of the daily room price in hotels, motels and other short-term rentals used by visitors staying in the City for fewer than 30 consecutive days. The TOT is allocated pursuant to the Municipal Code, with guidelines provided by the City Council Policy 100-03. Of each 10.5 cents collected per the TOT rate, 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 2023 Transient Occupancy Tax Budget.*** The Fiscal Year 2023 Adopted Budget includes budgeted TOT revenues of \$256.7 million, of which \$135.2 million is allocated to the General Fund (i.e. the 5.5 cent portion of the 10.5 cents per dollar TOT rate). Such amount allocated comprises 6.9% of the General Fund revenue budget. The remaining funds are allocated to Special Promotional Programs, which includes the one-cent City Council discretionary TOT funding budgeted to be transferred to the General Fund, and TOT allocated for reimbursement of General Fund tourism related expenditures (see "—Miscellaneous Revenues" below).

The Fiscal Year 2023 Adopted Budget assumes a 5.47% growth rate in TOT revenues. Leisure travel, which has led the recovery for TOT revenues towards pre-pandemic levels, was projected in the Fiscal Year 2023 Adopted Budget to continue to increase based on favorable economic conditions, including improving employment levels, reduced public health concerns with respect to COVID-19, and pent-up consumer demand for travel and services resulting from the pandemic-related business closures and travel restrictions. Additionally, increases in group and international travel are anticipated as restrictions are revised. The gradual return of group travel depends on the type of group. For instance, large events are anticipated to recover at a

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<sup>1</sup> Sources include the City's Sales consultant, Avenu Insights and Analytics, UCLA Economic Forecast lead economists and other Economic Forecast Reports from Moody's Analytics, Conference Board Index of Leading Economic Indicators, and DQ News/Core Logic.

slower pace. These assumptions are consistent with assumptions and data reported by Tourism Economics in the May 2022 San Diego Lodging Forecast.

In the Mid-Year Monitoring Report, General Fund TOT revenue is projected to be \$155.8 million, which is over budget by \$20.6 million, reflecting continued performance above pre-pandemic levels. While the Fiscal Year 2023 Adopted Budget anticipated continued growth in leisure travel and progressive increases in group and international travel, it did not assume the level of impact that this demand would have on room rates while sustaining occupancy and room demand growth through the summer months of 2022. To better align with both overall TOT receipts and revised growth assumptions included in the San Diego Lodging Forecast Update released by Tourism Economics in October 2022, the growth rate for TOT was revised from 5.47% in the Fiscal Year 2023 Adopted Budget to 14.27% in the Mid-Year Monitoring Report.

*Short-Term Rental Occupancy Licenses.* The City Council passed a Short-Term Rental Occupancy Ordinance on April 14, 2021 (as revised to the date hereof, the “Rental Ordinance”) that limits the number of whole home rentals that can operate for more than 20 days per calendar year. The purpose of the Short-Term Residential Occupancy Program (“STRO Program”) is to regulate the number of short-term residential occupancy in dwelling units to balance the need to preserve neighborhood quality of life with the protection of private property rights. Licenses are valid for a two-year period and license fees are due the beginning of January every two years after applications are submitted and a lottery on those applications occurs. This results in a cyclical revenue projection of approximately \$8.1 million in Fiscal Years 2023, 2025, and 2027.

At the time the Rental Ordinance was considered, the City’s Independent Budget Analyst’s Office estimated potential loss of TOT to be between 14% to 23% of total TOT collected from short-term rentals that participate in the STRO Program. In calendar year 2019, these percentages would have equated to a reduction ranging from \$4.4 million to \$7.3 million of the total TOT collected from short-term rentals that participate in the STRO Program (\$31.5 million). The City expects that more accurate estimates for this loss in revenue will be known at the time of the development of the Fiscal Year 2024 budget. The Fiscal Year 2023 Adopted Budget does not reflect any potential impacts from the Rental Ordinance, however, since the Rental Ordinance is not expected to be enforced until April 2023, the impact on the TOT revenues for Fiscal Year 2023 is not expected to be material.

See “CITY BUDGET AND RELATED MATTERS — Fiscal Year 2023 Adopted Budget” and “— Fiscal Year 2023 Budget Monitoring” and APPENDIX B — “DEMOGRAPHIC AND ECONOMIC INFORMATION REGARDING THE CITY – Tourism.”

*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 not available to the general public. The largest of the franchise fee payers in the City are SDG&E, Cox Communications, Spectrum TV (formerly known as Time Warner), AT&T U-verse, California American Water (Cal AM), 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. The amount of franchise fee revenue from the sale of electricity and gas may be impacted by a change in rates or consumption, and SDG&E’s current expansion of Electric Vehicle infrastructure.

For the last 100 years, franchise rights have been granted to SDG&E through two 50-year terms. In June 2021, the City agreed to a new 10-year gas and electric franchise agreement with SDG&E (the “SDG&E

Agreement”), with the option to extend another 10-years. The agreement includes \$80.0 million for the gas and electric franchise rights (\$10 million for gas and \$70 million for electric) and an additional \$20.0 million to advance the City’s climate equity goals. The electric and gas franchise rights under the SDG&E Agreement have separate payment plans. The gas franchise fee will be paid in equal installment payments of \$500,000 over the entire 20 years (assuming the 10-year renewal is exercised) covered by the SDG&E Agreement. If the SDG&E Agreement is terminated at any time, the remaining payments will be voided.

The electric franchise fee will be paid in equal installments of \$10.0 million annually for the first five-years, while the final two \$10.0 million payments will be delayed until years 10 and 11 (2030 and 2031) of the SDG&E Agreement. The installment payments are subject to an annual interest rate of 3.38%. The payment in 2031 will only occur if the contract is renewed for another 10 years following the initial 10-year term. Additionally, per City Council modifications, the SDG&E Agreement requires SDG&E to contribute \$2.0 million for the first five years of the SDG&E Agreement to further the City’s climate action and equity goals—of which \$1.5 million is allocated to the Climate Equity Fund and \$500,000 is allocated to the Environmental Growth funds (“EGF”).

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 2023 Franchise Fees Budget.* The Fiscal Year 2023 Adopted Budget includes \$93.8 million in franchise fee revenue, which represents 4.9% of the General Fund revenue budget. The franchise fee revenues included in the Fiscal Year 2023 Adopted Budget is based on the average growth of actual receipts in the previous year and incorporates projected growth rates. The Fiscal Year 2023 Adopted Budget includes SDG&E franchise fee revenue of \$78.7 million. Consistent with the terms of the SDG&E Agreement, the Fiscal Year 2023 Adopted Budget also includes \$10.9 million in gas & electric franchise payments, including the annual interest rate of 3.38%, which is subject to the General Fund and EGF funds split - \$8.1 million is allocated to the General Fund, while the remaining \$2.7 million is allocated to the EGF funds. The Fiscal Year 2023 Adopted Budget also includes cable franchise fee revenue of \$12.3 million, franchise fee revenue from refuse haulers of \$13.6 million and \$2.5 million from other franchise fee sources.

In the Mid-Year Monitoring Report, General Fund franchise fee revenue is projected to be \$91.8 million, which is less than the Fiscal Year 2023 Adopted Budget amount by approximately \$2 million. The projected decrease is primarily due to the reallocation of a portion of the SDG&E payment under the SDG&E Agreement to the Energy Independence Fund, reducing the General Fund’s portion. The SDG&E payments under the SDG&E Agreement is the portion of the electric franchise fee that will be received by the City for the first five years and the last two years of the SDG&E Agreement. Subsequent to the release of the Mid-Year Monitoring Report, the Fiscal Year 2023 projection for total franchise fees increased from \$91.8 million to \$109.1 million. The revised projection is based on increased franchise fee revenues from SDG&E that were received after the Mid-Year Monitoring Report was released.

Franchise fees for solid waste collection services of a particular municipality was the subject of recent litigation. See “LIMITATIONS ON TAXES, APPROPRIATIONS AND REVENUE — Proposition 26.”

*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 2023 Miscellaneous Revenues Budget.* The Fiscal Year 2023 Adopted Budget includes budgeted Miscellaneous Revenues of \$633.4 million, which includes \$147.6 million of ARPA funding. The Fiscal Year 2023 Adopted Budget uses prior year actuals and was analyzed by each impacted department. In the Mid-Year Monitoring Report, Miscellaneous Revenues is projected to be \$634.1 million, which is over budget by \$0.7 million.

### **City Measure B – Solid Waste Management Services**

Historically, the Municipal Code required the City to provide solid waste collection services, without charge, from eligible residential properties with direct access to a dedicated City street. The costs of such collection services have been funded from the General Fund. At the November 8, 2022 election, voters within the City approved Measure B, which amended the Municipal Code to provide the City with the option to recover costs for solid waste management services from such residential properties. The City does not provide solid waste collection from most multi-family residences, single family homes on private streets and businesses.

The adoption of a cost recovery fee would relieve the City’s General Fund from having to support all or a portion of the costs of solid waste collection services. According to a report issued by the City’s Independent Budget Analyst in September 2021, in Fiscal Year 2022, the cost to the General Fund to provide solid waste collection services to City residents was \$43.2 million. The report projected that the costs to provide solid waste collection services will range between \$45.6 million and \$48.5 million from Fiscal Year 2023 through Fiscal Year 2027. The actual relief to the General Fund could be materially higher or lower than the foregoing estimates based on factors such as, among others, the actual costs of service and any City subsidy provided for such costs.

The City’s Environmental Services Department expects to initiate a cost of service study to determine appropriate fee levels in accordance with Propositions 218 and 26 (see “LIMITATIONS ON TAXES, APPROPRIATIONS AND REVENUE — Articles XIIC and XIID of the California Constitution” and “— Proposition 26”). The City Council will need to approve any new fees associated with solid waste collection services. The City currently expects that it will take at least two Fiscal Years to complete the cost of service study and the proceedings required by Proposition 218. The current Five-Year Outlook (which includes projections through Fiscal Year 2028) was prepared prior to the certification of the passage of Measure B and does not reflect any impact of a cost recovery fee for solid waste collection services.

### **COVID-19 Related Funding and Programs**

*General.* In early 2020, the onset of the global COVID-19 pandemic resulted in many fiscal challenges, 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 resulted in significant declines in City revenues in Fiscal Years 2020 and 2021. The outbreak resulted in temporary closing of businesses, universities, and schools throughout California. 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. On October 17, 2022, Governor Newsom announced that the State’s declaration of emergency with respect to the COVID-19 pandemic will end on February 28, 2023. On January 24, 2023, City Council voted unanimously to end the City’s COVID-19 State of Emergency on February 28, 2023.

The temporary closures caused by COVID-19 led to an increase in unemployment across the County and the nation. In May 2020, the City’s unemployment rate reached a pandemic-period high of 14.9%. According to a report released by the U.S. Bureau of Labor Statistics, the City’s unemployment rate was 3.2% as of November 2022, which was much closer to pre-pandemic level of 3.1% in February 2020. Effects of the

COVID-19 pandemic or other health emergencies could arise in the future which negatively impact the City’s finances and operations. The City cannot predict the extent or duration of such impacts. See “CERTAIN RISK FACTORS — Impacts and Potential Impacts of COVID-19 on the City” in the Official Statement.

**COVID-19 Funding.** On March 27, 2020, the federal CARES Act was signed into law, which provided \$150 billion in payments to states and local governments. In April 2020, the City received approximately \$248.5 million of funding made available through the CARES Act, of which \$91.8 million was expended in Fiscal Year 2020 and \$156.7 million was expended in Fiscal Year 2021.

On March 11, 2021, President Biden signed ARPA into law to provide \$350 billion of emergency funding for State, local, territorial and Tribal governments in the form of Coronavirus State and Local Fiscal Recovery Funds (“SLFRF”). The City received two distributions of \$149.9 million on June 1, 2021 and June 6, 2022. In accordance with the ARPA provisions, these funds may be used to:

- Provide government services to the extent of reduction in revenue due to COVID-19 relative to revenues collected in the most recent full fiscal year prior to the emergency.
- Respond to COVID-19 or its negative economic impacts, including assistance to households, small business, and nonprofits, or aid to impacted industries such as tourism, travel, and hospitality.
- Provide premium pay up to \$13 an hour to eligible municipal or county workers performing essential services to respond to COVID-19. This provision is capped at a maximum benefit of \$25,000 per eligible worker.
- Make necessary investments in water, sewer, or broadband infrastructure.

The City may use SLFRF to cover eligible costs incurred during the period from March 3, 2021 to December 31, 2024, as long as the SLFRF are expended by December 31, 2026. The City currently expects to use most of these funds for the provision of government services due to the impact of COVID-19 on General Fund revenues. As of the end of Fiscal Year 2022, the City has expended \$100 million of the SLFRF and budgeted an additional \$147.6 million to be spent in Fiscal Year 2023. The remaining funds are expected to cover future expenditures in Fiscal Year 2024.

**City COVID-19 Relief Programs.** In response to the COVID-19 pandemic, the City implemented programs intended to provide relief to businesses and individuals impacted by the effects of the COVID-19 pandemic. Such programs included, among others: (i) the establishment of a Small Business Relief fund that provided grants and forgivable or low- to zero-interest-rate loans to eligible small businesses for working capital; (ii) the establishment of rental assistance programs, which provided rental payments directly to the landlords of eligible individuals and families; and (iii) the establishment of a temporary outdoor business operations program which offered grants of up to \$5,000 per business, which was in effect between June 2020 and July 2022. Such programs were funded from a variety of sources, including State and federal funding. The programs that the City implemented or participated in to provide individuals and businesses financial and other relief from the impacts of the COVID-19 pandemic are either no longer in effect or are not expected to have any future material impact on the City’s General Fund.

## **PRIORITY CITY INITIATIVES AND RELATED PROGRAMS**

### **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 2022, approximately \$569.7 million was expended on City CIP projects of which \$167.5 million was expended on General Fund CIP projects. In the Fiscal Year 2023 Adopted Budget, approximately \$834.3 million was allocated to City CIP projects of which \$130.6 million was for General Fund CIP projects. In addition to new appropriations, approximately \$2.2 billion in

prior year appropriations are available to support projects in Fiscal Year 2023, with \$835.1 million being eligible for General Fund CIP projects.

Since January 2015, the City has published an annual Five-Year Capital Infrastructure Planning Outlook (“Five-Year CIP Outlook”) to provide information on the basis for revenue projections, criteria to determine capital infrastructure needs, and present a broad overview of capital infrastructure needs and funding over the next five Fiscal Years. Each Five-Year 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. Each Five-Year 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.

In January 2023, the City released the Fiscal Year 2024-2028 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 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 Overall Condition Index (OCI) of 70 for pavement of streets and roads (which is an overall good condition), and projects currently listed in the annual budget. The projected capital needs through Fiscal Year 2028 are approximately \$9.75 billion. In comparing projected City-wide capital needs of \$9.75 billion and revenue of \$4.58 billion over the projection period, the CIP Outlook identified a City-wide funding gap of \$5.17 billion across all asset classes. The funding gap is primarily for General Fund supported asset classes. The asset types with the largest needs in the outlook period are \$2.1 billion for stormwater infrastructure (see “— Storm Water Program” below) and \$1.7 billion for transportation infrastructure. For transportation infrastructure, the largest needs are in the streets and roads and streetlights asset types.

In December 2022, the City updated Council Policy 800-14 (Prioritizing Capital Improvement Program Projects) which sets the guidelines for how CIP projects are prioritized and funded. Updates to the policy amended factors for consideration when adding CIP related needs to the CIP Outlook as well as annual CIP budgets. The overall goal is to establish an infrastructure prioritization process that can be used as a factor to deliver infrastructure efficiently and equitably across the City. Future annual budgets and CIP Outlook processes will incorporate the updated project prioritization.

The City owns and maintains physical 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 interim 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 to refund commercial paper and provide direct project financing. 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 \$24.1 million in Fiscal Year 2020, \$5.7 million for Fiscal Year 2021, and \$10 million in Fiscal Year 2022. The decrease in allocations in Fiscal Years 2021 and 2022 were due to the impacts of COVID-19. The Fiscal Year 2023 Adopted Budget included a \$28.4 million General Fund

contribution to the Infrastructure Fund. 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 2022, the EIFD received \$1.5 million. The EIFD currently expects to issue tax allocation bonds by the end of Fiscal Year 2023 in the approximate amount of \$43 million to finance projects, which will include General Fund infrastructure. Tax allocation bonds issued by the EIFD are payable from tax increment revenues within the boundaries of the EIFD and not from the General Fund.

The City's Climate Equity Fund ("CEF") was established in Fiscal Year 2021 and can be used for infrastructure projects that are intended to assist disadvantaged communities to adapt to the effects of climate change. Revenues deposited into the CEF primarily come from a percentage of General Fund revenue received through the annual gas and electric franchise fees, although the Mayor and the City Council may allocate funding to the CEF from any source of revenue. In Fiscal Year 2022, the CEF received \$7.1 million. The Fiscal Year 2023 Adopted Budget included an \$8.5 million General Fund contribution to the CEF. Revenues dedicated to the Infrastructure Fund, Otay Mesa EIFD, and the CEF, will limit the amount of the unrestricted General Fund revenue available for other City programs and services.

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 \$4.1 million in capital repairs and major improvements between Fiscal Years 2021 through 2022. The Corporation forecasts in excess of \$30.7 million in priority capital improvements and major repairs, including roof replacement and central plant replacement, in the next three years. Funding options for the future repairs are being reviewed by the Corporation and the City.

### **Storm Water Program**

The City owns and maintains over 52,786 storm drain structures, approximately 1,014 miles of drainage pipe, 63.2 miles of channels, 11.0 miles of levees and 15 storm water pump stations. The City manages a Storm Water Program (the "Storm Water Program") to maintain and keep facilities in good repair to mitigate flood risk and reduce pollutants in urban runoff and storm water and comply with all local, State, and federal environmental regulations. Currently, the City's Storm Water Program is funded primarily from the General Fund, including property-related storm water fees and revenue from parking enforcement related to street sweeping, and bond proceeds.

The State Water Resources Control Board ("SWRCB") is the State agency charged with implementing the federal Clean Water Act (the "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, are currently operating under a Municipal Permit that was issued in May 2013 and expired in June 2018. A new Municipal Permit is likely to be reissued and adopted by the RWQCB in Fiscal Year 2024 and the expired Municipal Permit is expected to remain 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 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. Based on updated water quality monitoring data and due to insufficient funding and the time requirements to implement essential capital projects, the City has not met its interim or final dry weather regulatory discharge requirements by the compliance deadline (April 2019 and April 2021, respectively) related to the Bacteria TMDL in some watersheds. During the timeframe that the City is not in compliance with the final discharge requirements (April 2021), the City is subject to Mandatory Minimum Penalties (“MMPs”) of at least \$3,000 per violation per location, for each constituent sampled that exceeds a numeric discharge requirement.

The SWRCB's Enforcement Policy encourages regional water boards (e.g. the RWQCB) to administratively issue MMPs within eighteen (18) months of the exceedance that incurs the MMP. MMPs began accruing on April 4, 2021 and will continue to accrue until the City achieves compliance. The City is currently engaged in multiple efforts to comply with these requirements. First, the City is enhancing efforts to identify and eliminate human sources of bacteria, which are most harmful to human health. The City’s efforts are documented in a Bacteria Tactical Plan that describes the collaboration among several City departments to capture current and potential new activities that can be initiated to address bacteria sources. Efforts include addressing homeless encampments, continued administration of an interdepartmental abatement team, and increased trash removal. Using the implementation activities in the Bacteria Tactical Plan as a basis, the City is in discussions with the RWQCB for the issuance of a Time Schedule Order (“TSO”). A TSO would provide additional time for the City to come into compliance with the final dry weather requirements as long as specific agreed upon actions are taken to correct the alleged violations. A TSO would also ensure that MMPs are avoided during implementation of the prescribed time schedule of actions. In order to ensure future compliance with dry and wet weather bacteria compliance deadlines, the City is also developing a strategy to implement the San Diego River Investigative Order (as noted above) and to use those results to consider whether amendments to the Bacteria TMDL and/or Municipal Permit, contingent on RWQCB approval, are warranted that may reduce the City’s estimates of funding needs.

The City is listed as a responsible party for the Los Penasquitos Lagoon Sediment TMDL which was adopted by the State of California in July 2014. The Los Penasquitos Lagoon Sediment TMDL included requirements for sediment reductions in the Los Penasquitos Watershed and the establishment of 84 acres of new salt marsh habitat in the Los Penasquitos Lagoon by July 2034. The City met the requirements for the

most recent interim regulatory deadline related to this TMDL in 2020. 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 at least 23 acres of restoration. Phase I is estimated to be completed in 2027. The estimated cost for Phase I ranges from approximately \$50 million to \$80 million, which is subject to change based on updated information and actual construction bids. The cost of Phase I is expected to be borne by the responsible parties named in the Los Penasquitos Lagoon Sediment TMDL, which are the City, the County, the City of Del Mar, the City of Poway, and Caltrans. A cost sharing agreement was agreed upon and finalized at the end of Fiscal Year 2021 by all responsible parties except for Caltrans, which expects to fund its portion of costs through a separate cost sharing agreement with the City beginning at the start of project construction. Phase II of the restoration is expected to be designed based on the results of various restoration techniques implemented during Phase I and is expected to result in the restoration of the remaining acres required. The City is currently unable to provide an estimated cost for Phase II, which costs will be based on the development of the final concept design for Phase II.

The Office of the City Auditor conducted a performance audit on the storm water system in 2018. The audit included a finding that the expanding portfolio of storm water system services and responsibilities has significantly increased costs, and historic and ongoing underfunding of the storm water 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 storm water funding strategy in 2019 to identify a sustainable long-term funding mechanism for the Storm Water Program. The funding strategy analyzed an array of funding options 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 creating a dedicated, long-term funding mechanism for storm water projects. The Storm Water Department's final funding strategy update was presented to the City Council in February 2022.

The City developed improvement plans composed of operational activities and capital improvement projects to comply with the regulations described above. In October 2022, 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 2023 and Fiscal Year 2035, the operating cost estimate for the Storm Water Program is projected at approximately \$2.56 billion and the capital cost estimate is projected at approximately \$2.64 billion (for a total operating and capital cost estimate of approximately \$5.20 billion). This total cost estimate over the next 13 Fiscal Years reflects unfunded costs from previous Fiscal Years, updated compliance costs to account for current regulations, and cost refinements based on 2023 dollars for CIP and 2023 dollars for operating costs, including estimated future inflation growth. The operating compliance costs budgeted in the General Fund for Fiscal Year 2023 are \$56.92 million. These operating costs are projected to gradually increase over the next five Fiscal Years, with operating costs estimated to reach approximately \$181.6 million by Fiscal Year 2028, the end of the most recent General Fund five-year outlook period.

A portion of the capital costs are expected to be funded by a loan under the federal Water Infrastructure Finance and Innovation Act ("WIFIA") and required City-match totaling \$733 million to fund the Storm Water Program capital costs. The EPA (which administers the WIFIA loan) has agreed under the WIFIA loan to finance up to approximately \$359.2 million (49% of the eligible capital costs), with the City providing a 51% match. The WIFIA loan and required match are expected to fund Storm Water Program capital costs over the next 5 years. The City's match is expected to be primarily financed either through lease revenue bonds or State Revolving Loan funds. The City has not yet developed a funding plan to cover capital costs beyond those funded by the WIFIA loan and the City match. These additional capital costs could potentially be financed over the expected useful life of the related assets. Debt service on the WIFIA loan is secured by base rental payments to be made by the City under a certain facilities lease by and between the City and the Authority for the City's beneficial use and occupancy of the facilities leased thereunder. Such base rental payments are expected to be paid from the General Fund. Absent any other dedicated funding source,

debt service for repayment of the WIFIA loan and any other debt incurred to fund the City match would likely need to be repaid from the General Fund.

The City's current estimates of operating and capital costs of the Storm Water Program 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 projected to continue to increase annually and are higher than estimated revenues in the Fiscal Year 2023 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 (\$5.23 million in Fiscal Year 2022) and covers only a small portion of the City's annual Storm Water Program expenses. Additionally, revenue from parking meter citations is on average \$5 million annually which are applied for the Storm Water Program operational expenditures. Other General Fund revenues are currently used to support the remaining Fiscal Year 2023 General Fund budget of \$54 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.

Under a scenario in which the Storm Water 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. To date, no decision has been made on a potential tax or fee ballot measure to provide funding. Funding mechanism options such as a storm water fee or property tax will be evaluated and vetted through a robust public outreach and stakeholder engagement process.

### **Homeless Programs and Services**

The City faces the challenge of a growing homeless population, exacerbated in recent years by a significant lack of affordable housing and rapidly rising rental costs. Recognizing the challenge of access to affordable rental housing and other factors, in 2019, the City Council adopted the City of San Diego Community Action Plan on Homelessness, a comprehensive, 10-year roadmap that serves as a guide for long-term success on reducing homelessness. The City's Homelessness Strategies and Solutions Department was created in 2022 to implement this plan and work to prevent and end homelessness through person-centered, compassionate, and equitable services. Funding for the City's homelessness programs has significantly increased over recent years and comes from a variety of sources, including the General Fund.

The Five-Year Outlook projects the General Fund's annual commitment to maintain existing homeless programs to increase from a need of an estimated \$31 million in Fiscal Year 2024 to between \$54.0 million and \$59.8 million in Fiscal Year 2025 through Fiscal Year 2028, barring alternative funding sources. The Fiscal Year 2023 Adopted Budget includes \$73.7 million for homelessness programs and services, which includes \$28.8 million budgeted in the General Fund (\$13.8 million of one-time funding), \$250,000 budgeted in the Low- and Moderate-Income Housing Asset Fund and \$44.7 million in grant funding that the City has been awarded. As of the Mid-Year Monitoring Report, the City estimates spending approximately \$69.4 million on homeless programs in Fiscal Year 2023, \$25.4 million of which is expected to be funded from the General Fund, \$250,000 from the Low- and Moderate-Income Housing Asset Fund, and \$43.7 million from grant funding that the City has been awarded. The City currently expects that the costs needed for homelessness programs will increase in future fiscal years. Absent other funding sources, including grants, the City expects that it will need to fund some or all of these costs from other sources, which may include increased amounts from the General Fund. However, future funding from the General Fund, if any, will be subject to the budget approval process.

Key initiatives funded by the City's General Fund include:

- Homeless Shelters and Services Program: The City partners with agencies to operate congregate and non-congregate shelters which serve individuals experiencing homelessness. These shelters provide meals, restrooms, showers, case management, housing navigation, mental health and substance abuse services and referrals, as well as COVID-19 testing and vaccinations.
- Coordinated Outreach: This program uses trained social workers and peer specialists to connect unsheltered residents with shelter, housing, and supportive services.
- Homelessness Program for Engaged Educational Resources Program: In an effort to prepare students in post-secondary education to work in the homelessness services sector and to build up the workforce, the City has funded programming at San Diego City College to provide a degree certificate program in homeless services.
- Coordination of City Homeless Programs and Services: The City's Homelessness Strategies and Solutions Department staff coordinate City-wide homeless programs and services.
- Police Department Homelessness Outreach Team ("HOT"): HOT uses a community-oriented policing approach to address the unique needs of the City's homeless population, providing outreach and engagement services throughout the City, in order to connect unsheltered individuals with available services.

In addition to General Fund-backed programs, in Fiscal Year 2023 there is \$2.3 million in Community Development Block Grant funding and \$1.0 million in Emergency Solutions Grant funding for homelessness related programs and services, such as a Day Center for Homeless Adults, Homelessness Response Center, Interim Housing for Homeless Adults, Shelter for Families, and housing and rehousing programs.

Between 2020 and 2024, the State is expected to award the City a total of \$83.1 million through multiple rounds of Homeless Housing, Assistance, and Prevention ("HHAP") grant funding, which must be fully expended by June 30, 2027. The City expects to use \$37.0 million from these multiple funding rounds during Fiscal Year 2023 to address the immediate emergency needs of individuals and families experiencing homelessness or at imminent risk of homelessness. HHAP grant funding is planned to be used for shelters and services, storage centers, the safe parking program, coordinated street outreach, the family reunification program, rapid rehousing program, and administrative costs. In November 2022, the Governor temporarily withheld the third round of these funds to compel cities to pursue more ambitious reductions in unsheltered homelessness. The funds have since been released as the City submitted revised plans to the State to meet this request. If the State reduces or eliminates grant funding for homelessness programs in future years, the City expects that it will need to fund some or all of these costs from other sources, which may include increased amounts from the General Fund. However, future funding from the General Fund, if any, will be subject to the budget approval process.

As housing is a major contributor to homelessness solutions, the City has also focused on creating policies and practices to help remove barriers to housing production. The City's Bridge to Home Program provides gap financing to qualified developers to build affordable housing projects while the Housing Instability Prevention Program Pilot offers subsidies to individuals on the verge of homelessness with the intent to prevent homelessness before it occurs.

In 2022, the City was one of six cities in California to earn the State's Prohousing Designation based on the City creating updated community plans to provide zoned capacity to add over 98,000 additional housing units, creating its affordable Accessory Dwelling Unit Bonus Program, waiving density limitations, and allowing a density bonus for development that provides affordable housing and infrastructure amenities.

Through these actions, the City intends to spur more housing development, thereby making housing more accessible to all members of its population and reducing its homeless population.

## **Information Technology**

***Information Technology Staff and Operations.*** Staffing for City technology services is supported by 88 City Department of Information Technology (“IT”) professionals and 45 public-safety radio engineers and support staff. In addition to the City staff members, the services are supported by contracts with major third-party contractors for application development and maintenance, enterprise computer services, workplace services, network and voice services. The Fiscal Year 2023 adopted budget includes \$137 million to support the Department of IT and its projects.

Each year the Department of IT prepares a five-year strategic plan. The Fiscal Year 2023 through Fiscal Year 2027 IT Strategic Plan is a comprehensive plan developed to align with the City-wide Strategic Plan; modernize the City’s networks, infrastructure, and applications; and integrate IT industry best practices with the delivery and contracting of technology services. This plan includes the acceleration of the transition of City applications to cloud services and enhancement of the resiliency of the City’s application portfolio and securely adapting to an increasingly remote workforce. Roadmaps have been developed for each major area of service, with each roadmap containing hundreds of projects that keep the City’s systems current, adhere to IT governance, target cost reductions, enhance security, improve efficiencies, accelerate mobile and cloud adoption, drive innovation, modernize services, and increase automation.

***Cybersecurity.*** The City’s Information Security Office (“ISO”), a group within the City’s IT department, works to adopt new technology and procedures in an effort to protect the City’s systems and confidential and proprietary data of the City, its employees and members of the public. This office also provides the development, implementation and management of all City-wide information security policies, standards, procedures, and internal controls. The ISO focuses on three core components: (1) Confidentiality – preventing the unauthorized access and disclosure of City information, including protecting personal privacy and proprietary information; (2) Integrity - guarding against improper information modification or destruction by ensuring information non-repudiation and authenticity; and (3) Availability - ensuring timely and reliable access to, and use of, City information and systems. The ISO makes efforts to follow industry best practices, develops City-wide security policies, provides regular security training to all users, and uses best-of-breed security tools to mitigate, prevent, deter and respond to incidents if and when they occur. Additionally, to identify potential vulnerabilities and proactively mitigate them, the City organizes weekly vulnerability scanning of critical systems, annual penetration tests of the information security environment, and regular internal testing of systems and users. These tests are performed by both the ISO and contracted third parties. During off hours, holidays and weekends security tools are monitored by a contracted Security Operations Center 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 a quarterly 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 2023 budget of \$5.7 million.

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

“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 August 2022, the City Council adopted the ‘Our Climate Our Future’ Climate Action Plan (“CAP”) as an update to the original CAP adopted in 2015 (see “—City’s Climate Action Plan” below). The Fiscal Year 2023 Adopted Budget allocates \$39.6 million to the direct costs of the CAP and future costs were considered critical strategic expenditures in the five-year outlook for Fiscal Years 2024-2028. The CAP establishes a roadmap for the City to meet and exceed the greenhouse gas (“GHG”) emission reduction goals set by the State, while improving San Diego’s environment, economy and communities. In addition to the CAP, the City is developing a set of tools to facilitate transparent and accountable CAP implementation: the Climate Action Implementation Plan (“CAIP”), and the development of annual CAP workplans from implementing departments. The CAIP will provide the pathway for the sequencing of CAP actions and measures, identify departmental responsibilities, and include research into innovative funding solutions. It will also include cost estimates for each action for the first five years of implementation. A draft of the CAIP was released in February 2023. The initial estimate to implement new and expanded programs is about \$30 million per year during Fiscal Years 2024 through 2028. CAP departmental workplans are expected to be incorporated into the annual budget process to illustrate how CAP actions are being funded and implemented.

Monitoring reports are prepared by the City’s Sustainability and Mobility Department to track the City’s progress in meeting the goals identified in the CAP. In December 2020, the City released the 2020 Climate Action Plan Annual Report. That report showed a 25% reduction in regional GHG emissions in 2019 compared to emissions totals in 2010 and a 6.2% reduction in residential energy use in 2019 compared to energy use per home in 2010. The City recognizes that climate change-related hazards have the potential to negatively impact both public assets and the City’s ability to provide essential services over time. 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 San Diego Community Power (“SDCP”), a regional joint powers authority, to provide 100% clean power through community choice aggregation. SDCP began operations on March 1, 2021 with the goal of providing clean power at competitive rates and achieving 100% renewable energy by 2035. Currently, SDCP is completing enrollment for the five founding member cities of San Diego, Chula Vista, La Mesa, Encinitas, and Imperial Beach. SDCP currently serves approximately 712,930 accounts, which makes SDCP the second largest Community Choice Aggregation in the State. The opt-in rate for customers in the City is currently over 96%. SDCP also completed a Community Needs Assessment in 2022 to fully inform the development of future customer programs. SDCP expects to begin enrollment for two new member agencies – National City and the County – in the spring of 2023.

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

City assets at risk in the State-granted land areas ranges from \$139-\$206 million by 2030, 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 City-wide Climate Change Vulnerability Assessment which evaluated the exposure of City assets to additional climate change-related hazards including wildfires, extreme heat, and precipitation driven flooding. The assessment identified increasing exposure of assets from present day through the end of the century. The City-wide Climate Change Vulnerability Assessment was an important step to identify which asset types may warrant further study or may be good candidates for adaptation strategy implementation to reduce vulnerability.

**Coastal Erosion Assessment.** In 1993 and 2003 the City commissioned a 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.

**Climate Resilient SD.** In 2021, the City adopted *Climate Resilient SD*, a comprehensive climate adaptation and resilience plan that includes a suite of adaptation strategies to mitigate the risks identified in the vulnerability assessments as well as build City capacity to respond to and recover from climate change related impacts. The plan addresses both City assets as well as community resilience. Additionally, the plan met the legislative requirements of Senate Bill 379, which requires that cities and counties include a set of adaptation and resilience goals, policies, and implementation. The extent to which City buildings, equipment and other properties are exposed to climate change-related risks over the next several decades is difficult to determine, as is the potential cost of risk mitigation and adaptation efforts, and any additional services. While these costs over time could be significant and could have a material adverse effect on the City's finances by requiring greater expenditures to mitigate and/or adapt to the effects of climate change, the City expects these costs will be less than the costs it may incur through inaction. The City is now moving forward with implementation of the plan's strategies, and the Fiscal Year 2023 Adopted Budget includes the addition of a Chief Resilience Officer responsible for implementing the *Climate Resilient SD* initiative.

**City's Climate Action Plan.** The City is in the process of integrating sustainability into departmental operations. Building off the 2015 CAP, the 2022 CAP update will include an implementation plan, complete with cost estimates and annual, City Council-approved departmental workplans to ensure both accountability and transparency. To strengthen CAP compliance oversight, the Sustainability & Mobility Department reviews each docketed item appearing before City Council.

The CAP is organized into six strategies. *Decarbonization of the Built Environment* is a strategy that includes phasing out natural gas city-wide, an all-electric reach code, and strategies to convert the City's municipal building inventory to net-zero emissions. *Access to Clean and Renewable Energy* maintains the City's commitment to 100% renewable energy and acknowledges that the pathway to achieve this target is

through SDCP. The CAP also sets more ambitious targets for converting the City’s fleet of vehicles to electric and for the first time aims to increase the number of electric vehicles used by the San Diego community. *Mobility and Land Use* focuses on emissions from transportation, which account for more than half of all GHG emissions in San Diego. The CAP also includes actions that support mode shift through mobility and land-use actions and policies, including increases in sidewalks and bike paths. *Circular Economy and Clean Communities* maintains a 90% waste diversion rate and includes action to fulfill State mandates for organic waste diversion. *Resilient Infrastructure and Healthy Ecosystems* focuses on urban greening, including increased tree canopy, and local water supply through water recycling projects included in the City’s Pure Water San Diego Program, which is a capital program to produce safe, high-quality drinking water from recycled water. The final strategy *Emerging Climate Actions* keeps the City’s options open to innovation, strategic partnerships, and technologies to remove an additional 2.3 million metric tons of Co2.

***Carbon Disclosure Project.*** Since 2012, the City has annually provided a report to the Carbon Disclosure Project (“CDP”) with the latest submittal made for 2022. CDP is a non-profit which runs an environmental reporting platform for investors, companies, cities states and regions globally. The annual voluntary report provides information on the City’s goals to combat climate change including risk and vulnerability assessments, climate hazards, social impacts, and the vulnerable populations. The report also includes information on various related topics such as climate change and sustainability topics 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. Based on the results of the assessment, recommendations are made by City staff to ensure the City making progress to address climate equity when implementing the CAP and is considering the needs of all residents when planning for the City’s future. The average CEI score for the City was determined to be 61 on a 100-point scale. Census tracts that scored below the average are considered to have less access to opportunity than the tracts that scored above the average. In total, 172 census tracts scored at or above the average, and 125 tracts scored below average. In March 2021, the City Council approved the creation of the CEF to provide funding for building infrastructure for disadvantaged communities to be resilient and adapt to climate change. In Fiscal Year 2022, the CEF received \$7.1 million. The Fiscal Year 2023 Adopted Budget included an \$8.5 million General Fund contribution to the CEF. See “— General Fund Infrastructure” above.

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

***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 SLCP. 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. SB 1383 required all jurisdictions within the State to have an adopted ordinance and enforcement mechanism for the law by January 1, 2022, whereby jurisdictions could start implementing their programs. In addition to the required ordinance, 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 passed its SB 1383 ordinance in May 2022 and has continued being in close contact with CalRecycle regarding the status of all plans and programs associated with compliance with SB 1383. City-wide rollout of all organic waste recycling green bins to City-serviced customers began in January 2023 and is expected to continue through mid-2023.

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 employees. Once SB 1383 is fully implemented (Fiscal Year 2026), annual operational expenses of the program are estimated at \$22 million, which is included in the Five Year Financial Outlook. Additionally, the City is pursuing a \$55 million loan to construct an organics processing facility to support SB 1383, the debt service for which is anticipated to be funded by the Refuse Disposal Enterprise Fund. Depending on the terms of the loan, the City's General Fund may be a source of repayment or impacted in another capacity.

See "CITY BUDGET AND RELATED MATTERS — City Measure B – Solid Waste Management Services" for a discussion of a potential future cost recovery fee for solid waste services, which may provide funding for costs to comply with SB 1383.

## **Wildfires**

The California wildfire season for the calendar year 2022 has seen 6,494 wildland fires that have burned 362,271 acres, destroyed 876 structures, and taken nine lives. The nature of wildfires is no longer comparable to historical patterns, 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 the spread and reduce significant losses while still providing support to neighboring regions and the State with firefighting and incident management efforts. The 2022 California fire season has been moderate compared to the last several years of record-breaking destruction; however significant impacts were felt across the State. The San Diego Fire-Rescue Department ("SDFD") deployed operational and overhead personnel to nearly every major fire in the State. Resources were sent to notable incidents such as the "2022 SRF Lighting Complex, Mill and Mosquito Fires" (Northern California), "Border 32 Fire" (San Diego County), and the "Fairview Fire" (Riverside County) to assist as part of the State Mutual Aid System. SDFD 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 1,107 starts in 2022), the City maintains an average containment of these fires to less than an acre (2010-2020 average acres of wildland fire containment was 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 52 fire stations that house 50 engine companies (Type 1), 13 truck companies and 11 brush fire off-road apparatus (Type 3). In addition, SDFD has acquired over time, helicopters and off-road equipment to better fight wildfires and technology to improve communications and information sharing.

The City has implemented 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) and a fire preparedness program to

educate and prepare citizens on what to do in case of a large wildfire. 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.

The General Fund expenditures for fire suppression costs and related services have increased from approximately \$201.7 million in Fiscal Year 2018 to approximately \$241.4 million in Fiscal Year 2022. The City has budgeted \$223.9 million in Fiscal Year 2023 for such costs. In addition, the City expects to spend approximately \$102.5 million in the next five Fiscal Years on facilities for fire suppression and related services.

## **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 2023 Bonds are payable from State revenues. The 2023 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 2023 BONDS” in the front part of this Official Statement. The 2023 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.dof.ca.gov](http://www.dof.ca.gov). An impartial analysis of the budget is posted by the Office of the Legislative Analyst at [www.lao.ca.gov](http://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](http://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 2023 State Budget**

On June 27, 2022, the Governor signed into law the State budget for Fiscal Year 2022-23 (the “2023 State Budget”). The following information is drawn from the State Department of Finance’s summary of the 2023 State Budget.

The 2023 State Budget acknowledges challenges with elevated global inflation caused by supply-chain disruption and the Russian invasion of Ukraine, which added to inflationary pressures. The 2023 State Budget includes over \$17 billion in a broad-based relief package which includes, among other items, refunds for State residents based on income level and household size, funding for rental assistance and payments for utility arrearages caused by the COVID-19 pandemic. The 2023 State Budget also acknowledges the challenges posed by climate change and housing affordability and includes funding with respect to such issues.

The State budget is projected to be structurally balanced through Fiscal Year 2025-26, the end of the multi-year budget projection in the 2023 State Budget. Based on projections included in the 2023 State Budget, by the end of Fiscal Year 2023, the State's Budget Stabilization Account/Rainy Day Fund will have a balance of \$23.3 billion, the Special Fund for Economic Uncertainties will have a balance of \$3.5 billion, the Safety Net Reserve Fund will have a balance of \$900 million, and the Public School System Stabilization Account will have a balance of \$9.5 billion. Over the multi-year forecast period through Fiscal Year 2025-26, the 2023 State Budget reflects \$8 billion in supplemental deposits split evenly between the Budget Stabilization Account/Rainy Day Fund and the Safety Net Reserve.

For Fiscal Year 2023, the 2023 State Budget projects total general fund revenues and transfers of \$219.7 billion (excluding prior year balances) and authorizes expenditures of \$234.4 billion as compared with unaudited total general fund revenues and transfers of \$227.1 billion (excluding prior year balances) and total expenditures of \$242.9 billion in Fiscal Year 2022.

### **Proposed Fiscal Year 2024 State Budget**

On January 10, 2023, the Governor released his proposed State budget for Fiscal Year 2024 (the "Proposed State Budget"). The following information is taken from the Legislative Analyst Office's ("LAO") overview of the Proposed State Budget as of January 12, 2023.

The LAO estimates that the Proposed State Budget includes spending-related, revenue-related and cost shifting measures to solve for an estimated \$18 billion budget deficit for Fiscal Year 2024. The Proposed State Budget includes \$13.6 billion in spending-related solutions, which includes reductions in spending, delays in spending and trigger restoration measures (restoration of programs during the fiscal year if resources become available). Cost shifting measures total \$4.3 billion and include shifting costs from the State's general fund to special funds and loans from special funds to the general fund. Revenue-related solutions primarily relate to approximately \$300 million from a proposed reauthorization of a tax on managed care organizations. The Proposed State Budget does not include the use of any reserves to solve for the estimated budget deficit.

For Fiscal Year 2024, the Proposed State Budget projects total general fund revenues and transfers of \$210.2 billion (excluding prior year balances) and authorizes expenditures of \$223.6 billion. The LAO's overview of the Proposed State Budget estimates that at the end of Fiscal Year 2024, the State's Budget Stabilization Account/Rainy Day Fund will have a balance of \$22.4 billion, the Special Fund for Economic Uncertainties will have a balance of \$3.8 billion, the Safety Net Reserve Fund will have a balance of \$900 million, and the Public School System Stabilization Account will have a balance of \$9.5 billion.

The Proposed State Budget updated projections for Fiscal Year 2023 State general fund revenues and expenses. For Fiscal Year 2023, total State general fund revenues and transfers are estimated in the Proposed State Budget to be \$208.9 billion and total general fund expenditures are estimated to be \$240.1 billion.

### **Effect of State Budget on General Fund Revenues**

State contributions have not historically been a major revenue source to the City General Fund. However, 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 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 2023 Adopted Budget included 1,196 unrepresented positions, excluding elected officials.

#### The City’s Recognized Employee Organizations

<u>Organization</u> <sup>(1)</sup>	<u>Represented Employees</u> <sup>(3)</sup>	<u>Termination Date of Current MOUs</u>
San Diego Municipal Employees’ Association (“MEA”) <sup>(4)</sup>	5,786	June 30, 2023
American Federation of State, County, and Municipal Employees, Local 127 (“Local 127”) <sup>(4)</sup>	2,358	June 30, 2023
San Diego Police Officers Association (“POA”)	2,031	June 30, 2024
San Diego City Firefighters, International Association of Firefighters, Local 145 (“Local 145”)	1,052	June 30, 2024
California Teamsters Local 911 (“Local 911”)	170	June 30, 2024
Deputy City Attorneys Association of San Diego <sup>(2)</sup> (“DCAA”) <sup>(4)</sup>	172	June 30, 2023

<sup>(1)</sup> Represents classified employees, except where otherwise noted.

<sup>(2)</sup> Represents unclassified deputy city attorneys.

<sup>(3)</sup> As of the Fiscal Year 2023 Adopted Budget, rounded to the nearest whole number.

<sup>(4)</sup> The City is currently in negotiations with the MEA, the Local 127 and the DCAA for successor MOUs for Fiscal Year 2024.

Source: Human Resources Department, City of San Diego.

### Collective Bargaining Agreements

The City currently has collective bargaining agreements with all six REOs (MEA, Local 127, DCAA, Local 145, POA and Local 911). The City has two-year contracts that will terminate on June 30, 2023 with three REOs (MEA, Local 127 and DCAA) and the City is currently in negotiations for successor MOUs with such REOs for Fiscal Year 2024. The City has two-year MOUs with three REOs (Local 145, POA and Local 911) that will terminate on June 30, 2024. In the event a new MOU is not agreed upon when the existing MOU expires, the parties may continue to operate under the terms of the expired MOU until a new MOU is in place.

MEA: In June 2021, as part of a multi-year agreement, the City Council approved a total of 9% general salary increase in pensionable compensation for MEA-represented employees for Fiscal Years 2022 (4%) and 2023 (5%). In addition, the City Council approved special salary adjustments for approximately 153 classifications ranging from 3% to 29.36% each Fiscal Year with various implementation dates of July 1, 2021, January 1, 2022, July 1, 2022, and January 1, 2023. In Fiscal Year 2023, the City Council approved equity adjustments for approximately 152 classifications ranging from 2.5% to 24% with implementation dates of July 1, 2022, October 1, 2022, January 1, 2023, April 1, 2023, and June 30, 2023. The City Council approved extending the 15% Registration Pay to Architects and a new 10% Infrastructure Pay for Certified Engineering Geologists implemented on July 1, 2021. Effective July 1, 2021, the Registration Pay for Structural Engineers increased from 5% to 10% and the Infrastructure Licensed Geotechnical or Soils Engineer

Pay increased from 5% to 10%. The City is currently in Fiscal Year 2024 contract negotiations with MEA for a successor MOU.

AFSCME Local 127: In June 2021, as part of a multi-year agreement, the City Council approved a total 8% general salary increase in pensionable compensation for Local 127-represented employees for Fiscal Years 2022 (4%) and 2023 (4%). Local 127-represented employees also received increases to their Flexible Benefits for the Employee + Tiers. Specifically, the Employee + Children tier increased by \$1,500 (from \$13,250 to \$14,750); the Employee + Spouse/Domestic Partner tier increased by \$2,000 (from \$14,750 to \$16,750); and the Employee + Family tier increased by \$3,000 (from \$18,750 to \$21,750). In addition, the City Council approved special salary adjustments for approximately 31 classifications ranging from 5% to 15% each Fiscal Year with various implementation dates of January 1, 2022, July 1, 2022, and January 1, 2023. In Fiscal Year 2023, the City Council approved equity adjustments for approximately 49 classifications ranging from 5% to 24% with implementation dates of July 1, 2022, January 1, 2023, and June 30, 2023. The City is currently in Fiscal Year 2024 contract negotiations with Local 127 for a successor MOU.

POA: In June 2022, as part of a multi-year agreement, the City Council approved a total 10% general wage increase in pensionable compensation for POA-represented employees for Fiscal Years 2022 (5%) and 2023 (5%). POA-represented employees hired before July 1, 2021 also received increases to their Flexible Benefits for the Employee + Tiers effective January 1, 2023. Specifically, the Employee + Children tier increased by \$1,350 (from \$13,500 to \$14,850); the Employee + Spouse/Domestic Partner tier increased by \$1,950 (from \$15,000 to \$16,950); and the Employee + Family tier increased by \$5,850 (from \$19,000 to \$24,850). As of July 1, 2022, the Field Training Officer Pay increased to 10%. The City expects to meet and confer with POA in Fiscal Year 2024 for a successor MOU.

IAFF Local 145: In June 2022, as part of a multi-year agreement, the City Council approved a total 8.2% general wage increase in pensionable compensation for Local 145-represented employees for Fiscal Years 2023 and 2024. Specifically, in Fiscal Year 2023, there is a 3% general wage increase on July 1, 2022 and 1% general wage increase on January 1, 2023. In Fiscal Year 2024, there is a 2.7% general wage increase on July 1, 2023 and 1.5% general wage increase on January 1, 2024. For Fiscal Year 2023, the City Council approved equity adjustments for several classifications ranging from 3.5% to 5% with implementation on January 1, 2023. In Fiscal Year 2024, the City Council approved equity adjustments for 14 classifications ranging from 3.5% to 5% with implementation on January 1, 2024. A Special Assignment Pay of 5% for Aircraft Rescue Fire Fighting was implemented on January 7, 2023. Finally, a reopener provision was added to the Local 145 MOU for Flexible Benefits if healthcare is projected to increase more than 5% in Fiscal Year 2024. The City expects to meet and confer with Local 145 in Fiscal Year 2024 for a successor MOU.

Teamsters Local 911: In June 2022, as part of a multi-year agreement, City Council approved a total 17% general wage increase in pensionable compensation for Local 911-represented employees for Fiscal Years 2023 and 2024. Specifically, in Fiscal Year 2023, there is a 4.5% general wage increase on July 1, 2022 and 3.5% general wage increase on January 1, 2023. In Fiscal Year 2024, there is a 5% general wage increase on July 1, 2023 and 4% general wage increase on January 1, 2024. For Fiscal Year 2023, the City Council approved equity adjustments for three classifications ranging from 5% to 10% with various implementation dates on July 1, 2022 and January 1, 2023. Local 911-represented employees hired before July 1, 2021 also received increases to their Flexible Benefits for the Employee + Tiers effective January 1, 2023. Specifically, the Employee + Children tier increased by \$2,285 (from \$13,547 to \$15,832); and the Employee + Family tier increased by \$6,000 (from \$13,874 to \$19,874). The City expects to meet and confer with Local 911 in Fiscal Year 2024 for a successor MOU.

DCAA: In June 2021, as part of a multi-year agreement, the City Council approved a 12% general salary increase in pensionable compensation for DCAA-represented employees for Fiscal Years 2022 and 2023. Specifically, in Fiscal Year 2022, there was a 4% general wage increase on July 1, 2021 and a 2% general wage increase on January 1, 2022. In Fiscal Year 2023, there was a 4% general wage increase on July 1, 2022 and a 4% general wage increase on January 1, 2023. The City Council also approved Special

Assignment Pays effective July 1, 2021 of 5% for Chiefs and 2.5% for Leads/Supervisors in special 2-year assignments in the City Attorney's Office. The City is currently in Fiscal Year 2024 contract negotiations with DCAA for a successor MOU.

## SAN DIEGO CITY EMPLOYEES' RETIREMENT SYSTEM

### General

The City has a defined benefit pension plan (the "Pension Plan") and various defined contribution pension plans covering substantially all of its employees. See "—Defined Benefit Plan" and "OTHER RETIREMENT PLANS" below. On February 23 2023, Cheiron, Inc. ("Cheiron"), the SDCERS actuary, released its Fiscal Year 2022 Actuarial Valuation for the Pension Plan (the "2022 Actuarial Valuation"). Where indicated, information from the 2022 Actuarial Valuation has been included herein. The 2022 Actuarial Valuation has not been approved by the SDCERS Board and is subject to change. The SDCERS Board is scheduled to vote on approval of the 2022 Actuarial Valuation on March 10, 2023.

Based on the 2022 Actuarial Valuation, the City has an Unfunded Actuarial Liability ("UAL") in the Pension Plan of approximately \$2.84 billion and an ADC of \$448.1 million as of June 30, 2022. Based on an actuarial value of assets, the Pension Plan had a funded ratio of 76.0% as of June 30, 2022.

As a result of the invalidation of Proposition B, the City officially reopened the Pension Plan to all non-police employees initially hired by the City on or after July 10, 2021. New hires who entered SDCERS after the reopening of the plan are reflected in the \$448.1 million ADC for Fiscal Year 2024 and the UAL of \$2.84 billion as of June 30, 2022 set forth in the 2022 Actuarial Valuation. However, as described further under the caption, "— Proposition B" below, the UAL does not include reinstated eligible non-police employees as a result of the unwinding of Proposition B who were previously excluded from the Pension Plan.

Unless otherwise indicated, the information under this heading "SAN DIEGO CITY EMPLOYEES' RETIREMENT SYSTEM" 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.** SDCERS is a public employee retirement system established in Fiscal Year 1927 by the City. SDCERS administers independent, qualified, single employer governmental defined benefit plans and trusts for the City, the San Diego Unified Port District (the "Port") and the San Diego County Regional Airport Authority (the "Airport"). The assets of the three separate plans and trusts are pooled in the SDCERS Group Trust for investment purposes. These plans are administered by the SDCERS Board to provide retirement, disability, death and survivor benefits for its members. Amendments to the City's benefit provisions require City Council approval and amendments to retirement benefits require a majority vote by those SDCERS members who are also eligible City employees or retirees. All approved benefit changes are codified in the Municipal Code. The plans cover all eligible employees of the City, the Port, and the Airport. All City employees initially hired before July 20, 2012 or after July 9, 2021 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. See, however, "—Proposition B" below.

SDCERS is considered part of the City's financial reporting entity and is included in the City's ACFR as a pension trust fund. See Note 12, "Pension Plans," in the City's Fiscal Year 2022 ACFR. SDCERS also prepares its own Annual Comprehensive Financial Report, the most recent of which is for Fiscal Year 2022.

The amounts and percentages set forth under this caption relating to SDCERS, including, for example, actuarial liabilities and funded ratios, are based upon numerous demographic and economic assumptions, including investment return rates, inflation rates, salary increase rates, cost of living adjustments,

postemployment mortality, active member mortality, and rates of retirement. The prospective purchasers of the 2023 Bonds are cautioned that such underlying assumptions speak as of their respective dates, and are subject to change. The prospective purchasers of the 2023 Bonds are cautioned to carefully assess the reasonableness of the assumptions. In addition, the prospective purchasers of the 2023 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-8  
CITY OF SAN DIEGO PLAN MEMBERSHIP<sup>(1)</sup>  
As of July 1, 2022**

	<u>General</u>	<u>Safety</u>	<u>Total by Classification</u>
Active Members	3,423	2,132	5,555
Deferred Vested	2,149	786	2,935
Retirees	6,323	3,822	10,145
DROP Participants <sup>(2)</sup>	<u>570</u>	<u>314</u>	<u>884</u>
Total Members, as of July 1, 2022	12,465	7,054	19,519

<sup>(1)</sup> Figures do not include certain employees affected by Proposition B who reentered SDCERS on July 9, 2022. See “— Proposition B” below.

<sup>(2)</sup> 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, 2022.

The City is required by the Charter to make contributions to the pension system as determined by the SDCERS Board. Pension contributions are authorized and appropriated annually in accordance with the adoption of the City’s annual budget. The City’s ADC is calculated by the SDCERS’ actuary, Cheiron, and approved by the SDCERS Board. Cheiron conducts an actuarial analysis for SDCERS annually, the most recent of which is the 2022 Actuarial Valuation. The 2022 Actuarial Valuation serves as the basis for the City’s pension contribution for Fiscal Year 2024. The City’s actual annual pension contribution may differ from the ADC based on a number of factors discussed below, but the pension contribution is not expected to be less than the ADC in any Fiscal Year.

### **Actuarial Assumptions and Methods**

**Funding Method.** Cheiron calculates the City’s contribution using the Entry Age Normal (“EAN”) actuarial funding method. Under EAN, there are three components to the total contribution: the normal cost, an amortization payment on any 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 the actuarial present value of retirement system benefits allocated to the current year by the actuarial funding method. The difference between the EAN actuarial liability and the actuarial value of assets is the UAL.

**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 prior to June 30, 2019 are being amortized over 30 years and changes since that date 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 a 20 year period; 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 2024 will be \$448.1 million based on the 2022 Actuarial Valuation and the City will pay this amount in Fiscal Year 2024. The floor payment for the City was set at \$275.5 million, representing the UAL component of the Fiscal Year 2020 amortization payment as determined by the results of the June 30, 2018 actuarial valuation and will remain at that level unless changed by a vote of the SDCERS Board. Finally, if necessary, there is an additional UAL cost component to ensure that there is no negative amortization in any year.

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 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 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 assets<sup>2</sup> 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 5.7% while the market value of assets decreased by 2.9% from June 30, 2021 to June 30, 2022. As of June 30, 2022 the market value of plan assets was approximately \$9.183 billion, and the actuarial value was approximately \$9.008 billion.

**Actuarial Assumptions.** The following are the principal actuarial assumptions used by Cheiron in preparing the 2022 Actuarial Valuation. The actuarial assumptions reflect recommendations approved by the SDCERS Board in July 2020.

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 \$11.9 million for Fiscal Year 2024 (assuming payment at the beginning of the Fiscal Year), increasing by 2.50% annually.

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<sup>2</sup> 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.

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.

### **Funding Status**

According to the 2022 Actuarial Valuation, as of June 30, 2022, the City had a UAL of \$2.84 billion and a funded ratio based on the actuarial value of assets of 76.0% and an ADC to SDCERS of \$448.1 million by the City in Fiscal Year 2024. The UAL decreased by \$112.0 million over the UAL set forth in the 2021 Actuarial Valuation, which was \$2.952 billion, and the funded ratio increased by 1.7%. In the 2022 Actuarial Valuation, it was projected that the Fiscal Year 2022 UAL would decrease by \$421.4 million. Despite the actuarial investment gain of \$56.8 million (7.32% return on the actuarial value of assets being above the assumed return of 6.50%), the net asset experience fell short of the anticipated expected gain by \$190.6 million. This is due to the partial recognition (25% asset smoothing) of the market value asset loss for the year ending June 30, 2022 which offset the large anticipated investment gain. The Pension Plan experienced a liability loss of \$118.7 million, primarily due to salary increases above those assumed, offset by demographic experience (retirement, death, disability, and termination) deviating from the assumptions.

Table A-9 below sets forth the City's portion of SDCERS historical funding progress for Fiscal Years 2013 through 2022. See Note 12 "Pension Plans," in the City's Fiscal Year 2022 ACFR for additional information with respect to the Pension Plan. The discussion of the Pension Plan in Note 12 of the City's Fiscal Year 2022 ACFR is based primarily on information in the 2021 Actuarial Valuation.

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**TABLE A-9**  
**CITY OF SAN DIEGO**  
**SCHEDULE OF FUNDING PROGRESS**  
**Fiscal Years Ended June 30, 2013 through June 30, 2022**  
**(\$ in thousands)**  
**(unaudited)**

<b>Valuation Date (June 30)</b>	<b>Actuarial Value of Assets (A)</b>	<b>Market Value of Assets (B)</b>	<b>Actuarial Liability (AL) (C)</b>	<b>Funded Ratio (Actuarial) (A/C)</b>	<b>Funded Ratio (Market) (B/C)</b>	<b>Unfunded AL (UAL) (C)-(A)</b>	<b>AL less Market Value of Assets (C)-(B)</b>
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
2021	8,526,118	9,457,379	11,478,109	74.3	82.4	2,951,990	2,020,730
2022 <sup>(1)</sup>	9,008,489	9,182,687	11,848,469	76.0	77.5	2,839,980	2,665,782

<sup>(1)</sup> The City reopened the Pension Plan to all non-police new hires on or after July 10, 2021. New hires who entered SDCERS after the reopening of the Pension Plan are reflected in the increase of the Actuarial Liability for Fiscal Year 2022. Reinstated employees since July 9, 2022 are not included in the Actuarial Liability or assets.

Source: SDCERS Annual Comprehensive Financial Report 2014-2022 for Valuation Dates 2013 to 2021. Cheiron Actuarial Valuation Report as of June 30, 2022 for Valuation Date 2022.

**Preservation of Benefits Plan**

The Preservation of Benefits (“POB”) Plan is a qualified governmental excess benefit arrangement 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. 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-10 below. The total pension liability for the POB Plan as of June 30, 2021, the most recent year for which the City has data, was \$17.5 million, and this entire amount is unfunded. POB Plan contributions are made on a monthly basis as payments are owed to beneficiaries.

**City-wide and General Fund Pension Contributions**

Table A-10 sets forth the City’s ADC and POB Plan contributions and the General Fund’s share payments for Fiscal Years 2018 through 2022. The City does not pay any portion of employee pension contributions.

**TABLE A-10**  
**CITY OF SAN DIEGO**  
**PENSION CONTRIBUTION**  
**Fiscal Years 2018 through 2022**  
**(\$ in thousands)**

<b>Fiscal Year ended June 30</b>	<b>Pension Plan ADC (A)</b>	<b>POB Plan Contribution (B)</b>	<b>Total Pension Contribution<sup>(1)</sup> (A+B)</b>	<b>General Fund Pension Contribution<sup>(1)</sup> (C)</b>	<b>General Fund Revenue (D)</b>	<b>General Fund Pension Contribution as a Percent of General Fund Revenue (C/D)</b>
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
2021	365,600	1,562	367,162	227,426	1,605,180	14.17
2022	414,900	1,442	416,342	312,919	1,808,942	17.30

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

Source: SDCERS Annual Comprehensive Financial Reports for Pension Plan ADC (2018-2022). ACFRs, City of San Diego for POB Plan Contribution (2018-2022) and General Fund Revenues (2018-2022). Department of Finance, City of San Diego for General Fund Pension Contribution (2018-2022).

The City’s ADC is typically made on July 1 of each Fiscal Year, including Fiscal Years 2022 and 2023. For Fiscal Year 2023, the ADC is \$384.3 million (which the City has paid) with the General Fund’s budgeted share of the ADC at \$283.8 million, an increase of \$30.6 million from Fiscal Year 2022. The General Fund pension contribution budget of \$283.8 million represents 14.56% of the General Fund revenue budget of \$1,9488 million for Fiscal Year 2023. In addition, in Fiscal Year 2023, the City paid the Fiscal Year 2022 and 2023 normal costs for Proposition B-affected employees (Fiscal Year 2022 normal costs for new hires on or after July 10, 2021, and Fiscal Year 2023 normal costs for reinstated employees who were previously ineligible to join the Pension Plan, respectively), totaling approximately \$37.5 million.

The POB Plan contribution is approximately \$1.5 million based on the Fiscal Year 2023 Adopted Budget. See “—Proposition B” below for more information regarding the effects of the unwinding of Proposition B on the projected Fiscal Year 2024 ADC.

### **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 A-11 uses the actuarial assumptions and methodologies discussed above, including the revised assumptions approved by the SDCERS Board in July 2020 that were used for the 2022 Actuarial Valuation. It is important to note that the table uses investment returns as assumed, 6.5% in Fiscal Year 2023 and annually thereafter. 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.

The Fiscal Year 2024 ADC shown in Table A-11 below includes Fiscal Year 2024 normal costs (approximately \$36.8 million) and amortization of the unfunded actuarial liability (\$10.8 million) for reinstated Plan members resulting from the invalidation of Proposition B. The projections in Table A-11 do not include any past liability or assets for the employees who had not yet been reinstated to the Pension Plan as of June 30, 2022, as a result of the unwinding of Proposition B. The projections below include the estimated normal costs for such employees beginning with the projected Fiscal Year 2025 ADC but, other than with respect to the aforementioned amounts included in the Fiscal Year 2024 ADC, do not include the amortization of the

unfunded liability of such reinstated employees (approximately \$10.8 million annually over 20 years, beginning in Fiscal Year 2024).

Based on the 2022 Actuarial Valuation, the ADC is projected to experience overall increases to approximately \$450 million in 2036. The City’s UAL is expected to be fully funded at the Fiscal Year 2035 actuarial valuation, which would result in a sharp decline in the ADC in Fiscal Year 2037. The ADC is then projected to increase steadily with growing normal costs as future payrolls increase.

**TABLE A-11**  
**CITY OF SAN DIEGO ACTUARIAL FUNDING PROJECTIONS**  
**Fiscal Years 2023 through 2032 (earnings as assumed)**

<b>Fiscal Year Ending June 30</b>	<b>Assumed Investment Return Rate</b>	<b>Actuarially Determined Contribution (millions)<sup>(1)(2)(3)</sup></b>	<b>UAL (billions)<sup>(1)</sup></b>
2023	6.50%	\$384.3	\$2.95
2024	6.50	448.1	2.84
2025	6.50	436.6	2.66
2026	6.50	438.1	2.50
2027	6.50	434.1	2.30
2028	6.50	438.6	2.10
2029	6.50	418.1	1.90
2030	6.50	422.2	1.69
2031	6.50	426.5	1.49
2032	6.50	430.9	1.28

<sup>(1)</sup> The estimated ADC for each Fiscal Year shown is based on the estimated UAL as of the June 30 of second preceding Fiscal Year (e.g. the ADC for Fiscal Year 2023 shown is based on the UAL shown estimated as of June 30, 2021).

<sup>(2)</sup> The projected ADC shown relate to all City employees who are members of SDCERS and not just the portion funded from the General Fund. The Fiscal Year 2023 General Fund contribution to the ADC is \$283.8 million.

<sup>(3)</sup> The ADC shown for Fiscal Year 2024 includes approximately \$47.6 million for the Fiscal Year 2024 normal costs and amortization of the unfunded actuarial liability for reinstated Plan members resulting from the invalidation of Proposition B.

Source: Cheiron Actuarial Valuation Report dated February 2023 for period ending of June 30, 2022.

### Supplemental COLA

On August 5, 2013, the City Council amended the Municipal Code 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 2022, the City contributed \$1.48 million towards the Supplemental COLA reserve and paid approximately \$1.39 million in benefits. As of June 30, 2022, the City’s Supplemental COLA reserve had an unspent balance of \$82,000. The City budgeted \$1.19 million for the Supplemental COLA reserve in Fiscal Year 2023.

### Proposition B

**Proposition B Litigation.** On June 5, 2012, City of San Diego voters approved Proposition B, a pension reform initiative amending the City Charter. While in effect, Proposition B prevented all employees hired on or after July 20, 2012, other than sworn police officers, from participating in the Pension Plan. Instead, those employees were only eligible to participate in a defined contribution plan, Supplemental Pension Savings Plan-H (“SPSP-H Plan”). In early 2021, the California Superior Court invalidated Proposition B.

Since then, the City has struck the Proposition B provisions from the Charter and has conformed the Municipal Code and any related enactments accordingly.

The Court ruling required that the City meet and confer with the REOs over the effects of Proposition B and the invalidation thereof and that the City pay the affected current and former employees represented by the REOs the difference, plus 7% annual interest (the “Interest Penalty”), between the compensation (including retirement benefits) those employees would have received prior to when Proposition B took effect and the compensation they actually received after Proposition B took effect (the “Make-Whole Provision”).

***Unwinding of Proposition B.*** On June 22, 2021, the City Council approved amendments to both the Municipal Code and the SPSP-H Plan so that most employees hired on or after July 9, 2021 now enter SDCERS. Subsequently, the City entered into labor agreements with all six REOs except for the POA.

The agreements provide MEA and Local 127-represented employees with a one-time, irrevocable option for participants to remain in an amended SPSP-H Plan in lieu of participating in SDCERS, prospectively. Those employees who elect to participate in SDCERS were required to purchase all missed years of service credit for the time they were employed by the City in an eligible standard hour position, but excluded from participation in SDCERS due to Proposition B. The purchases of service credit were accomplished through mandatory transfers of SPSP-H account balances, with the City responsible for any shortfall in funding if the SPSP-H account balances are not sufficient to fully purchase the service credit. The Interest Penalty was calculated on an individual basis, then combined as an aggregate amount by REO following inclusion of adjustments to the Make-Whole Provision amounts, and was reallocated to all impacted employees based on years of service. The City Council extended the terms of the joint MEA and Local 127 agreement to unclassified, unrepresented employees, with the exception of the Interest Penalty.

Employees represented by DCAA, Local 911, and Local 145 must participate in SDCERS, prospectively. The agreements do not provide these employees with an option to remain participants in the modified SPSP-H Plan. DCAA, Local 911, and Local 145-represented employees, like MEA and Local 127-represented employees, must also purchase all missed years of service credit for the time they were employed by the City in an eligible standard hour position, but excluded from participation in SDCERS due to Proposition B. The purchases were accomplished through mandatory transfers of SPSP-H account balances, with the City responsible for any shortfall in funding. The Interest Penalty for these employees was calculated and paid on an individual employee basis.

On July 9, 2022, approximately 3,200 employees joined SDCERS and about 300 employees elected to remain in the SPSP-H Plan. The Fiscal Year 2023 annual pension payment required per the June 30, 2021 actuarial valuation did not include the pension “normal cost” of approximately \$35.2 million for the employees entering SDCERS as part of the Proposition B negotiations. As described under “Costs to Unwind Proposition B” below, the SDCERS Board voted to include the Fiscal Year 2023 and Fiscal Year 2024 unfunded normal costs for such employees as part of the ADC for Fiscal Year 2024, payable on July 1, 2023. The City budgeted \$30.2 million for Fiscal Year 2023 (\$18.2 million to be funded from the General Fund) for SPSP-H employer contributions that will largely go unused since most employees impacted by Proposition B elected to transfer to SDCERS in early Fiscal Year 2023. These funds could be used to pay a portion of such normal pension cost due on July 1, 2023.

***Costs to Unwind Proposition B.*** The estimated one-time cost for unwinding Proposition B for affected, current employees is \$142.0 million City-wide (\$80.1 million allocable to the General Fund), which comprises the unfunded liability costs related to Proposition B-affected employees owed to SDCERS (approximately \$119 million), and the costs to comply with the court-ordered Interest Penalty and the Make-Whole Provision (approximately \$22.8 million). While these costs represent the most significant portion of the costs associated with unwinding Proposition B, the final actual costs will vary based on ongoing negotiations with the POA regarding its members impacted by Proposition B and negotiations with the REOs

regarding employees who are also eligible to receive benefits under the Make-Whole Provision but have left the City (1,908 individuals).

In January 2023, the SDCERS Board approved the amortization of the \$119 million unfunded pension liability for Proposition B-affected employees over a 20 year period, commencing with the ADC payment due on July 1, 2023. The estimated increase to the ADC resulting from such amortization is approximately \$10.8 million per Fiscal Year (\$6.6 million allocable to the General Fund). In addition, Fiscal Year 2024 normal costs for Proposition B-affected employees is estimated to be \$36.8 million. In the aggregate, the actions approved by the SDCERS Board as well as the Fiscal Year 2024 normal costs for Proposition B-affected employees increased the Fiscal Year 2024 ADC to \$448.1 million. The Fiscal Year 2024 ADC is subject to change until the final approval of the 2022 Actuarial Valuation by the SDCERS Board on March 10, 2023.

In Fiscal Year 2023, the City paid, in full, \$22.8 million in one-time costs related to the Interest Penalty payments mandated by the court, of which \$14.0 million is allocable to the General Fund, as well as \$37.5 million in unpaid normal costs associated with Fiscal Year 2022 and Fiscal Year 2023, of which \$23.1 million is allocable to the General Fund. Additional costs associated with Proposition B employees who have separated from the City are expected in future fiscal years but cannot be reasonably estimated at this time.

### **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**

The City has established a Supplemental Pension Savings Plan (“SPSP”) and the SPSP-H, which are defined contribution plans administered by Principal Financial Services, Inc. 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 Meyers-Milias-Brown Act 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. The City’s general members, lifeguard members and elected officers participate in the plan. 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, 2022, there were 4,849 participants in the SPSP Plan and 8,949 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 Local 911 (for MEA and 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**

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 Principal Financial Services, Inc. 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 Meyers-Milias-Brown Act.

The City and employees contributed \$574,000 and \$854,000, respectively, during the Fiscal Year 2022. As of June 30, 2022, the plan fiduciary net position totaled \$10.98 million. The 401(a) Plan is not considered part of the City's financial reporting entity.

#### **401(k) Plan**

The City Council established a 401(k) Plan effective July 1, 1985. The 401(k) Plan is a defined contribution plan administered by Principal Financial Services, Inc. to provide retirement benefits for eligible employees. Employees are eligible to participate from the date of employment. There is no City contribution towards the 401(k) Plan and 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 contributes to the medical trust. For general members, that contribution is limited to an employer match of 0.25% of the salary of eligible employees and for Local 145 members is limited to \$25 per pay period (see "—Retiree Medical Trust" and "—Southern California Firefighters Benefit Trust" below).

#### **OPEB Plans**

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 1,372 retirees and 446 active employees as of June 30, 2022. The City's DC 2012 Plan is limited to 2,199 active participants as of June 30, 2022. (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. The City determines the City's contribution to CERBT 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 City makes the determination to draw from or deposit to CERBT at Fiscal Year-end. As of June 30, 2022, the fair value of the City’s investments in the CERBT was approximately \$121.9 million. Currently, the City projects draws through Fiscal Year 2026, deposits in Fiscal Years 2027 through 2035 and draws thereafter. The total Fiscal Year 2022 Annual Contribution for OPEB was \$65.4 million. Based on current projections performed by the City’s actuary, if the City maintains Annual Contributions at Fiscal Year 2022 levels, the City anticipates full funding of the City’s defined benefit plans by Fiscal Year 2043. It is projected that after Fiscal Year 2043 minimal contributions will be required to cover the pay-as-you-go cost for the DC 2012 Plan through 2048. 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-12 below sets forth the City’s contributions for Fiscal Years 2018 through 2022.

**TABLE A-12**  
**CITY OF SAN DIEGO**  
**CITY RETIREE HEALTHCARE CONTRIBUTIONS<sup>(1)</sup>**  
**Fiscal Years 2018 through 2022**  
**(in thousands)**

<b>Fiscal Year Ended June 30</b>	<b>Annual Contribution (A)</b>	<b>City CERBT Withdrawal (B)</b>	<b>Total City Retiree Healthcare Cost (A+B)</b>	<b>General Fund Retiree Healthcare Contribution<sup>(2)</sup></b>
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
2021	65,376	4,927	70,303	48,981
2022	65,376	1,863	67,239	49,301

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

<sup>(2)</sup> 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 ACFRs.

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 \$429.7 million as of June 30, 2022, based on a measurement date of June 30, 2021. See Note 13, “Other Postemployment Benefits,” in the City’s Fiscal Year 2022 ACFR 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 2023 is \$ 1.7 million (with the General Fund portion equaling approximately 71%). This amount represents the contribution towards benefits for approximately 4,808 FTE budgeted positions and is expected to grow as new general employees are hired.

## **Southern California Firefighters Benefit Trust**

The City and Local 145 agreed to amend the PEHB MOU for the purpose of adding a City contribution of \$25 per pay period for each active 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 2023 to the Firefighters Benefit Trust is \$637,000. This amount represents the contribution towards benefits for 972 FTE budgeted positions and is expected to grow as new Local 145 employees are hired.

## **RISK MANAGEMENT**

### **General**

The City is exposed to various risks of loss, including, but not limited to, torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. As described below, the City has self-insured retentions covering certain risks and purchases coverage from third-parties.

The City has implemented a Safety and Risk Oversight Committee (“SROC”) that is chaired by the City’s Chief Financial Officer and co-chaired by the directors of the Compliance and Risk Management departments. Operational departments and their in-house safety personnel are also committee participants. In addition to monitoring and tracking implementation of remedial measures to reduce the City’s risk of liability, the SROC identifies existing and emerging risks. The SROC implements a consistent, City-wide proactive approach to mitigating operational liability, promoting safety best practices, and distributing information on updated federal, State, and local safety regulations.

### **Self-Insurance**

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 and loss adjustment expenses. Claims liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts, and other economic and social factors. Estimated liabilities for public liability claims have been recorded in the government-wide financial statements, Sewer Utility Fund, Water Utility Fund, and the Successor Agency Private-Purpose Trust Fund. Estimated liabilities for Workers’ Compensation claims have been recorded in the government-wide financial statements, the Water Utility Fund, Sewer Utility Fund, Non-major Enterprise Funds, and Internal Service Funds. Estimated liabilities for long-term disability were recorded in the Miscellaneous Internal Service Fund.

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

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**TABLE A-13  
CITY OF SAN DIEGO  
GENERAL FUND LIABILITY CLAIMS AND PREMIUMS  
Fiscal Years 2018 through 2022**

<u>Fiscal Year</u>	<b>Liability Claims Payments and Settlement</b>	<b>Liability Premium</b>
	<u>Costs<sup>(1)</sup></u>	<u>Payments<sup>(2)</sup></u>
2018	\$27,742,000	\$ 8,798,000
2019	22,218,000	10,660,000
2020	18,082,000	11,442,000
2021 <sup>(3)</sup>	45,994,000	14,610,000
2022 <sup>(3)</sup>	58,859,000	17,297,000

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

<sup>(2)</sup> Premiums for various insurance contracts.

<sup>(3)</sup> Increased amounts in Fiscal Years 2021 and 2022 were the result of significant settlements reached in such Fiscal Years.

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 \$5,000,000 per occurrence. The City maintains excess public liability insurance policies in collaboration with Public Risk Innovations, Solutions and Management (“PRISM”), for amounts up to \$50,000,000 per occurrence (inclusive of the \$3,000,000 self-insured. PRISM is a member-directed risk sharing pool of counties and other public agencies and was formerly known as the California State Association of Counties-Excess Insurance Authority. 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, 2022 through March 31, 2023) which includes flood coverage for certain components of City property. The City is currently not required by law or contract to provide flood insurance for components of City property for which such coverage is currently not maintained. In its discretion, the City may elect to modify the designation of covered properties in the future.

The City's "all risk" property insurance purchased through the PRISM pool insures approximately \$4.7 billion of City property and provides coverage for loss to City property under the primary policy up to approximately \$25 million per occurrence and with access to additional excess limits. The policy is subject to a \$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 2023 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.

## **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. 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 2023 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 2023 Bonds; (ii) questioning or affecting the validity of the 2023 Bonds; or (iii) questioning or affecting the validity of any of the proceedings for the authorization, sale, execution or delivery of the 2023 Bonds.

### **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 2022, a total of 1,495 claims were filed against the City, of which 1,308 were related to the General Fund. For many of these claims, the City would expect insurance to cover monetary damage awards against the City, subject to a self-insured retention (also known as a deductible) in the amount of \$5,000,000 per occurrence. In Fiscal Year 2022, approximately \$24.8 million was paid for settlements and judgments related to the General Fund. Further, all of the payments for claims in Fiscal Year 2022 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 ACFR for Fiscal Year 2022 for additional information regarding the City’s contingent liabilities related to litigation. Please note that the information presented in the ACFR includes City-wide 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.

## 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 composed of two City employees, currently the Chief Financial Officer and the Assistant Director of Department of Finance, and three outside investment professionals and is charged with reviewing the City Treasurer's Investment Policy and overseeing the investment practices of the City Treasurer and recommending changes thereto. Investments in the City Pool are audited annually by an independent firm of certified public accountants as part of the overall audit of the City's financial statements.

The City's Investments Division uses outside vendors to provide investment portfolio valuations 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 preservation 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.

**Pool Liquidity and Other Characteristics.** 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.

The City Pool (including both the "Liquidity" and the "Core" portfolios) is highly liquid. Based on unaudited month-end data as of December 31, 2022, approximately 14.33% of the City Pool's investments

mature within 2 months, 15.06% within 3 months, 29.88% within 6 months, 38.62% within 1 year, 66.32% within 2 years, 94.79% within 3 years, 96.31% within 4 years, and 100% within 5 years (on a cumulative book value basis). As of December 31, 2022, the City Pool had a weighted average maturity of 1.47 years (573 days) and its average yield to maturity was 2.26%. 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 1.77 years as of December 31, 2022. 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 1.77% 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-14 sets forth information concerning the City Pool at December 31, 2022.

**TABLE A-14**  
**CITY TREASURER’S POOLED INVESTMENT FUND**  
**At December 31, 2022**  
**(in thousands (except for percentages))**  
**(unaudited)**

<u>Investment Instrument</u>	<u>Book Value</u>	<u>Fair Value<sup>(1)</sup></u>	<u>Percent of Total<sup>(2)</sup></u>
U.S. Treasury Notes	\$1,633,123	\$1,563,335	61.24%
Local Agency Investment Fund	66,246	66,246	2.48
Commercial Paper	439,555	442,954	16.48
Repurchase Agreement	145,800	145,800	5.47
Corporate Notes	226,754	223,647	8.50
Asset Backed Securities	<u>155,430</u>	<u>152,701</u>	<u>5.83</u>
<b>TOTAL INVESTMENTS</b>	<b>\$2,666,908</b>	<b>\$2,594,682</b>	<b>100.00%</b>

<sup>(1)</sup> Totals may not foot due to rounding

<sup>(2)</sup> 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 March \_\_, 2023, the City has an “\_\_” Issuer Rating from Moody’s Investors Service, Inc., an “\_\_” Issuer Credit Rating from S&P Global Ratings and an “\_\_” 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 2023 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 29, 2024, 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 1, 2023, the City had \$53.7 million principal amount of the authorized Commercial Paper Notes outstanding. The City expects to pay the outstanding amount of the Commercial Paper Notes with a portion of the proceeds of the 2023 Bonds. The City expects to issue additional Commercial Paper Notes in Fiscal Year 2023 to finance City improvements. See “—Future Financing Plans” below.

## **Long-Term Obligations**

Table A-15 sets forth the long-term General Fund lease commitments and other General Fund supported obligations outstanding as of June 30, 2022 and December 31, 2022. In addition to the General Fund supported obligations in Table A-15 below, the City and the Authority have executed and delivered a WIFIA Master Agreement and a WIFIA Credit Agreement with the EPA to obtain loans thereunder up to a principal amount of approximately \$359.2 million to fund eligible costs of the Storm Water Program. As of the date of this Official Statement, no amounts have been drawn under the WIFIA Master Agreement and the WIFIA Credit Agreement. Debt service on the loans drawn under the WIFIA Master Agreement and the WIFIA Credit Agreement, if any, are secured primarily by base rental payments to be made by the City under a certain facilities lease by and between the City and the Authority for the City’s beneficial use and occupancy of the facilities leased thereunder. Such base rental payments are expected to be paid from the General Fund.

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**TABLE A-15**  
**CITY OF SAN DIEGO**  
**GENERAL FUND SUPPORTED OBLIGATIONS**  
**(in thousands (except for footnotes))**  
**(Unaudited)**

	<b>Principal Outstanding as of June 30, 2022</b>	<b>Principal Outstanding as of December 31, 2022</b>
<b>General Fund Lease Revenue Bonds</b>		
<b>Master Indenture Lease Revenue Bonds<sup>(1)</sup></b>		
2012A – Capital Improvement Project Bonds <sup>(2)</sup>	\$ 3,605	\$ 2,735
2012B – Fire and Life Safety Refunding Bonds	11,395	10,925
2013A – Capital Improvement Projects and Old Town Light Rail Refunding Bonds	29,620	27,775
2013B – Balboa Park/Mission Bay Park Refunding Bonds	1,400	720
2015A – Capital Improvement Projects Bonds	62,260	62,260
2015B – Capital Improvement Projects Bonds	32,040	29,800
2018A – Master Refunding Bonds	100,440	93,475
2020A – Master Refunding Bonds	59,100	58,440
2021A - Capital Improvement Projects Bonds	<u>117,145</u>	<u>115,405</u>
<b>Subtotal Principal of Master Indenture Lease Revenue Bonds</b>	<b><u>\$417,005</u></b>	<b><u>\$401,535</u></b>
<b>Other General Fund Lease Revenue Bonds</b>		
2016 – Ballpark Refunding Bonds	73,120	67,340
2020A – Convention Center Expansion Refunding Bonds	<u>67,700</u>	<u>67,700</u>
<b>Subtotal Principal of General Fund Lease Revenue Bonds</b>	<b><u>\$140,820</u></b>	<b><u>\$135,040</u></b>
<b>Total Principal of General Fund Lease Revenue Bonds</b>	<b><u>\$557,825</u></b>	<b><u>\$536,575</u></b>
<b>Other Lease Obligations</b>		
2011 Qualified Energy Conservation Bonds Equipment Lease (15-year lease) <sup>(3)</sup>	\$3,968	\$3,968
Equipment Vehicle Financing Program (lease terms vary) <sup>(3)</sup>	75,889	76,942
2015 – Civic Center Plaza Capital Lease (20-year lease) <sup>(4)</sup>	46,340	-
2017 – 101 Ash Street Capital Lease (20-year lease) <sup>(4)</sup>	79,723	-
Other Capital Leases and Loans (lease terms vary) <sup>(5)</sup>	<u>15,509</u>	<u>14,519</u>
<b>Total Principal of Other Lease Obligations</b>	<b><u>\$218,741</u></b>	<b><u>\$95,429</u></b>
<b>Other Obligations (General Fund Backup Support)</b>		
San Diego Convention Center I-Bank Loan <sup>(6)</sup>	<u>\$23,225</u>	<u>\$22,411</u>
<b>Total Principal Outstanding</b>	<b><u>\$799,791</u></b>	<b><u>\$654,415</u></b>

<sup>(1)</sup> Reflects the Prior Bonds issued under the Master Indenture.

<sup>(2)</sup> 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 2020 (Series 2012A Refunding) (Federally Taxable).

<sup>(3)</sup> Private placement financing.

*(Footnotes (unaudited) to Table A-15 continue on next page)*

- (4) On July 26, 2022 the City Council approved a settlement agreement for the City’s acquisition of real properties commonly known as Civic Center Plaza (CCP) and 101 Ash Street. Escrow closed on the properties on August 4, 2022 and the City has no further obligation to make lease payments under such leases.
- (5) 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 (assigned to “GE HFS, LLC” in November 2022) and California Energy Resources Conservation and Development Commission loans.
- (6) 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 2022 ACFR, City of San Diego for Principal Outstanding as of June 30, 2022. Department of Finance-Debt Management Division, City of San Diego for Principal Outstanding as of December 31, 2022 and footnotes.

Table A-16 sets forth the principal and interest payments required to be made by the City with respect to future obligations, as of June 30, 2022, with the exception that the future lease payments relating to the CCP and 101 Ash Street property leases have been excluded. Such future payments are shown in the Fiscal Year 2022 ACFR, however, on August 4, 2022, the City closed escrow on such properties and the City has no further obligation to make lease payments under such leases. Table A-16 also 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 2023 Bonds.

**TABLE A-16**  
**CITY OF SAN DIEGO**  
**GENERAL FUND LEASE REVENUE BOND PAYMENTS AND OTHER GENERAL FUND**  
**OBLIGATIONS**  
**As of June 30, 2022**  
**(\$ Amounts in Thousands (except for footnotes))**

<u>Fiscal Year</u>	<u>General Fund Lease Revenue Bond Payments</u>	<u>Other General Fund Lease Obligations</u> <sup>(1)(2)(3)</sup>	<u>Total</u>
2023	\$55,750	\$34,240	\$89,990
2024	54,687	30,114	84,801
2025	53,955	23,391	77,346
2026	53,967	20,705	74,672
2027	53,955	16,863	70,818
Thereafter	546,784	61,896	608,680
Subtotal	\$819,098	\$187,209	\$1,006,307
Less Interest Portion	<u>(261,273)</u>	<u>(16,230)</u>	<u>(277,503)</u>
Total Principal Portion	<u>\$557,825</u>	<u>\$170,979</u>	<u>\$728,804</u>

(1) Consists of payments related to the Other Lease Obligations category of the above General Fund Supported Obligations table.

(2) 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 CCP and 101 Ash properties are not included in this table. On July 26, 2022 the City Council approved a settlement agreement for the City’s acquisition of such properties and the City closed escrow on such properties on August 4, 2022. The City has no further obligation to make lease payments under such leases.

Source: Fiscal Year 2022 ACFR, City of San Diego.

## **Future Financing Plans**

The City monitors outstanding General Fund obligations and conducts refundings, if economically advantageous, and from time to time, conducts bond and note offerings to fund various General Fund capital improvement projects, vehicles and equipment. The Five-Year Outlook includes projected long-term bond issuances and related debt service costs from Fiscal Year 2024 through Fiscal Year 2028 for significant investments in the City's infrastructure.

In addition to the 2023 Bonds, the City expects to issue Commercial Paper Notes up to \$88.5 million as needed in Fiscal Years 2024 and 2025 to continue to fund, on an interim basis, General Fund capital projects. Beginning in Fiscal Year 2025, the City projects to repay Commercial Paper Notes using lease revenue bonds every two years. The timing of these note and bond offerings are dependent on the project construction schedules and cash flow needs.

The City Council has appropriated a total of \$440.02 million in existing and future debt financing for critical capital needs through three appropriation actions, one in Fiscal Year 2021 and two in Fiscal Year 2022, of which a portion will be financed with the 2023 Bonds. The City is also financing an estimated \$733 million in priority Storm Water Program projects, which consists of a WIFIA loan for up to a principal amount of \$359.2 million and future lease revenue bond issuances to fund the remaining required City matching funds. See "—Storm Water Program" above.

Finally, the General Fund Fleet Replacement program is funded with the City's Equipment and Vehicle Financing Program ("EVFP"). During the Five-Year Outlook period, the City expects to borrow approximately \$160.0 million via EVFP to fund the General Fund annual fleet new and replacement needs.

Other than the capital needs discussed above, the City will continue to evaluate funding for future capital improvements such as street improvements, streetlights, sidewalks, and City facility improvements, or potential new financing needs for implementation of the 2022 CAP and homelessness solutions.

## **Overlapping Debt and Debt Ratios**

Table A-17 presents a statement of direct and overlapping bonded debt (the "Debt Statement") of the City as of June 30, 2022. 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 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. Such bonds for which the City has served as a conduit issuer are not secured by City General Fund amounts or revenues.

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.

**TABLE A-17**  
**CITY OF SAN DIEGO**  
**STATEMENT OF DIRECT AND OVERLAPPING BONDED DEBT**  
**As of June 30, 2022**  
**(\$ in thousands)**  
**(unaudited)**

	<i>Total Debt</i> <i>6/30/22</i>	<i>% Applicable<sup>(1)</sup></i>	<i>City's Share of</i> <i>Debt 6/30/22</i>
<b><u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u></b>			
Metropolitan Water District	\$ 20,175	8.474 %	\$ 1,710
Palomar Community College District	655,840	23.349	153,132
San Diego Community College District	1,344,708	99.938	1,343,874
Poway Unified School District School Facilities Improvement District Nos. 2002-1 and 2007-1	278,863	55.469 -56.569	156,493
San Diego Unified School District	4,769,349	99.941	4,766,535
San Dieguito Union High School District	424,285	34.305	145,551
San Ysidro School District	139,506	82.190	114,660
Other School, High School and Community College Districts	3,353,462	Various	446,230
Grossmont Healthcare District	243,787	7.953	19,388
Palomar Pomerado Health System	408,228	27.873	113,785
City of San Diego Special Assessment/Special Tax Bonds <sup>(2)</sup>	57,295	100	57,295
Del Mar Unified School District Community Facilities District No. 99-1 & 95-1	49,620	100	49,620
North City West School District Community Facilities District	29,083	100	29,083
Poway Unified School District Community Facilities Districts	342,809	100	342,809
San Dieguito Union High School District Community Facilities Districts	62,650	81.272-100	57,650
Sweetwater Union High School District Community Facilities Districts	6,913	31.201-100	4,586
Solana Beach School District Community Facilities Districts	27,915	100	27,915
Other Special District 1915 Act Bonds	50,764	Various	45,332
<b>TOTAL NET DIRECT OVERLAPPING TAX AND ASSESSMENT DEBT</b>			<b>\$7,875,648</b>
<b><u>DIRECT AND OVERLAPPING DEBT:</u></b>			
San Diego County General Fund Obligations	\$245,340	47.445	\$116,402
San Diego County Pension Obligation Bonds	340,825	47.445	161,704
San Diego Superintendent of Schools Certificates of Participation	7,780	47.445	3,691
Poway Unified School District Certificates of Participation	54,460	64.992	35,357
Sweetwater Union High School District Certificates of Participation	29,140	19.531	5,691
Chula Vista School District General Fund Obligations	192,105	4.998	9,601
San Ysidro School District Certificates of Participation	36,489	82.190	29,990
Other School, High School and Community College District Certificates of Participation	140,673	Various	5,318
<b>City of San Diego Obligations<sup>(3)</sup></b>	<b>950,715</b>	<b>100</b>	<b>984,366</b>
<b>TOTAL NET DIRECT AND OVERLAPPING DEBT</b>			<b>\$1,352,120</b>
<b><u>OVERLAPPING TAX INCREMENT DEBT (Successor Agencies):</u></b>	<b>\$307,678</b>	<b>0.763-100%</b>	<b>\$ 282,293</b>
<b>TOTAL DIRECT DEBT</b>			<b>984,366</b>
<b>TOTAL GROSS OVERLAPPING DEBT</b>			<b>8,525,695</b>
<b>GROSS COMBINED TOTAL DEBT<sup>(4)</sup></b>			<b>9,510,061</b>

<sup>(1)</sup> 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.

<sup>(2)</sup> Amounts reconcile to Note 19 in the Fiscal Year 2022 ACFR, Total Special Assessment/Special Tax Bonds.

<sup>(3)</sup> Amounts for Total Debt reconcile to Note 5 in the Fiscal Year 2022 ACFR 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.

<sup>(4)</sup> 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 2022 ACFR, City of San Diego.

## LIMITATIONS ON TAXES, APPROPRIATIONS AND REVENUE

### Article XIII A of the California Constitution

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

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

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

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

### Article XIII B of the California Constitution

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

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

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

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

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

The City's appropriations limit for Fiscal Year 2023 has been established at \$4.7 billion. Using the Fiscal Year 2023 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 \$1.4 billion, which is \$3.3 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 XIIC to fees imposed after November 6, 1996, the effective date of Proposition 218, and absent other legal authority could result in the reduction in any existing taxes, assessments or fees and charges imposed prior to November 6, 1996.

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

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

The Supreme Court further stated in the *Bighorn Decision* that it was not holding that the initiative power is free of all limitations and was not determining whether the initiative power is subject to the statutory provision requiring that water and wastewater service charges be set at a level that will pay debt service on bonded debt and operating expenses. Such initiative power could be subject to the limitations imposed on the impairment of contracts under the contract clause of the United States Constitution. Additionally, SB 919 provides that the initiative power provided for in Proposition 218 “shall not be construed to mean that any owner or beneficial owner of a municipal security, purchased before or after (the effective date of Proposition 218) assumes the risk of, or in any way consents to, any action by initiative measure that constitutes an impairment of contractual rights” protected by the United States Constitution.

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

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

#### ***Article XIID***

Article XIID defines a “fee” or “charge” as any levy other than an ad valorem tax, special tax, or assessment imposed by an agency upon a parcel or upon a person as an incident of property ownership, including a user fee or charge for a property-related service. A “property-related service” is defined as “a public service having a direct relationship to a property ownership” herein. Article XIID further provides that

reliance by an agency on any parcel map (including an assessor's parcel map) may be considered a significant factor in determining whether a fee or charge is imposed as an incident of property ownership. In the *Bighorn Decision*, the Supreme Court stated that ongoing water delivery charges are also property-related fees and charges within the meaning of Article XIID.

Article XIID requires that any agency imposing or increasing any property-related fee or charge must provide written notice thereof to the record owner of each identified parcel upon which such fee or charge is to be imposed and must conduct a public hearing with respect thereto. The proposed fee or charge may not be imposed or increased if a majority of owners of the identified parcels file written protests against it. As a result, if and to the extent that a fee or charge imposed by a local government for water service is ultimately determined to be a "fee" or "charge" as defined in Article XIID, the local government's ability to increase such fee or charge may be limited by a majority protest.

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

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

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

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

Both Articles XIII A and XIII B, as well as Articles XIII C 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.

Franchise fees relating to solid waste collection has been the subject of recent litigation. In the case of *Robert Zolly et al. v. City of Oakland*, two franchises awarded by the City of Oakland for recycling and municipal waste services were subject to challenge under Proposition 26. The City of Oakland argued that the franchise fees fell within the exception of Proposition 26 described under (d) above (“a charge for entrance to or use of local government property, or the purchase, rental, or lease of local government property”). In its ruling issued on August 11, 2022, in *Robert Zolly et al. v. City of Oakland*, the California Supreme Court found that the City of Oakland had failed to demonstrate that the right to use city streets for travel (i.e. to haul recyclable and municipal waste), as others use them, is a property right for which a fee can be imposed. The City of Oakland may litigate such factual question on remand.

### **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 (the “Cannabis Business 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 were taxed initially at a rate of 8% of monthly gross receipts. In May 2022, the gross receipt tax was lowered to 2.0% for cannabis production facilities. The gross receipts tax of 8.0% remains unchanged for retail outlets.

The 5-Year Outlook assumes \$162.6 million in cannabis tax revenue will be received by the City between Fiscal Year 2024 and Fiscal Year 2028. 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.



The City of San Diego  
**Item Approvals**

**Item Subject:** Approval of the Form and Authorization of the Distribution of the Preliminary Official Statement and Authorization of 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 2023A Lease Revenue Bonds.

<b>Approving Authority</b>	<b>Approver</b>	<b>Approval Date</b>
OFFICE OF THE CITY ATTORNEY DEPARTMENT APPROVER	JORDAN, JEAN	03/01/2023