



The City of San Diego

Staff Report

DATE ISSUED: 3/18/2020

TO: Public Facilities Financing Authority

FROM: Office of The City Attorney

SUBJECT: Approval of the forms of Preliminary Official Statement, Official Statement, Bond Purchase Agreement and certain other agreements and actions in connection with the issuance of the Public Facilities Financing Authority of the City of San Diego Water Revenue Bonds.

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

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

Council District(s): Citywide

OVERVIEW:

Before issuing the water revenue bonds (Bonds), the Public Facilities Financing Authority of the City of San Diego (Authority) must authorize the forms of marketing documents and sale agreement that may be used to complete the transaction. A Notice of Sale has previously been approved by the Authority for purposes of a competitive sale. The Bond Purchase Agreement will be used in the event that the City elects to sell the Bonds directly to an underwriter(s). The Preliminary Official Statement and Official Statement will be used to market and sell the Bonds via either a competitive or negotiated sale.

PROPOSED ACTIONS:

A resolution approving the forms of Preliminary Official Statement, Official Statement, Bond Purchase Agreement and certain other agreements and actions in connection with the issuance of the Authority's Water Revenue Bonds.

DISCUSSION OF ITEM:

Please see Staff Report to City Council for companion item to this Authority item.

Fiscal Considerations:

Please see Staff Report to City Council for companion item to this Authority item.

Charter Section 225 Disclosure of Business Interests:

N/A; it is uncertain whether the form of Bond Purchase Agreement being approved as part of this item will be used. If a negotiated sale is undertaken, Charter section 225 Disclosure of Business Interests will be complied with once an underwriter has been selected.

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

Please see Staff Report to City Council for companion item to this Authority item.

Environmental Impact:

Please see Staff Report to City Council for companion item to this Authority item.

Equal Opportunity Contracting Information (if applicable):

N/A

Previous Council and/or Committee Actions:

On December 17, 2020, City Council approved the first reading of Ordinance No. O-21166), and on January 7, 2020, City Council adopted the Ordinance, thereby authorizing the issuance of the 2020 Water Revenue Bonds and certain other related actions. On January 13, 2020, the PFFA also authorized the issuance of the 2020 Water Revenue Bonds (FA-2020-1).

Key Stakeholders and Community Outreach Efforts:

N/A

Bret A. Bartolotta

Deputy City Attorney



The City of San Diego

Staff Report

DATE ISSUED: March 23, 2020

TO: City Council

FROM: Debt Management Department

SUBJECT: Authorization for the Public Facilities Financing Authority of the City of San Diego 2020 Water Revenue Bonds Preliminary Official Statement ("POS")

Primary Contact: Brian Mandell Phone: (619) 533-4519

Secondary Contact: Taif Tozy Phone: (619) 533-4517

Council District(s): Citywide

OVERVIEW:

This action will authorize the form and distribution of the POS; and the execution, delivery, and distribution of the Official Statement ("OS") for the 2020 Water Revenue Bonds. The POS is a document that provides information about the City's Water System and the Public Facilities Financing Authority of the City of San Diego ("PFFA") Water Revenue Bonds (the "2020 Water Revenue Bonds") that potential investors would require for the bond sale.

PROPOSED ACTION:

1. Approve the form and authorize the distribution of the POS for the 2020 Water Revenue Bonds, and the execution, delivery, and distribution of the OS.

DISCUSSION OF ITEM:

Staff recommends approving the requested actions.

Item Background

City Council adopted Ordinance (O-21166) on January 7, 2020, authorizing the issuance of the 2020 Water Revenue Bonds in a principal amount not to exceed \$350 million to (a) to finance the ongoing Water System capital program including paying outstanding Subordinated Water Revenue Water Commercial Paper Notes ("CP Notes") in an aggregate amount not to exceed \$250 million and, (b) to refund, on an advanced refunding or current refunding basis, the Subordinated Water Revenue Refunding Bonds, Series 2012A ("2012 Water Revenue Bonds") in an amount totaling \$113.3 million. The ordinance approved the financing documents related to the 2020 Water Revenue Bonds, including the form of the Supplemental Bond Indenture, the form of the Supplement to the Master Installment Purchase Agreement, the Assignment Agreement and the Continuing Disclosure Certificate. See Attachment 1: Staff Report dated December 3, 2019 for more information. On January 13, 2020, the PFFA also authorized the issuance of the 2020 Water Revenue Bonds (FA-2020-1). The resolution approved financing documents related to the 2020 Water Revenue Bonds, including the form of the Supplemental Bond Indenture, the Assignment Agreement, the Escrow Agreement, and the Notices of Sale.

The 2020 Water Revenue Bonds will be issued by the PFFA as a public offering under the Ordinance, with authorization for competitive or negotiated sale, with ratings from Fitch, Moody's, and Kroll Ratings. Previously, staff anticipated a competitive sale. Due to significant market pressure, staff will work with the financial advisor to evaluate and determine the optimal method of sale. If a negotiated sale is anticipated to deliver optimal results, staff will identify an underwriting syndicate for the negotiated sale. For more information regarding the 2020 Water Revenue Bonds financing structure, ordinance and bond document approvals, see Attachment 1: Staff Report dated December 3, 2019.

Parallel with this POS Authorization, the PFFA will convene to approve the form and distribution of the POS, and the execution, delivery, and distribution of the OS. PFFA will additionally authorize a form of Bond Purchase Agreement which would be utilized if it is determined that a negotiated sale will deliver optimal results. PFFA actions with respect to the POS will occur in conjunction with this item.

The municipal bond market is currently experiencing market dislocation. The previous financing timeline assumed bonds to be priced the week of April 13th; however, that is not expected to occur. Given the need for new bond funds and take-out of Commercial Paper Notes where the short-term market is currently volatile, staff will work with the financial advisor to evaluate and determine the optimal method of sale and access markets as soon as is reasonably possible.

Preliminary Official Statement (POS) for the 2020 Water Revenue Bonds

Staff is presenting the POS for the 2020 Water Revenue Bonds for City Council consideration. The POS for the 2020 Water Revenue Bonds provides information that investors for this offering would require to make an informed investment decision. It describes the bond offering to the marketplace and includes information about the structure; sources and uses of funds; security and sources of payment of the bonds; risk factors; and a description of pertinent financial, regulatory, and operational information regarding the City's Water System.

The POS reflects the Water System's financial information including information concerning the Fiscal Year (FY) 2019 financial results and certain unaudited FY 2020 year-end estimates. The POS also includes the current information on the Water System organization and management, service area and facilities, water supply, CIP, limitations on taxes and water rates and charges, near term projections for capital program, revenue and expenditure projections, litigation, and tax matters. Appendices include: Summary of Principal Legal Documents (Appendix A); Form of Approving Opinion of Bond Counsel (Appendix B), Form of the Continuing Disclosure Certificate (Appendix C), and Information Regarding the Book-Entry Only System (Appendix D).

In accordance with the Disclosure Practices Working Group ("DPWG") Controls and Procedures, a Financing Group was convened to assist in the preparation of the POS and identify material to be solicited from various City departments, including Public Utilities ("PUD"), Department of Finance, Debt Management, and the Office of the City Attorney. PUD provided pertinent information for inclusion in the POS including data and projections concerning the Water System and Water System finances. Various City departments have provided pertinent information for inclusion in the POS.

After a comprehensive review, DPWG approved the POS on March 23, 2020. Consistent with the DPWG Controls and Procedures, necessary certifications from various City management staff involved in the preparation or review of the disclosures will be received by DPWG. The certifications of the Mayor, City Attorney, Chief Financial Officer, and DPWG will be provided to the City Council prior to the City Council hearing. The POS contains various placeholders that will be filled in by Disclosure Counsel at the time of POS posting or upon the sale of the 2020 Water Revenue Bonds. The POS and OS will be updated to reflect the most recent information prior to respective posting of each. All material updates will be electronically distributed to the City Council.

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

Goal #1: Provide high quality public service

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

Fiscal Considerations:

Bond proceeds for the 2020 Water Revenue Bonds will total to approximately \$364.5 million with the issuance of two series of bonds: Series 2020A for Water CIP including the takeout of certain outstanding CP Notes and new money project funds up to \$250 million, and Series 2020B for the 2012 Water Revenue Bonds Refunding for an amount totaling \$113.3 million.

Under market conditions as of March 12, 2020, the estimated True Interest Cost ("TIC") for Series 2020A is approximately 2.99%. The average annual debt service for Series 2020A is estimated to be \$12.5 million for FY 2021-2050. The actual cost of borrowing will depend on market conditions at the time the 2020 Water Revenue Bonds are sold.

Under market conditions as of March 12, 2020 and inclusive of release of the \$11.8 million debt service reserve fund from the existing bonds to escrow, an advance refunding of the 2012 Water Revenue Bonds the estimated TIC for Series 2020B is approximately 2.38% and produces total debt service savings to the Water System of approximately \$22.8 million, with average annual savings of approximately \$1.7 million over the remaining life of the bonds, FY 2021-2033. The average annual debt service for Series 2020B is estimated to be \$10.1 million as compared to the current average annual debt service of \$11.8 million. The estimated net present value savings is 6.99% of the refunded bonds.

Charter Section 225 Disclosure of Business Interests:

N/A; there is no contract associated with this action.

Environmental Impact:

This activity is not a project pursuant to CEQA Guidelines Sections 15378(b)(4) and (b)(5), and thus, is not subject to CEQA pursuant to CEQA Guidelines Section 15060(c)(3).

Equal Opportunity Contracting Information (if applicable):

Contracts or agreements associated with this action are subject to the City's Equal Employment Opportunity Outreach Program (San Diego Ordinance No. 18173, Municipal Code Sections 22.2701 through 22.2708) and Non-Discrimination in Contracting Ordinance (San Diego Municipal Code Sections 22.3501 through 22.3517).

Previous Council and/or Committee Actions:

On December 17, 2020, City Council approved the first reading of Ordinance No. O-21166), and on January 7, 2020, City Council adopted the Ordinance, thereby authorizing the issuance of the 2020 Water Revenue Bonds and certain other related actions. On January 13, 2020, the PFFA also authorized the issuance of the 2020 Water Revenue Bonds (FA-2020-1).

Key Stakeholders and Community Outreach Efforts:

N/A

Public Notice – Government Code Section 5852.1

The following information is made available in accordance with California legislation (Government Code Section 5852.1) to provide certain public disclosures related to the proposed financing. The bonds are anticipated to be sold in Calendar Year 2020. *All figures are estimates as of March 12, 2020, and are subject to bond sale and market conditions:*

A.) True Interest Cost of the 2020 Water Revenue Bonds:

- Series 2020A: 2.99%
- Series 2020B: 2.38%

- B.) Finance Charge of the 2020 Water Revenue Bonds calculated as the sum of all fees and charges paid to third parties: \$1,250,652
- i. Costs of Issuance: \$416,027
 - ii. Underwriting Takedown: \$834,625
- C.) Net Proceeds of the Bonds: \$364,510,228
- D.) Total Payment Amount for the 2020 Water Revenue Bonds (estimated total of all payments to pay debt service through the expected final maturity of each series):
- Series 2020A: \$376,309,975
 - Series 2020B: \$130,957,764

Lakshmi Kommi

Debt Management Director

Rolando Charvel

Chief Financial Officer

Attachment 1: Staff Report dated December 3, 2019.

PUBLIC FACILITIES FINANCING AUTHORITY
OF THE CITY OF SAN DIEGO

RESOLUTION NUMBER FA-2020-4

ADOPTED ON APRIL 7, 2020

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

WHEREAS, Article 1 of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California authorizes and empowers local agencies to form a joint powers authority, separate and apart from the contracting parties, and Article 4 of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (known as the Marks-Roos Local Bond Pooling Act of 1985) authorizes and empowers such an authority to issue bonds for the purpose of financing public capital improvements, working capital, liability and other insurance needs, or projects whenever there are significant public benefits to local agencies; and

WHEREAS, the City of San Diego, California (the “City”), and the Redevelopment Agency of the City of San Diego entered into a Joint Exercise of Powers Agreement, dated as of May 14, 1991, as amended and restated as of January 11, 1999, and as again amended and restated on October 29, 2002, and as again amended and restated as of January 1, 2013 to include the Housing Authority of the City of San Diego (the “Housing Authority”) as a member, establishing the Public Facilities Financing Authority of the City of San Diego (the “Authority”), a California joint exercise of powers authority duly organized to provide financial assistance to the City; and

WHEREAS, in order to effectuate the design, acquisition, construction and installation of improvements (“Projects”) to the City’s water system, the Authority has issued various series of water revenue bonds and commercial paper notes, each with an appropriate series, lien, and purpose designation including but not limited the Subordinated Water Revenue Commercial Paper Notes, Series A (Payable Solely from Subordinated Installment Payments Secured by Net System Revenues of the Water Utility Fund) (the “Series A Commercial Paper Notes”), the Subordinated Water Revenue Commercial Paper Notes, Series B (Payable Solely from Subordinated Installment Payments Secured by Net System Revenues of the Water Utility Fund) (the “Series B Commercial Paper Notes” and, together with the Series A Commercial Paper Notes collectively, the “Commercial Paper Notes”) and the Subordinated Water Revenue Bonds, Refunding Series 2012A (Payable Solely From Subordinated Installment Payments Secured By Net System Revenues of the Water Utility Fund) (the “2012A Water Revenue Bonds”); and

WHEREAS, from time to time there exist interest rate environments that create savings opportunities through, among other things, the refunding of all or a portion of the outstanding 2012A Water Revenue Bonds (such 2012A Water Revenue Bonds to be refunded, the “Refunded 2012A Water Revenue Bonds”); and

WHEREAS, the City desires to effect, from time to time, the refunding, on an advanced refunding or current refunding basis, the Refunded 2012A Water Revenue Bonds, through one or more issuances by the Authority of one or more series of its water revenue bonds (each such water revenue bonds, the “Authorized Water Revenue Refunding Bonds”), as opportunities are presented to lower financing costs, if economical or otherwise on terms beneficial to the City and its residents; and

WHEREAS, the Authority issued the Commercial Paper Notes to initially finance various Projects with the expectation that the Commercial Paper Notes would be paid, in whole or in part, with the proceeds of water revenue bonds (the water revenue bonds issued to pay such Commercial Paper Notes and/or finance Projects, the “Authorized Water Revenue Bonds”); and

WHEREAS, the Council of the City of San Diego (the “City Council”) has heretofore authorized and approved by Ordinance Number O-21166 (the “Ordinance”) on January 7, 2020, and Resolution Number R-2020-344 (the “City Resolution”) on April 7, 2020, and the Authority has also authorized and approved by Resolution No. FA-2020-1 (the “Authority Resolution”) adopted by the Authority on January 13, 2020, the agreements and conditions attendant to the issuance by the Authority of one or more series of Authorized Water Revenue Refunding Bonds and Authorized Water Revenue Bonds payable from Installment Payments secured by Net System Revenues of the Water Utility Fund of the City (as those terms are defined in the Ordinance) in an aggregate principal amount not to exceed \$350,000,000 in order to (i) current or advance refund the Refunded 2012A Water Revenue Bonds at such times as the interest rate market will provide savings and (ii) pay, in whole or in part, the Commercial Paper Notes, to provide the necessary capacity to initially finance various other Projects and/or to initially finance various other Projects; and

WHEREAS, since the approval of the Ordinance, City Resolution and the Authority Resolution, the municipal bond market has experienced significant volatility as a result of the novel coronavirus known as COVID-19 and, in order to provide flexibility for the method of sale of the Authorized Water Revenue Refunding Bonds and Authorized Water Revenue Bonds, the Authority desires to authorize the sale of the Authorized Water Revenue Refunding Bonds and/or Authorized Water Revenue Bonds, as the case may be, on a negotiated basis and approve

a bond purchase agreement to be entered into by and among the Authority, the City and the underwriter or underwriters to be named therein, in the form presented at this meeting (the “Bond Purchase Agreement”), a copy of which is on file in the Office of the Secretary of the Authority (the “Secretary”); and

WHEREAS, the Authority is informed that the City has conducted and/or will conduct a competitive process to select the underwriting firms to serve as underwriter with respect to the sale and delivery of each issuance of the Authorized Water Revenue Refunding Bonds and/or Authorized Water Revenue Bonds, as the case may be; and

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

WHEREAS, there has been presented to this meeting a proposed form of Preliminary Official Statement related to each issuance of the Authorized Water Revenue Refunding Bonds and/or Authorized Water Revenue Bonds, as the case may be, a copy of which Preliminary Official Statement is on file in the Office of the Secretary; and

WHEREAS, the form of the Preliminary Official Statement submitted to this meeting has been reviewed and approved by the Disclosure Practices Working Group (“DPWG”); and

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

BE IT RESOLVED by the Commission, as follows:

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

Section 2. The form and content of the form of the Preliminary Official Statement submitted to this meeting, a copy of which is on file in the Office of the Secretary, and the execution and delivery thereof by the Authority are hereby approved. Each of the Chair, Vice-Chair or Treasurer of the Authority (each, an “Authorized Officer”) is hereby authorized, and any one of the Authorized Officers is hereby directed, for and in the name and on behalf of the Authority, to execute and deliver any requested certificate or instrument evidencing the Authority’s approval of the Preliminary Official Statement and each such Preliminary Official Statement in conjunction with one or more issuances of the Authorized Water Revenue Refunding Bonds and/or Authorized Water Revenue Bonds, as the case may be, in one or more series and on one or more sale dates, in substantially the form presented to this meeting and the Secretary is authorized to attest thereto, with such additions, changes, supplements and amendments therein as any Authorized Officer shall determine are necessary or desirable and approve as being in the best interests of the Authority, and as approved as to form by the San Diego City Attorney as General Counsel to the Authority or her specified designee (“General Counsel”), and DPWG, and with such other changes as may be required or requested by Polsinelli, as Bond and Disclosure Counsel (“Bond and Disclosure Counsel”), such approval to be conclusively evidenced by the execution and delivery thereof by the Authorized Officer.

Upon approval of the Preliminary Official Statement for use in marketing the Authorized Water Revenue Refunding Bonds and/or Authorized Water Revenue Bonds, as the case may be, by the Authorized Officers and in accordance with applicable policies and procedures of the Authority, including approval by DPWG, the Preliminary Official Statement shall be “deemed final” as of its date, except for the omission of certain information as permitted in and pursuant to Rule 15c2-12 (the “Rule”), promulgated by the Securities and Exchange Commission pursuant to the provisions of the Securities Act of 1934, as amended, and the Authorized Officers are hereby authorized, and any one of the Authorized Officers is hereby directed, for and in the name and on behalf of the Authority, to execute a certificate to that effect.

Section 3. The form and content of the form of the Bond Purchase Agreement submitted to this meeting, a copy of which is on file in the Office of the Secretary, and the execution and delivery thereof by the Authority are hereby approved. Each Authorized Officer is hereby authorized, and any one of the Authorized Officers is hereby directed, for and in the name and on behalf of the Authority, to execute and deliver the Bond Purchase Agreement and each such Bond Purchase Agreement in conjunction with one or more issuances of the Authorized Water Revenue Refunding Bonds and/or Authorized Water Revenue Bonds, as the case may be, in one or more series and on one or more sale dates, and the Secretary is authorized to attest thereto, with such additions, changes, supplements and amendments therein, material or immaterial, as any Authorized Officer shall determine are necessary or desirable due to market conditions (including, but not limited to those market conditions caused by, derived from or arising out of, in whole or in part, COVID-19 or any issues related thereto) and approve as being in the best interests of the Authority, and as approved as to form by General Counsel, and with such other changes as may be required or requested by Bond and Disclosure Counsel, such

approval to be conclusively evidenced by the execution and delivery thereof by the Authorized Officer.

Section 4. Following the pricing and sale of the Authorized Water Revenue Refunding Bonds and/or Authorized Water Revenue Bonds, as the case may be, the Authorized Officers are authorized and directed to cause a form of the Official Statement to be prepared in accordance with the disclosure policies of the Authority, the requirements of the Rule and with the assistance of DPWG together with such changes as are determined to be necessary or desirable by the Authorized Officer executing the Official Statement to make such Official Statement complete and accurate as of its date, such approval to be conclusively evidenced by the execution and delivery of the Official Statement to the initial purchasers of the Authorized Water Revenue Refunding Bonds and/or Authorized Water Revenue Bonds, as the case may be. The Official Statement shall be executed by any of the Authorized Officers upon satisfaction of applicable DPWG requirements and the recommendation of Bond and Disclosure Counsel.

Section 5. All actions heretofore taken by any officers, employees, or agents of the Authority with respect to the issuance, delivery, or sale of the Authorized Water Revenue Refunding Bonds and/or Authorized Water Revenue Bonds, as the case may be, are hereby approved, confirmed and ratified; and any officers, employees, or agents of the Authority as may be authorized by the Authorized Officers are hereby authorized and directed, for and in the name of and on behalf of the Authority, to do any and all things and take any and all actions, including, without limitation, pay necessary and appropriate fees and expenses, and execute and deliver any and all certificates, agreements and other documents which they, or any of them, may deem necessary or desirable to consummate the transactions authorized by the Ordinance, City Resolution and the Authority Resolution in accordance with this Resolution.

Section 6. This Resolution shall take effect immediately upon its adoption.

ADOPTED, SIGNED AND APPROVED this 7th day of April 2020, by the following vote:

AYES: _____

NAYS: _____

ABSENT: _____

VACANT: _____

ABSTAIN: _____

PUBLIC FACILITIES FINANCING
AUTHORITY OF THE CITY OF SAN
DIEGO

Georgette Gomez, Council President
Chair, Commission

Attest:

Secretary to Commission

POLSINELLI DRAFT 3/23/2020

SUBJECT TO FURTHER INTERNAL REVIEW AND TO CITY COMMENTS

PRELIMINARY OFFICIAL STATEMENT DATED _____, 20__

NEW ISSUES – BOOK-ENTRY ONLY

RATINGS: Fitch – “[]”
Moody’s – “[]”
Kroll – “[]”
See “RATINGS.”

In the opinion of Polsinelli LLP, Bond Counsel to the Authority, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, interest on the 2020A Bonds (i) is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”), (ii) is not treated as a preference item in calculating the alternative minimum tax under the Code and (iii) exempt from State of California personal income tax. In addition, in the opinion of Bond Counsel to the Authority, under existing statutes, interest on the 2020B Bonds (i) is not excluded from gross income for federal income tax purposes, but (ii) is exempt from State of California personal income tax. See “TAX MATTERS.”

\$[]*
PUBLIC FACILITIES FINANCING AUTHORITY OF
THE CITY OF SAN DIEGO
WATER REVENUE BONDS
(Payable Solely From Installment Payments
Secured by Net System Revenues of the Water Utility Fund)

\$[]*
Senior Water Revenue Bonds
Series 2020A (Tax-Exempt)

\$[]*
Senior Water Revenue Refunding Bonds
Series 2020B (Federally Taxable)

Dated: Date of Delivery

Due: as shown on the inside cover page

The \$[]* Public Facilities Financing Authority of the City of San Diego Senior Water Revenue Bonds, Series 2020A (Payable Solely From Installment Payments Secured by Net System Revenues of the Water Utility Fund) (the “2020A Bonds”) and the \$[]* Public Facilities Financing Authority of the City of San Diego Senior Water Revenue Refunding Bonds, Series 2020B (Payable Solely From Installment Payments Secured by Net System Revenues of the Water Utility Fund) (the “2020B Bonds” and, together with the 2020A Bonds, the “2020 Bonds”) are being issued by the Public Facilities Financing Authority of the City of San Diego (the “Authority”) pursuant to the Government Code of the State of California (the “Government Code”) and the Indenture, dated as of January 1, 2009, as amended and supplemented, including as supplemented by the Seventh Supplemental Indenture, dated as of [], 2020 (collectively, the “Indenture”), each by and between the Authority and U.S. Bank National Association, as successor trustee (the “Trustee”). The net proceeds of the 2020A Bonds will be used to (a) finance capital improvements to the Water System (the “Water System”) of the City of San Diego (the “City”), (b) pay certain amounts of the outstanding principal of the Subordinated Water Revenue Commercial Paper Notes, Series A (Payable Solely from Subordinated Installment Payments Secured by Net System Revenues of the Water Utility Fund) and the Subordinated Water Revenue Commercial Paper Notes, Series B (Payable Solely from Subordinated Installment Payments Secured by Net System Revenues of the Water Utility Fund) of the Authority, which were issued to initially finance a portion of the capital improvements to the Water System, and (c) pay the costs of issuance incurred in connection with the issuance of the 2020A Bonds. The net proceeds of the 2020B Bonds will be used to (a) refund all maturities of the outstanding Subordinated Water Revenue Bonds, Refunding Series 2012A, and (b) pay the costs of issuance incurred in connection with the issuance of the 2020B Bonds. See “PLAN OF FINANCE.”

Capitalized terms used on this cover page and not otherwise defined have the meanings ascribed to them elsewhere in this Official Statement. See in particular “APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Indenture” and “– Master Installment Purchase Agreement.”

The 2020 Bonds are limited obligations of the Authority secured by Revenues consisting primarily of 2020 Installment Payments to be made by the City to the San Diego Facilities and Equipment Leasing Corporation (the “Corporation”) under the Amended and Restated Master Installment Purchase Agreement, dated as of January 1, 2009 (the “Original Master Installment Purchase Agreement”), as amended and supplemented, including as supplemented by the 2020 Supplement to Amended and Restated Master Installment Purchase Agreement, dated as of [], 2020 (the “2020 Supplement” and, together with the Original Master Installment Purchase Agreement as previously amended and supplemented, the “Master Installment Purchase Agreement”), each by and between the City and the Corporation, and other assets pledged therefor under the Indenture. The 2020 Installment Payments will be assigned by the Corporation to the Authority pursuant to the Assignment Agreement. The pledge and right of payment from Net System Revenues securing the 2020 Installment Payments will be Senior Obligations under the Master Installment Purchase Agreement. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2020 BONDS.”

* Preliminary, subject to change.

The 2020 Bonds are limited obligations of the Authority payable solely from and secured solely by the Revenues pledged therefor and amounts on deposit in the Bonds Payment Fund established under the Indenture. The obligation of the City to make 2020 Installment Payments under the 2020 Supplement does not constitute an obligation of the City for which the City is obligated to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation. Neither the full faith and credit of the Authority, the City, the County of San Diego (the "County"), the State of California (the "State"), or any political subdivision of the State nor the taxing power of the City, the County, the State, or any political subdivision of the State is pledged to the payment of the principal of or interest on the 2020 Bonds. The Authority has no taxing power. Neither the 2020 Bonds nor the obligation of the City to make 2020 Installment Payments constitutes an indebtedness of the Authority, the City, the County, the State, or any political subdivision of the State within the meaning of any constitutional or statutory debt limitation or restriction.

The 2020 Bonds will bear interest at the respective rates set forth on the inside cover page hereof. Interest on the 2020 Bonds will accrue from the date of delivery of the 2020 Bonds and is payable on February 1 and August 1 of each year, commencing on August 1, 2020. See "DESCRIPTION OF THE 2020 BONDS – General."

The 2020 Bonds are subject to redemption as described herein. See "DESCRIPTION OF THE 2020 BONDS – Redemption of 2020 Bonds."

The 2020 Bonds will be issued only in fully-registered form in denominations of \$5,000 and any integral multiple thereof and, when issued, will be registered in the name of Cede & Co., as the nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the 2020 Bonds. Ownership interests in the 2020 Bonds may be purchased in book-entry form only. So long as DTC or its nominee is the Owner of the 2020 Bonds, the principal, the redemption premium, if any, and interest on the 2020 Bonds will be made as described in "APPENDIX D – INFORMATION REGARDING THE BOOK-ENTRY ONLY SYSTEM."

This cover page contains information for general reference only. Potential purchasers are advised to read the entire Official Statement to obtain information essential to making an informed investment decision.

The 2020 Bonds are offered when, as, and if delivered to and received by the Initial Purchasers, subject to the approval of legality by Mara W. Elliott, City Attorney of the City, and by Polsinelli LLP, Bond Counsel. In connection with the issuance of the 2020 Bonds, Polsinelli LLP is serving as Disclosure Counsel to the Authority. KNN Public Finance, a Limited Liability Company, is serving as Municipal Advisor to the Authority with respect to the 2020 Bonds. It is anticipated that the 2020 Bonds will be available for delivery through the facilities of DTC in New York, New York on or about [____], 20[____].

BIDS FOR THE PURCHASE OF THE 2020A BONDS AND THE 2020B BONDS WILL BE RECEIVED BY THE CITY AT [__ A.M.] PACIFIC TIME AND [__ A.M.] PACIFIC TIME, RESPECTIVELY ON [_____, 2020], AS PROVIDED IN THE OFFICIAL NOTICES OF SALE INVITING BIDS EACH DATED [_____, 2020], UNLESS POSTPONED AS SET FORTH IN SUCH OFFICIAL NOTICES OF SALE.

Dated: [_____, 20[_____]

MATURITY SCHEDULE

\$[]*

**PUBLIC FACILITIES FINANCING AUTHORITY OF
THE CITY OF SAN DIEGO
SENIOR WATER REVENUE BONDS, SERIES 2020A
(TAX-EXEMPT)**

Base CUSIP[†] No. 79730C

<u>Maturity Date (August 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield[‡]</u>	<u>CUSIP[†] (Suffix)</u>	<u>Maturity Date (August 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield[‡]</u>	<u>CUSIP[†] (Suffix)</u>
---	-----------------------------	--------------------------	--------------------------	---------------------------------------	---	-----------------------------	--------------------------	--------------------------	---------------------------------------

\$_____ - ____% Series 2020A Term Bonds due August 1, 20____ - Yield: ____% CUSIP[†] No. ____

\$[]*

**PUBLIC FACILITIES FINANCING AUTHORITY OF
THE CITY OF SAN DIEGO
SENIOR WATER REVENUE REFUNDING BONDS, SERIES 2020B
(FEDERALLY TAXABLE)**

Base CUSIP[†] No. 79730C

<u>Maturity Date (August 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield[‡]</u>	<u>CUSIP[†] (Suffix)</u>	<u>Maturity Date (August 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield[‡]</u>	<u>CUSIP[†] (Suffix)</u>
---	-----------------------------	--------------------------	--------------------------	---------------------------------------	---	-----------------------------	--------------------------	--------------------------	---------------------------------------

* Preliminary, subject to change.

[†] Copyright 2020, American Bankers Association. CUSIP data are provided by Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. ("CUSIP Service Bureau"). Such CUSIP data are provided only for the convenience of the reader and are not intended to create a database and do not serve in any way as a substitute for the services and information provided by the CUSIP Service Bureau. CUSIP is a registered trademark of the American Bankers Association. The City, the Authority, the Corporation, and the Initial Purchasers do not assume any responsibility for the accuracy of any CUSIP data set forth herein or for any changes or errors in such data.

No dealer, broker, salesperson, or other person has been authorized by the City, the Authority, or the Corporation to give any information or to make any representations other than those contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized by the City, the Authority, or the Corporation. 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 2020 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 a contract with the purchasers of the 2020 Bonds. Statements contained in this Official Statement that 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 information set forth herein has been furnished by the City or otherwise derived from other sources that are believed to be reliable including, without limitation, the San Diego County Water Authority and the Metropolitan Water District of Southern California.

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 affairs of the City, the Authority, the Corporation, or any other parties described herein since the date hereof. All summaries of the 2020 Bonds, the Indenture, the Master Installment Purchase Agreement, the 2020 Supplement, the Assignment Agreement, and other documents summarized herein are made subject to the provisions of such documents respectively and do not purport to be complete statements of any or all of such provisions.

This Official Statement is submitted in connection with the issuance of the 2020 Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

IN CONNECTION WITH THIS OFFERING, THE INITIAL PURCHASERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2020 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE INITIAL PURCHASERS MAY OFFER AND SELL THE 2020 BONDS TO CERTAIN DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENT AT PRICES LOWER THAN THE PUBLIC OFFERING PRICE STATED ON THE INSIDE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICE MAY BE CHANGED FROM TIME TO TIME BY THE INITIAL PURCHASERS.

CITY OF SAN DIEGO

Mayor

Kevin L. Faulconer

City Council

(Also serves as Members of the Commission of the Public
Facilities Financing Authority of the City of San Diego)

Georgette Gómez, City Council President (*District 9*)

Barbara Bry, City Council President Pro Tem (*District 1*)

Jennifer Campbell (*District 2*)

Chris Ward (*District 3*)

Monica Montgomery (*District 4*)

Mark Kersey (*District 5*)

Chris Cate (*District 6*)

Scott Sherman (*District 7*)

Vivian Moreno (*District 8*)

City Attorney

Mara W. Elliott

City Officials

Kris Michell, *Chief Operating Officer*

Rolando Charvel, *Chief Financial Officer*

Elizabeth Correia, *City Treasurer*

Kyle Elser, *Interim City Auditor*

Tracy McCraner, *Department of Finance Director and City Comptroller*

Andrea Tevlin, *Independent Budget Analyst*

Elizabeth S. Maland, *City Clerk*

Johnnie Perkins, *Deputy Chief Operating Officer for Public Utilities*

Shauna Lorange, *Director of Public Utilities*

SPECIAL SERVICES

Bond and Disclosure Counsel

Polsinelli LLP

Los Angeles, California

Municipal Advisor

KNN Public Finance, LLC

Oakland, California

Trustee and Escrow Agent

U.S. Bank National Association

Los Angeles, California

Verification Agent

Causey Demgen & Moore P.C.

Denver, Colorado

SUMMARY OF THE OFFERING

This summary is subject in all respects to more complete information contained in this Official Statement and should not be considered a complete statement of the facts material to making an investment decision. The offering of the 2020 Bonds to potential investors is made only by means of the entire Official Statement, including the cover page, the inside cover page, and the Appendices, and other documents available for review and to which reference is herein made. Capitalized terms used in this summary and not otherwise defined have the meanings given to such terms in this Official Statement.

Issuer:	The Public Facilities Financing Authority of the City of San Diego (the “Authority”).
Bonds Offered:	[\$]* aggregate principal amount of the Authority’s Senior Water Revenue Bonds, Series 2020A (the “2020A Bonds”) and [\$]* aggregate principal amount of the Authority’s Senior Water Revenue Refunding Bonds, Series 2020B (the “2020B Bonds” and, together with the 2020A Bonds, the “2020 Bonds”).
Interest Payment Dates:	Interest on the 2020 Bonds will be payable semiannually on each February 1 and August 1, commencing on August 1, 2020.
Security and Sources of Payment:	The 2020 Bonds are limited obligations of the Authority secured by Revenues consisting primarily of 2020 Installment Payments to be made by the City to the San Diego Facilities and Equipment Leasing Corporation (the “Corporation”) under the Amended and Restated Master Installment Purchase Agreement, dated as of January 1, 2009 (the “Original Master Installment Purchase Agreement”), as amended and supplemented, including as supplemented by the 2020 Supplement to Amended and Restated Master Installment Purchase Agreement, dated as of [____], 2020 (the “2020 Supplement” and, together with the Original Master Installment Purchase Agreement as previously amended and supplemented, the “Master Installment Purchase Agreement”), each by and between the City and the Corporation, and other assets pledged therefor under the Indenture. The 2020 Installment Payments will in amounts that are sufficient to pay the principal of and interest on the 2020 Bonds and will be assigned by the Corporation to the Authority pursuant to the Assignment Agreement. The pledge and right of payment from Net System Revenues securing the 2020 Installment Payments will be Parity (Senior) Obligations¹ under the Master Installment Purchase Agreement. The 2020 Bonds are payable solely from and secured solely by the Revenues pledged therefor and amounts on deposit in the Bonds Payment Fund established under the Indenture. The obligation of

* Preliminary, subject to change.

¹ The Master Installment Purchase Agreement uses the term “Parity” in connection with obligations whose right of payment is not subordinated to the right of payment of any other obligations. For purposes of the forepart of this Official Statement, the term “Senior” will be used in place of “Parity” to clarify that the related obligations have a first priority lien on Net System Revenues and that such lien is senior to the lien of Subordinated Obligations on the Net System Revenues.

the City to make 2020 Installment Payments under the 2020 Supplement does not constitute an obligation of the City for which the City is obligated to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation. Neither the full faith and credit of the Authority, the City, the County of San Diego (the “County”), the State of California (the “State”), or any political subdivision of the State nor the taxing power of the City, the County, the State, or any political subdivision of the State is pledged to the payment of the principal of or interest on the 2020 Bonds. The Authority has no taxing power. Neither the 2020 Bonds nor the obligation of the City to make 2020 Installment Payments constitutes an indebtedness of the Authority, the City, the County, the State, or any political subdivision of the State within the meaning of any constitutional or statutory debt limitation or restriction.

Rate Covenants:

The City has covenanted in the Master Installment Purchase Agreement to fix, prescribe, and collect rates and charges for the City’s water service, which will be at least sufficient to yield the greater of (i) Net System Revenues sufficient to pay during each Fiscal Year all Obligations, including the 2020 Installment Payments, payable in each Fiscal Year, or (ii) Adjusted Net System Revenues during each Fiscal Year equal to 120% of the Adjusted Debt Service (which does not include debt service on Subordinated Obligations) for such Fiscal Year. The City has also covenanted in with respect to certain Senior SRF Loans and under the WIFIA Loan Agreement to maintain and may in the future covenant to maintain rates and revenues at levels different than those agreed under the Master Installment Purchase Agreement. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2020 BONDS – Rate Covenants.”

No Debt Service Reserve Fund:

No debt service reserve fund will be created or funded to secure the 2020 Bonds.

Additional Obligations:

The City expects to incur additional Obligations, payments with respect to which will be on parity with or subordinated to, the City’s obligation to make the 2020 Installment Payments, subject to satisfaction of the conditions specified in the Master Installment Purchase Agreement.

Use of Proceeds:

The net proceeds of the 2020A Bonds will be applied to (i) finance capital improvements to the Water System, (ii) pay certain amounts of the outstanding principal of commercial paper notes of the Authority, which were used initially to finance a portion of the capital improvements to the Water System, and (iii) pay the costs of issuance incurred in connection with the issuance of the 2020A Bonds. The proceeds of the 2020B Bonds will be used to (a) refund all maturities of the outstanding Subordinated Water Revenue Bonds, Refunding Series 2012A (the “2012A Subordinated Bonds”) and (b) pay the costs of issuance incurred in connection with the issuance of the 2020B Bonds.

Redemption*:	The 2020 Bonds are subject to optional and mandatory sinking fund redemption prior to maturity as described herein. See “DESCRIPTION OF THE 2020 BONDS – Redemption of 2020 Bonds” herein.
Authorized Denominations:	The 2020 Bonds will be issued as registered bonds in denominations of \$5,000 and integral multiples thereof.
Form and Depository:	The 2020 Bonds will be delivered solely in registered form under a global book-entry system through the facilities of DTC.
Tax Status:	In the opinion of Polsinelli LLP, Bond Counsel to the Authority, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, interest on the 2020A Bonds (i) is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”), (ii) is not treated as a preference item in calculating the alternative minimum tax under the Code and (iii) exempt from State of California personal income tax. In addition, in the opinion of Bond Counsel to the Authority, under existing statutes, interest on the 2020B Bonds (i) is not excluded from gross income for federal income tax purposes, but (ii) is exempt from State of California personal income tax. See “TAX MATTERS.”
Continuing Disclosure:	The City will execute a Continuing Disclosure Certificate to assist the Initial Purchasers in complying with the provisions of Rule 15c2-12, as further described in “CONTINUING DISCLOSURE” herein. The forms of Continuing Disclosure Certificates that the City will execute is attached as APPENDIX C hereto.
Risk Factors:	The purchase and ownership of the 2020 Bonds involves investment risks. Prospective purchasers of the 2020 Bonds should read this Official Statement in its entirety. For a discussion of certain risks relating to the 2020 Bonds, see “RISK FACTORS.”
Ratings:	Fitch: “[]” Moody’s: “[]” Kroll “[]” See “RATINGS” herein.

* Preliminary, subject to change.

TABLE OF CONTENTS

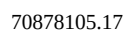
Page

INTRODUCTION	1
General	1
The 2020 Bonds	2
Security and Sources of Payment for the 2020 Bonds	2
Rate Covenants.....	3
Redemption of the 2020 Bonds.....	4
No Debt Service Reserve Fund for the 2020 Bonds	4
Outstanding Senior Obligations and Subordinated Obligations.....	4
Additional Obligations	4
The City of San Diego.....	5
The Water System	5
The Corporation	5
The Authority	5
Forward-Looking Statements	6
PLAN OF FINANCE.....	6
ESTIMATED SOURCES AND USES OF BOND PROCEEDS.....	9
DESCRIPTION OF THE 2020 BONDS	9
General	9
Redemption of 2020 Bonds.....	9
SECURITY AND SOURCES OF PAYMENT FOR THE 2020 BONDS	11
Pledge of Revenues; Installment Payments	11
The Water Utility Fund; Application of System Revenues.....	11
Pledge of Net System Revenues; Payment of Installment Payments.....	13
Senior Obligations.....	15
Subordinated Obligations.....	16
Application of Net System Revenues and Other Amounts under the Collateral Agency Agreement	17
Incurrence of Additional Obligations.....	18
Rate Covenants.....	22
The Collateral Agency Agreement.....	23
Payment of Bonds Under the Indenture	23
Issuance of Additional Bonds Under the Indenture	25
No Debt Service Reserve Fund for the 2020 Bonds	26
DEBT SERVICE SCHEDULE.....	26
WATER SYSTEM ORGANIZATION AND MANAGEMENT	28
Governance and Management of Water System	28
Water Utility Customer Billing Operations, Internal Audits, and Other Related Matters	29
WATER SYSTEM SERVICE AREA, CUSTOMERS AND FACILITIES	29
Water System Service Area	29
Existing Water System Facilities	32
Utility Costs	35
WATER SUPPLY	35
Sources of Water Supply.....	35

Certain Information Regarding the San Diego County Water Authority and Metropolitan Water District of Southern California.....	35
CWA Wholesale Water Rates.....	37
Local Water.....	38
Recycled Water.....	39
City Water Conservation Efforts.....	39
City Planning and Resource Management	39
Projected Future City Water Demand	40
Pure Water Program.....	40
WATER SYSTEM CAPITAL IMPROVEMENT PROGRAM.....	42
The Capital Improvement Program.....	42
Description of Major Projects	42
Capital Improvement Financing Plan.....	44
WATER SYSTEM FINANCIAL OPERATIONS	46
Establishment of Water Service Charges	46
Collection of Water Service Charges	48
Accounts Receivable	48
Revenues	52
Management’s Discussion and Analysis.....	54
Water Utility Fund Reserves.....	54
Debt Service Coverage.....	56
Financial Projections and Modeling Assumptions.....	58
Outstanding Indebtedness	60
Anticipated Additional Obligations	62
Labor Relations	62
Information Technology.....	63
Insurance and Liability Claims	64
Investment of Funds.....	66
San Diego City Employees’ Retirement System – Water Utility Fund Contribution.....	67
Postemployment Healthcare Benefits – Water Utility Fund Contribution.....	72
FACTORS AFFECTING THE DEPARTMENT AND THE WATER UTILITY INDUSTRY.....	73
California Safe Drinking Water Act of 1996	73
Federal Safe Drinking Water Act Amendments of 1996	73
Surface Water Treatment	73
Disinfection Byproduct Rule.....	74
Compliance Order of the California Department of Public Health/DDW	74
Inventory of Lead User Service Lines.....	74
Dam Licensing and Safety Issues.....	75
Corrosion Control.....	75
Fluoride	75
Radon	76
Ground Water Rule	76
Drinking Water Source Assessment Program.....	76
Potential Issues Relating to Water Quality	76
Other Regulatory Matters.....	77
RISK FACTORS	77
Limited Obligations	77

Water System Expenses, Collections, and Future Rates	78
Water System CIP Projects; Pure Water Program; Environmental Compliance	78
Water System Demand.....	80
Rate-Setting Process Under Proposition 218	81
Statutory and Regulatory Compliance	81
Risks Relating to the Water Supply	81
Acceleration; Limitations on Remedies	84
Changes in Law and Application Thereof.....	85
Potential Impact of Climate Change	85
Cybersecurity	87
Uncertainties of Projections, Forecasts and Assumptions.....	88
Absence of Market for the 2020 Bonds	88
Loss of Tax Exemption on 2020A Bonds	88
Economic, Political, Social, and Environmental Conditions	88
COVID-19-Related Matters	88
Income Taxation Risk Upon Defeasance of the 2020B Bonds	89
CONSTITUTIONAL LIMITATIONS ON TAXES AND WATER RATES AND CHARGES	89
Article XIII A	89
Article XIII B	90
Article XIII C	90
Article XIII D	91
Proposition 26	93
Initiative, Referendum and Charter Amendments.....	93
ERISA CONSIDERATIONS	93
TAX MATTERS.....	94
2020A BONDS	94
Opinion of Bond Counsel.....	94
Certain Ongoing Federal Tax Requirements and Covenants	94
Certain Collateral Federal Tax Consequences	95
Original Issue Discount.....	95
Bond Premium	96
Information Reporting and Backup Withholding.....	96
Miscellaneous.....	96
2020B Bonds.....	97
U.S. Holders	98
Non-U.S. Holders.....	99
Foreign Account Tax Compliance Act (“FATCA”)—U.S. Holders and Non-U.S. Holders	99
CONTINUING DISCLOSURE	100
LITIGATION.....	101
CERTAIN LEGAL MATTERS.....	103
VERIFICATION.....	103
RATINGS	103
PURCHASE AND REOFFERING	104
MUNICIPAL ADVISOR.....	104
FINANCIAL STATEMENTS	104

MISCELLANEOUS	104
APPENDIX A SUMMARY OF PRINCIPAL LEGAL DOCUMENTS.....	1
APPENDIX B FORM OF APPROVING OPINION OF BOND COUNSEL.....	1
APPENDIX C FORM OF CONTINUING DISCLOSURE CERTIFICATE.....	1
APPENDIX D INFORMATION REGARDING THE BOOK-ENTRY ONLY SYSTEM.....	1



OFFICIAL STATEMENT
\$[]*
PUBLIC FACILITIES FINANCING AUTHORITY OF
THE CITY OF SAN DIEGO
WATER REVENUE BONDS
(Payable Solely From Installment Payments
Secured by Net System Revenues of the Water Utility Fund)

\$[]*
Senior Water Revenue Bonds
Series 2020A (Tax-Exempt)

\$[]*
Senior Water Revenue Refunding Bonds
Series 2020B (Federally Taxable)

INTRODUCTION

This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page, the inside cover page and appendices hereto and the documents described herein. All statements contained in this introduction are qualified in their entirety by reference to the entire Official Statement. References to and summaries of the laws of the State of California and any documents, reports, and other instruments referred to herein do not purport to be complete and such references are qualified in their entirety by reference to each such law, document, report or instrument. All capitalized terms used in this Official Statement and not otherwise defined herein have the meanings set forth in the Indenture or the Master Installment Purchase Agreement, each as defined herein. See “APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Indenture” and “– Master Installment Purchase Agreement.”

General

The \$[]* Public Facilities Financing Authority of the City of San Diego Senior Water Revenue Bonds, Series 2020A (Payable Solely From Installment Payments Secured by Net System Revenues of the Water Utility Fund) (the “2020A Bonds”) and the \$[]* Public Facilities Financing Authority of the City of San Diego Senior Water Revenue Refunding Bonds, Series 2020B (Payable Solely From Installment Payments Secured by Net System Revenues of the Water Utility Fund) (the “2020B Bonds”) and, together with the 2020A Bonds, the “2020 Bonds”) are being issued by the Public Facilities Financing Authority of the City of San Diego (the “Authority”) pursuant to the Government Code of the State of California (the “Government Code”) and the Indenture, dated as of January 1, 2009, as amended and supplemented by the First Supplemental Indenture, dated as of June 1, 2009, the Second Supplemental Indenture, dated as of June 1, 2010, the Third Supplemental Indenture, dated as of April 1, 2012, the Fourth Supplemental Indenture, dated as of June 1, 2016, the Fifth Supplemental Indenture, dated as of January 1, 2017, the Sixth Supplemental Indenture, dated as of December 1, 2018, and the Seventh Supplemental Indenture, dated as of [____], 2020 (the “Seventh Supplemental Indenture”), each by and between the Authority and U.S. Bank National Association, as successor trustee (the “Trustee”). The Original Indenture as heretofore amended and supplemented, including by the Seventh Supplemental Indenture, is referred to herein as the “Indenture.”

The proceeds of the 2020A Bonds will be used to (a) finance capital improvements to the Water System (the “Water System”) of the City of San Diego (the “City”), (b) pay certain amounts of the

* Preliminary, subject to change.

outstanding principal of the Subordinated Water Revenue Commercial Paper Notes, Series A (Payable Solely from Subordinated Installment Payments Secured by Net System Revenues of the Water Utility Fund) (the “Series A Commercial Paper Notes”) and the Subordinated Water Revenue Commercial Paper Notes, Series B (Payable Solely from Subordinated Installment Payments Secured by Net System Revenues of the Water Utility Fund) (the “Series B Commercial Paper Notes” and, together with the Series A Commercial Paper Notes, the “Commercial Paper Notes”), which were issued to initially finance a portion of the capital improvements to the Water System, and (c) pay the costs of issuance incurred in connection with the issuance of the 2020A Bonds. The proceeds of the 2020B Bonds will be used to (a) refund all maturities of the outstanding Subordinated Water Revenue Bonds, Refunding Series 2012A (the “2012A Subordinated Bonds”) and (b) pay the costs of issuance incurred in connection with the issuance of the 2020B Bonds. See “PLAN OF FINANCE.”

The 2020 Bonds

The 2020 Bonds will bear interest at the respective rates set forth on the inside cover page hereof. Interest on the 2020 Bonds will accrue from the date of delivery of the 2020 Bonds and is payable on February 1 and August 1 of each year, commencing on August 1, 2020.

The 2020 Bonds are being issued only in fully-registered form in denominations of \$5,000 and any integral multiple thereof and, when issued, will be registered in the name of Cede & Co., as the nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository for the 2020 Bonds. Ownership interests in the 2020 Bonds may be purchased in book-entry form only. So long as DTC or its nominee is the Owner of the 2020 Bonds, the principal, the redemption premium, if any, and interest on the 2020 Bonds will be made as described in “APPENDIX D – INFORMATION REGARDING THE BOOK-ENTRY ONLY SYSTEM.”

Security and Sources of Payment for the 2020 Bonds

The 2020 Bonds are Senior Bonds under the Indenture that are secured by a pledge of Revenues. “Revenues” consist of Installment Payments that are Senior[†] Obligations received by or due to the San Diego Facilities and Equipment Leasing Corporation (the “Corporation”) pursuant to the Amended and Restated Master Installment Purchase Agreement, dated as of January 1, 2009 (the “Original Master Installment Purchase Agreement”), by and between the City and the Corporation, as amended and supplemented, including as amended by the First Amendment to Amended and Restated Master Installment Purchase Agreement, dated as of November 14, 2018, each by and between the City and the Corporation, as supplemented by the Collateral Agency, Account and Assignment Agreement, dated as of November 14, 2018 (the “Collateral Agency Agreement”), by and among the City, the Corporation, the Authority, the United States Environmental Protection Agency (the “EPA”), acting by and through the Administrator of the Environmental Protection Agency (the “WIFIA Lender”), and U.S. Bank National Association as collateral agent (the “Collateral Agent”) under the Collateral Agency Agreement and as Trustee under the Indenture, and as supplemented by the 2020 Supplement to the Amended and Restated Master Installment Purchase Agreement, dated as of [____], 2020 (the “2020 Supplement” and, together with the Original Master Installment Purchase Agreement, as previously amended and supplemented, the “Master Installment Purchase Agreement”), by and between the City and the Corporation.

The 2020 Bonds are limited obligations of the Authority secured by Revenues and other assets pledged therefor under the Indenture. The Revenues will consist primarily of 2020 Installment Payments

[†] The Master Installment Purchase Agreement uses the term “Parity” in connection with obligations whose right of payment is not subordinated to the right of payment of any other obligations. For purposes of the forepart of this Official Statement, the term “Senior” will be used in place of “Parity” to clarify that the related obligations have a first priority lien on Net System Revenues and that such lien is senior to the lien of Subordinated Obligations on the Net System Revenues.

(as defined herein) to be made by the City to the Corporation under the 2020 Supplement. The 2020 Installment Payments will be assigned by the Corporation to the Authority pursuant to the Assignment Agreement, dated as of [____], 2020 (the “Assignment Agreement”), by and between the Corporation and the Authority, which provides for the granting, sale, assignment and transfer by the Corporation to the Authority, for the benefit of the Owners of the 2020 Bonds, all of the Corporation’s right, title, and interest in and to the 2020 Supplement. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2020 BONDS.”

The Master Installment Purchase Agreement provides for the payment by the City of Parity Obligations and Subordinated Obligations in amounts sufficient to make payments of the principal of and interest on Bonds of the Authority. The 2020 Supplement provides for the payment by the City of Installment Payments (the “2020 Installment Payments”), which are Parity Obligations under the Master Installment Purchase Agreement, in amounts sufficient to make payments of the principal of and interest on the 2020 Bonds. The 2020 Installment Payments securing payment of the 2020 Bonds are payable from Net System Revenues on a basis that is senior to the right of payment by the City of its Subordinated Obligations under the Master Installment Purchase Agreement. See “Outstanding Senior Obligations and Subordinated Obligations” below.

Pursuant to the Collateral Agency Agreement, Net System Revenues are deposited into accounts established thereunder for the purposes set forth therein, including, the payment of amounts due under Parity Obligations and/or Subordinated Obligations, as the context requires (collectively, the “Secured Obligations”), and the Collateral Agent is appointed agent to enforce the rights of holders of or lenders under the Secured Obligations. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2020 BONDS” and “APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Collateral Agency, Account and Assignment Agreement.”

The 2020 Bonds are limited obligations of the Authority payable solely from and secured solely by the Revenues pledged therefor and amounts on deposit in the Bonds Payment Fund established under the Indenture. The obligation of the City to make 2020 Installment Payments under the 2020 Supplement does not constitute an obligation of the City for which the City is obligated to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation. Neither the full faith and credit of the Authority, the City, the County of San Diego (the “County”), the State of California (the “State”), or any political subdivision of the State nor the taxing power of the City, the County, the State, or any political subdivision of the State is pledged to the payment of the principal of or interest on the 2020 Bonds. The Authority has no taxing power. Neither the 2020 Bonds nor the obligation of the City to make 2020 Installment Payments constitutes an indebtedness of the Authority, the City, the County, the State, or any political subdivision of the State within the meaning of any constitutional or statutory debt limitation or restriction.

Rate Covenants

The City has covenanted in the Master Installment Purchase Agreement to fix, prescribe, and collect rates and charges for the City’s water service, (as described below, the “Water Service”), which will be at least sufficient to yield the greater of (i) Net System Revenues sufficient to pay during each “Fiscal Year” (being the period that begins on July 1 of each year and ends on June 30 of the following year) all Obligations, including the 2020 Installment Payments, payable in such Fiscal Year, or (ii) Adjusted Net System Revenues during each Fiscal Year equal to 120% of the Adjusted Debt Service (which does not include debt service on Subordinated Obligations for such Fiscal Year. The Water Service rendered by the City includes the collection, conservation, production, storage, treatment, transmission, furnishing, and distribution services made available or provided by the Water System. In addition, pursuant to the agreements executed by the City in connection with certain of the Senior SRF Loans (as defined herein), the City has covenanted to ensure that Net Revenues are equal to at least 1.1

times Maximum Annual Debt Service on all Obligations in each Fiscal Year. Pursuant to the WIFIA Loan (as defined herein), the City has covenanted to ensure (a) Net System Revenues are equal to at least one hundred ten percent (110%) of the debt service with respect to all Outstanding Obligations for such Fiscal Year, and (b) Adjusted Net System Revenues are equal to at least one hundred twenty percent (120%) of the debt service with respect to all Outstanding Parity Obligations for such Fiscal Year. The covenants in the agreements for the Senior SRF Loans and the WIFIA Loan are not made for the benefit of the Owners of the 2020 Bonds and Owners of the 2020 Bonds do not have a right to enforce such covenants. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2020 BONDS – Rate Covenant”. For information on the possible limitation on the City’s ability to comply with the rate covenant as a consequence of Proposition 218 (as defined herein), see “RISK FACTORS – Rate-Setting Process Under Proposition 218” and “CONSTITUTIONAL LIMITATIONS ON TAXES AND WATER RATES AND CHARGES – Article XIIIC” and “– Article XIIID.”

Redemption of the 2020 Bonds

The 2020 Bonds are subject to redemption prior to maturity as described herein. See “DESCRIPTION OF THE 2020 BONDS – Redemption of 2020 Bonds.”

No Debt Service Reserve Fund for the 2020 Bonds

No debt service reserve fund will be created or funded to secure the 2020 Bonds. Debt service reserve funds were created in connection with the issuance of certain of the Authority’s Bonds and the incurrence of certain of the City’s Obligations. Amounts on deposit in, or to be on deposit in, such debt service reserve funds are not available to secure the 2020 Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2020 BONDS – No Debt Service Reserve Fund for the 2020 Bonds.”

Outstanding Senior Obligations and Subordinated Obligations

The 2020 Installment Payments securing payment of the 2020 Bonds are payable from Net System Revenues on a basis that is on parity with the right of payment by the City of Senior Obligations incurred and to be incurred under the Master Installment Purchase Agreement. Senior Obligations consist of Senior Bonds and Senior SRF Loans. As of March 1, 2020, Senior Obligations consisted of \$78,845,301 principal amount of loans from the Drinking Water State Revolving Fund (the “Senior SRF Loans”) and there were no other Outstanding Senior Obligations. As of March 1, 2020, there was \$946,290,000 aggregate principal amount of Outstanding Subordinated Obligations that are payable from Net System Revenues, which includes \$131,500,000 aggregate principal amount of Commercial Paper Notes and \$814,790,000 aggregate principal amount of Subordinated Bonds. Under the Indenture, the aggregate principal amount of Commercial Paper Notes Outstanding at any time may not exceed \$250,000,000. The Outstanding Subordinated Obligations principal amount does not include the City’s borrowing of up to \$614,000,000 (the “WIFIA Loan”) from the EPA pursuant to the Water Infrastructure Finance and Innovation Act (“WIFIA”) and the terms of the WIFIA Loan Agreement (the “WIFIA Loan Agreement”) to finance certain improvements to the Water System in connection with the herein described Pure Water Program, as the City has not yet requested disbursements of amounts under the WIFIA Loan. See “PLAN OF FINANCE,” “SECURITY AND SOURCES OF PAYMENT FOR THE 2020 BONDS – Senior Obligations” and “– Subordinated Obligations” and “WATER SYSTEM FINANCIAL OPERATIONS – Outstanding Indebtedness.”

Additional Obligations

Pursuant to the Master Installment Purchase Agreement, the City may and expects to incur additional Obligations, payments with respect to which will be on parity with or subordinate, to the City’s obligation to make 2020 Installment Payments, subject to satisfaction of the conditions specified in the Master Installment Purchase Agreement. In addition, the loan agreements executed by the City in connection with certain of the Senior SRF Loans and the WIFIA Loan provide for additional requirements for the incurrence of additional Obligations. See “SECURITY AND SOURCES OF

PAYMENT FOR THE 2020 BONDS – Incurrence of Additional Obligations,” “WATER SYSTEM CAPITAL IMPROVEMENT PROGRAM – Capital Improvement Financing Plan,” and “WATER SYSTEM FINANCIAL OPERATIONS – Anticipated Additional Obligations.”

The City of San Diego

The City, with a total population of approximately 1.4 million as of January 1, 2019 and a land area of approximately 325 square miles, is the eighth largest city in the nation by population, and the second largest city by population (and land area) in California. The City is the county seat for the County of San Diego. 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.

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

The Water System

The City owns the Water System and operates the Water System through the Public Utilities Department (the “Department”). The City has expanded the Water System from time to time to provide safe, reliable water in an efficient, cost-effective and environmentally responsible manner. See “WATER SYSTEM ORGANIZATION AND MANAGEMENT,” “WATER SYSTEM SERVICE AREA AND FACILITIES,” “WATER SUPPLY,” “WATER SYSTEM CAPITAL IMPROVEMENT PROGRAM,” and “WATER SYSTEM FINANCIAL OPERATIONS.”

The Corporation

The Corporation is a nonprofit public benefit corporation duly organized and existing under and by virtue of the laws of the State. The Corporation was organized to acquire, lease, and/or sell to the City real and personal property to be used in the municipal operations of the City. The Corporation was formed at the request of the City to assist in financings such as the installment purchase financing described herein and is governed by its own Board of Directors. The Corporation is prohibited from engaging in any business or activities other than those incidental to its sole purpose, and no part of its net earnings may accrue to the benefit of any person or entity other than the City.

The Corporation has no liability to the owners or Beneficial Owners of any 2020 Bonds, and has pledged none of its moneys, funds or assets to any Installment Payments including, without limitation, the 2020 Installment Payments or any payments under the 2020 Bonds. Pursuant to the Assignment Agreement, the Corporation has assigned its right to receive the 2020 Installment Payments to the Authority.

The Authority

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, by and among the City, the City solely 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 in the Indenture, the Authority has no liability to the owners or Beneficial Owners of any of the 2020 Bonds and has pledged none of its moneys, funds or assets toward the payment of any amount due in connection with the 2020 Bonds. The Indenture provides that the Authority transfers, conveys and assigns to the Trustee, for the benefit of the Owners, all of the Authority's rights under the Master Installment Purchase Agreement, including the right to receive the 2020 Installment Payments from the City, the right to receive any proceeds of insurance maintained thereunder or any condemnation award rendered with respect to the related Components, and the right to exercise any remedies provided therein in the event of a default by the City under the Master Installment Purchase Agreement.

The Authority is governed by its own Board of Commissioners consisting of the members of the San Diego City Council. The Authority is dependent upon the officers and employees of the City to administer its programs.

Forward-Looking Statements

[NOTE – WHERE PROJECTIONS AND OTHER FORWARD LOOKING INFORMATION IS PRESENTED IN THIS OFFICIAL STATEMENT, INFORMATION AS OF MARCH 2020, WILL BE UPDATED.]

Certain statements, tables and charts included or incorporated by reference in this Official Statement constitute “forward-looking statements.” Such statements, tables and charts are generally identifiable by the terminology used such as “plan,” “expect,” “estimate,” “budget,” “project” or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Although such expectations reflected in such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. Further, the Authority has not verified and assumes no responsibility for any forward-looking statements included herein and attributed to any third party including the Metropolitan Water District of Southern California (“MWD”) and the San Diego County Water Authority (“CWA”). See “WATER SYSTEM ORGANIZATION AND MANAGEMENT.” The Authority is not obligated to issue any updates or revisions to the forward-looking statements if or when its expectations, or events, conditions or circumstances on which such statements are based occur.

PLAN OF FINANCE

General

The net proceeds of the 2020A Bonds will be used to (a) finance capital improvements to the Water System, (b) pay certain amounts of the outstanding principal of the Series A Commercial Paper Notes and the Series B Commercial Paper Notes, and (c) pay the costs of issuance incurred in connection with the issuance of the 2020A Bonds. The net proceeds of the 2020B Bonds will be used to (a) refund all maturities of the Outstanding 2012A Subordinated Bonds and (b) pay the costs of issuance incurred in connection with the issuance of the 2020B Bonds.

The following tables set forth the projects funded with the proceeds of the Commercial Paper Notes as part of the Water System CIP and the projected projects to be funded with the proceeds of the 2020A Bonds. See “WATER SYSTEM CAPITAL IMPROVEMENT PROGRAM – Description of Major Projects.”

<u>Project Type</u>	<u>Capital Expenditures Funded by Commercial Paper Notes</u>
Water Pipelines – Distribution	\$58,206,000
Water Pipelines – Transmission	23,117,000
Water Treatment Plants	14,829,000
Miscellaneous Projects	11,587,000
Pump Stations	3,705,000
Water Storage Facilities	<u>1,332,000</u>
Total	<u>\$112,776,000</u>

<u>Project Type</u>	<u>Projected Near-Term Capital Expenditures to be Funded by 2020A Bonds</u>
Water Pipelines – Distribution	\$72,789,000
Water Pipelines – Transmission	34,170,000
Water Treatment Plants	15,267,000
Miscellaneous Projects	8,404,000
Pump Stations	3,875,000
Water Storage Facilities	<u>2,719,000</u>
Total	<u>\$137,224,000</u>

To facilitate payment of the Commercial Paper Notes, on the date of issuance of the 2020A Bonds, a portion of the proceeds of the sale of the 2020A Bonds will be deposited with the Issuing and Paying Agent of the Commercial Paper Notes and held for payment of the Commercial Paper Notes as they mature. Amounts on deposit with the Issuing and Paying Agent of the Commercial Paper Notes will not be available for the payment of debt service on the 2020A Bonds.

The 2012A Subordinated Bonds set forth in the table below will be redeemed on August 1, 2022 at a price equal to the principal amount thereof plus interest accrued thereon in accordance with the terms of that certain Indenture, dated as of January 1, 2009, as supplemented and amended by a First Supplemental Indenture, dated as of June 1, 2009, a Second Supplemental Indenture, dated as of June 1, 2010 and a Third Supplemental Indenture, dated as of April 1, 2012 (collectively, the “2012A Indenture”), by and between the Authority and U.S. Bank National Association, as trustee for the 2012A Subordinated Bonds. A portion of the proceeds of the 2020 Bonds, along with other available moneys held under the 2012A Indenture, will be used to refund and defease such Refunded 2012A Subordinated Bonds.

Maturity Date (August 1)	Principal Amount	CUSIP Number (79730C-)
2020	\$6,395,000	EN0
2021	2,445,000	EX8
2021	4,255,000	FE9
2022	7,020,000	EP5
2023	7,375,000	EY6
2024	7,750,000	EQ3
2025	910,000	EZ3
2025	7,235,000	FF6
2026	8,550,000	ER1
2027	8,990,000	FA7
2028	9,450,000	ES9
2029	9,935,000	ET7
2030	10,445,000	EU4
2031	10,980,000	FB5
2032	11,545,000	EV2

On the date of issuance of the 2020 Bonds, a portion of the proceeds of the sale of the 2020B Bonds, together with certain moneys currently on deposit in the funds and accounts established under the 2012A Indenture, will be deposited in an account to be established under an Escrow Agreement, dated as of [_____, 2020] (the “Escrow Agreement”), by and between the Authority and U.S. Bank National Association, as escrow agent (the “Escrow Agent”). Such amounts held under the Escrow Agreement, will be held in escrow and invested in direct obligations of the United States of America (the “Escrow Securities”), the principal of and interest on which will be used to redeem the Refunded 2012A Subordinated Bonds on [_____, 2020]. At the time of the redemption of the Refunded 2012A Subordinated Bonds, no 2012A Subordinated Bonds will be outstanding under the 2012A Indenture.

Causey Demgen & Moore P.C. will verify the accuracy of the mathematical computation concerning the adequacy of the maturing principal amounts of and interest earned on the Escrow Securities to be purchased and held in the Escrow Fund. See “VERIFICATION.”

ESTIMATED SOURCES AND USES OF BOND PROCEEDS

The following table details the sources and uses of the proceeds of the sale of the 2020 Bonds and other available funds.

Sources:	2020A Bonds	2020B Bonds	Total
Principal Amount	\$	\$	\$
Net Original Issue Premium/ Discount			
Amounts released from the Reserve			
Fund for the 2012A Subordinated Bonds			
Total Sources	<u>\$</u>	<u>\$</u>	<u>\$</u>
 Uses:			
Escrow Fund	\$	\$	\$
Deposit to Acquisition Fund			
Pay Commercial Paper Notes			
Pay Costs of Issuance ⁽¹⁾			
Total Uses	<u>\$</u>	<u>\$</u>	<u>\$</u>

⁽¹⁾ Costs of Issuance for the 2020 Bonds, including all eligible costs of issuing the 2020 Bonds, including fees of Bond and Disclosure Counsel, the Municipal Advisor, the Trustee, the Verification Agent, rating agencies and the printer, the underwriters' discount, and other miscellaneous expenses.

DESCRIPTION OF THE 2020 BONDS

General

The 2020 Bonds will be issued as fully-registered bonds in denominations of \$5,000 and any integral multiple thereof and, when issued, will be registered in the name of Cede & Co., as the nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the 2020 Bonds. Ownership interests in the 2020 Bonds may be purchased in book-entry form only. So long as DTC or its nominee is the Owner of the 2020 Bonds, principal of, redemption premium, if any, and interest on the 2020 Bonds will be made as described in "APPENDIX D – INFORMATION REGARDING THE BOOK-ENTRY ONLY SYSTEM."

The 2020 Bonds will bear interest at the respective rates set forth on the inside cover page hereof. Interest on the 2020 Bonds will accrue from the date of delivery of the 2020 Bonds and is payable on February 1 and August 1 of each year, commencing on August 1, 2020. Interest on the 2020 Bonds shall be calculated on the basis of a 360-day year, comprised of twelve 30-day months. Interest coming due on a date that is not a Business Day shall be payable on the immediately following Business Day.

Redemption of 2020 Bonds*

Optional Redemption. The 2020 Bonds maturing on and after [_____] 20[___] shall be subject to redemption, in whole or in part, at the option of the Authority (upon the direction of the City), on or after [_____] 20[___], at any time, from and to the extent of prepaid 2020 Installment Payments paid pursuant to the 2020 Supplement, at a redemption price equal to the principal amount of 2020 Bonds called for redemption, together with interest accrued thereon to the date fixed for redemption, without premium.

Mandatory Sinking Fund Redemption. The 2020 Term Bonds maturing on [_____] 20[___] are subject to mandatory sinking fund redemption, with sinking account payments payable on [_____] in each

* Preliminary, subject to change.

of the years, at a redemption price of par, plus interest accrued to the date fixed for redemption, in the principal amounts as follows:

2020 Bonds Maturing [____], 20[__]

Sinking Fund Payment Dates ([____])	Principal Amount
20[__]	\$
20[__]	
20[__]	
20[__]	
20[__]	

† Final maturity.

The 2020 Term Bonds maturing on [____], 20[__] are subject to mandatory sinking fund redemption, with sinking account payments payable on [____] in each of the years, at a redemption price of par, plus interest accrued to the date fixed for redemption, in the principal amounts as follows:

2020 Bonds Maturing [____], 20[__]

Sinking Fund Payment Dates ([____])	Principal Amount
20[__]	\$
20[__]	
20[__]	
20[__]	

† Final maturity.

The Authority may credit against any sinking account payment requirement Term Bonds or portions thereof which are of the same maturity as the Term Bonds subject to redemption and which, prior to said date, have been purchased with funds, other than moneys in a Sinking Account, at public or private sale or redeemed and cancelled by the Authority and not theretofore applied as a credit against any mandatory sinking account payment requirement.

Notice of Redemption. So long as DTC is acting as securities depository for the 2020 Bonds, notice of redemption, containing the information required by the Indenture, will be mailed by first class mail, postage prepaid, by the Trustee to DTC (not to the Beneficial Owners of any 2020 Bonds designated for redemption) not more than 60 days nor less than 30 days prior to the redemption date and shall state the date of such notice, the redemption price (including the name and appropriate address of the Trustee), and, in the case of 2020 Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice shall also state that on said date there will become due and payable on each of said 2020 Bonds the principal amount thereof and, in the case of a 2020 Bond to be redeemed in part only, the specified portion of the principal amount thereof to be redeemed, together with interest accrued thereon to the redemption date, and that from and after such redemption date, interest thereon shall cease to accrue, and shall require that such 2020 Bonds be then surrendered at the address of the Trustee specified in the redemption notice. Notice of redemption may be conditioned upon the occurrence of future events, including but not limited to the issuance of refunding bonds, and may be given and rescinded by the Trustee prior to the redemption date, upon written instruction of the Authority.

Selection for Redemption. If less than all of the outstanding 2020 Bonds are to be redeemed prior to maturity, the Authority (at the direction of the City) shall select the specific maturity and interest

rate (or maturities of bonds and interest rates) of 2020 Bonds, or portions thereof equal to \$5,000 or any integral multiple thereof, including any specified reduction in any sinking account payments required to be made with respect to such outstanding 2020 Bonds, to be redeemed. If less than all of the 2020 Bonds of like maturity are to be redeemed, the Trustee will select the particular 2020 Bonds or portions of 2020 Bonds to be redeemed at random in such manner as the Trustee in its discretion may deem fair and appropriate.

Effect of Redemption. If notice of redemption has been duly given as provided in the Indenture and money for the payment of the redemption price of the 2020 Bonds called for redemption is held by the Trustee, then on the redemption date designated in such notice, the 2020 Bonds shall become due and payable, and from and after the date so designated, interest on the 2020 Bonds so called for redemption shall cease to accrue, and the Owners of such 2020 Bonds shall have no rights in respect thereof except to receive payment of the redemption price thereof. The insufficiency of any such notice shall not affect the sufficiency of the proceedings for redemption. If said moneys are not so available on the redemption date, such 2020 Bonds or portions thereof will continue to bear interest until paid at the same rate as they would have borne had they not been called for redemption. If there is selected for redemption a portion of a 2020 Bond, the Authority will execute and the Trustee for that 2020 Bond will authenticate and deliver, upon the surrender of such 2020 Bond, without charge to the Owner thereof, for the unredeemed balance of the principal amount of the 2020 Bond so surrendered, a 2020 Bond of like maturity and interest rate in any authorized denomination.

SECURITY AND SOURCES OF PAYMENT FOR THE 2020 BONDS

Pledge of Revenues; Installment Payments

Pursuant to the Indenture, the 2020 Bonds are limited obligations of the Authority payable solely from the Revenues and amounts on deposit in the Bonds Payment Fund established under the Indenture. The term “Revenues,” as applied to the 2020 Bonds, means all 2020 Installment Payments received by or due to be paid to the Corporation pursuant to the 2020 Supplement and the interest or profits from the investment of money in the Bonds Payment Fund pursuant to the Indenture. The 2020 Installment Payments will be assigned by the Corporation to the Authority pursuant to the Assignment Agreement. To secure the pledge of the Revenues, the Authority will transfer, convey, and assign to the Trustee, for the benefit of the Owners, all of the Authority’s right to receive 2020 Installment Payments from the City. See “APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Indenture.”

The Water Utility Fund; Application of System Revenues

The City accounts for its water operations through an enterprise fund known as the “Water Utility Fund.” The Water Utility Fund was established pursuant to an amendment to the City Charter effective February 11, 1963, and is accounted for separately from other funds of the City. The City has agreed and covenanted in the Master Installment Purchase Agreement that all System Revenues shall be received by the City in trust and shall be deposited when and as received in the Water Utility Fund, which fund the City agrees and covenants to maintain so long as any Obligations remain unpaid, and all moneys in the Water Utility Fund shall be so held in trust and applied and used solely in the amounts, at the times and only for the purposes specified below and in the following order of priority; provided that no amount shall be transferred on any date pursuant to any clause below until amounts sufficient for all the purposes specified under the prior clauses shall have been transferred or set aside; and provided further that in the event there are insufficient Net System Revenues to make all of the payments contemplated in any one clause below, then said transfers, deposits and payments directed by such clause shall be made as nearly as practicable, pro rata, based upon the respective unpaid principal amounts of the Obligations addressed by such clause:

First, the City shall pay from the Water Utility Fund directly or as otherwise required all Maintenance and Operation Costs of the Water System;

Second, on each “Senior Obligation Interest Funding Date” (being each Senior Obligation Installment Payment Date on which the Interest Portion is due and payable under the Master Installment Purchase Agreement as well as each date on which interest is due and payable on any Senior Obligation under any other Issuing Instrument (as defined herein)) and on each other date on which the following amounts shall be due and payable, the City shall transfer Net System Revenues from the Water Utility Fund to the Collateral Agent, for deposit in the Senior Obligations Interest Account of the Senior Obligations Payment Fund, the sum of (A) an amount equal to the interest due and payable on all Senior Obligations; plus (B) an amount equal to any continuing shortfall in transfers required to have been made to the Senior Obligations Interest Account on any preceding Senior Obligation Interest Funding Date;

Third, on each “Senior Obligation Principal Funding Date” (being each Senior Obligation Installment Payment Date on which the Principal Portion is due and payable under the Master Installment Purchase Agreement as well as each date on which principal or mandatory sinking fund redemptions are due and payable on any Senior Obligation under any other Issuing Instrument) and on each other date on which the following amounts shall be due and payable, the City shall transfer Net System Revenues from the Water Utility Fund to the Collateral Agent, for deposit in the Senior Obligations Principal Account of the Senior Obligations Payment Fund, the sum of (A) an amount equal to the principal and mandatory sinking fund redemptions due and payable on all Senior Obligations; plus (B) an amount equal to any continuing shortfall in transfers required to have been made to the Senior Obligations Principal Account on any preceding Senior Obligation Principal Funding Date;

Fourth, on each Senior Obligation Interest Funding Date, the City shall transfer Net System Revenues from the Water Utility Fund to the Collateral Agent, for deposit in any Senior Obligations Reserve Account (if any) the amount necessary so that the balance therein equals the applicable Senior Obligations Reserve Requirement; provided that in the event of any draw on a Reserve Fund Credit Facility held in any Senior Obligations Reserve Account, there shall be deemed a deficiency in such Senior Obligations Reserve Account until the amount of the Reserve Fund Credit Facility is restored to its pre-draw amount;

Fifth, on each “Subordinated Obligation Interest Funding Date” (being each Subordinated Obligation Installment Payment Date on which the Interest Portion is due and payable under the Master Installment Purchase Agreement as well as each date on which interest is due and payable on any Subordinated Obligation under any other Issuing Instrument) and on each other date on which the following amounts shall be due and payable, the City shall transfer Net System Revenues from the Water Utility Fund to the Collateral Agent, for deposit in the Subordinated Obligations Interest Account of the Subordinated Obligations Payment Fund, the sum of (A) an amount equal to the interest due and payable on all Subordinated Obligations; plus (B) an amount equal to any continuing shortfall in transfers required to have been made to the Subordinated Obligations Interest Account on any preceding Subordinated Obligation Interest Funding Date;

Sixth, on each “Subordinated Obligation Principal Funding Date” (being each Subordinated Obligation Installment Payment Date on which the Principal Portion is due and payable under the Master Installment Purchase Agreement as well as each date on which principal or mandatory sinking fund redemptions are due and payable on any Subordinated Obligation under any other Issuing Instrument) and on each other date on which the following amounts shall be due and payable, the City shall transfer Net System Revenues from the Water Utility Fund to the Collateral Agent, for deposit in the Subordinated Obligations Principal Account of the Subordinated Obligations Payment Fund, the sum of (A) an amount equal to the principal and mandatory sinking fund redemptions due and payable on all Subordinated Obligations; plus (B) an amount equal to any continuing shortfall in transfers required to have been made to the Subordinated Obligations Principal Account on any preceding Funding Date; and

Seventh, on each Subordinated Obligation Interest Funding Date, the City shall transfer Net System Revenues from the Water Utility Fund to the Collateral Agent, for deposit in any Subordinated

Obligations Reserve Account (if any) the amount necessary so that the balance therein equals the applicable Subordinated Obligations Reserve Requirement; provided that in the event of any draw on a Reserve Fund Credit Facility held in any Subordinated Obligations Reserve Account, there shall be deemed a deficiency in such Subordinated Obligations Reserve Account until the amount of the Reserve Fund Credit Facility is restored to its pre-draw amount.

After the deposits described in the preceding paragraphs have been made, any amounts thereafter remaining in the Water Utility Fund may be used for any lawful purpose of the Water System. “Issuing Instrument” means any indenture, trust agreement, loan agreement, lease, installment purchase agreement or the Installment Purchase Agreement, including any Supplement or other instrument under which Obligations are issued or created. See “APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS.”

Pledge of Net System Revenues; Payment of Installment Payments

The Master Installment Purchase Agreement provides for the payment by the City of Senior Obligations and Subordinated Obligations in amounts sufficient to make payments of the principal of and interest on Bonds of the Authority. Pursuant to the Master Installment Purchase Agreement, including as supplemented by the Collateral Agency Agreement, all Senior Obligations, including Senior Installment Payment Obligations, shall be secured by a first priority lien on and pledge of Net System Revenues. The City grants to the Collateral Agent, for the benefit of the Holders of Senior Obligations, a first priority lien on and pledge of Net System Revenues to secure Senior Obligations. Subject to the limits described in the Master Installment Purchase Agreement, all Senior Obligations shall be of equal rank with each other without preference, priority or distinction of any Senior Obligations over any other Senior Obligations.

Pursuant to the Master Installment Purchase Agreement, including as supplemented by the Collateral Agency Agreement, all Subordinated Obligations, including Subordinated Installment Payment Obligations, shall be secured by a second priority lien on and pledge of Net System Revenues that is junior and subordinate to the lien on and pledge of Net System Revenues securing Senior Obligations. The City grants to the Collateral Agent, for the benefit of the Holders of Subordinated Obligations, a second priority lien on and pledge of Net System Revenues to secure Subordinated Obligations. All Subordinated Obligations shall be of equal rank with each other without preference, priority or distinction of any Subordinated Obligations over any other Subordinated Obligations; provided that a Subordinated Obligation that by its terms under certain circumstances can require the full amount of the Subordinated Obligation to become payable in installments over not less than five years from the triggering event shall not be deemed to create any impermissible preference, priority or distinction as to lien or otherwise of such Subordinated Obligation over any other Subordinated Obligation; and provided further that a Subordinated Obligation that by its terms under certain circumstances must be treated as, or becomes, a Senior Obligation shall not be deemed to create any impermissible preference, priority or distinction as to lien or otherwise of such Subordinated Obligation over any other Subordinated Obligation.

Pursuant to the Master Installment Purchase Agreement, the City agrees to make Installment Payments (including the 2020 Installment Payments) solely from Net System Revenues. The 2020 Installment Payments shall be Senior Obligations under the Master Installment Purchase Agreement and the payment of the 2020 Installment Payments shall be senior to the 2018 Subordinated Installment Payments, the 2016 Subordinated Installment Payments, the 2012 Subordinated Installment Payments, [Commercial Paper Note Subordinated Installment payments] and the WIFIA Loan under the Master Installment Purchase Agreement. No Owner of the Obligations shall have any right to take any action or enforce any right that has a materially adverse effect on the interests of the Owners of the Installment Payment Obligations. The City agrees to make Installment Payments solely from Net System Revenues until such time as the Purchase Price for any Components has been paid in full (or provision for the payment thereof has been made pursuant to the Master Installment Purchase Agreement).

The 2020 Supplement provides for the payment by the City of 2020 Installment Payments in amounts sufficient to make payments of the principal of and interest on the 2020 Bonds. The 2020 Installment Payments securing payment of the 2020 Bonds are payable from Net System Revenues on a basis that is on parity to the right of payment by the City of its Outstanding Senior Obligations (as defined herein) under the Master Installment Purchase Agreement and senior to the 2018A Subordinated Bonds, 2016 Subordinated Bonds, the 2012A Subordinated Bonds (to be refunded with proceeds of the 2020B Bonds), the WIFIA Loan, and the Commercial Paper Notes.

Under the Master Installment Purchase Agreement, the City has agreed that it will not discontinue or suspend any Installment Payments (including the 2020 Installment Payments) required to be made by the City under the Master Installment Purchase Agreement, whether or not the Project or any part thereof is operating or operable or has been completed, or its use is suspended, interfered with, reduced, curtailed, or terminated, in whole or in part, and such Installment Payments (including the 2020 Installment Payments) shall not be subject to reduction, whether by offset or otherwise, and will not be conditioned upon the performance or nonperformance by any party of any agreement for any cause whatsoever.

The term “Net System Revenues” is defined in the Master Installment Purchase Agreement as, for any Fiscal Year, the System Revenues for such Fiscal Year, less the Maintenance and Operation Costs of the Water System for such Fiscal Year.

The term “System Revenues” is defined in the Master Installment Purchase Agreement as all income, rents, rates, fees, charges, and other moneys derived from the ownership or operation of the Water System, including, without limiting the generality of the foregoing: (a) all income, rents, rates, fees, charges, or other moneys derived by the City from the water services or facilities, and commodities or byproducts, including hydroelectric power, sold, furnished or supplied through the facilities of or in the conduct or operation of the business of the Water System, and including, without limitation, investment earnings on the operating reserves to the extent that the use of such earnings is limited to the Water System by or pursuant to law, and earnings on any Reserve Fund for Obligations, but only to the extent that such earnings may be utilized under the indenture, trust agreement, loan agreement, lease, or installment purchase agreement under which the applicable Obligations are issued (each, an “Issuing Instrument”) for the payment of debt service for such Obligations; (b) standby charges and Capacity Charges derived from the services and facilities sold or supplied through the Water System; (c) the proceeds derived by the City directly or indirectly from the lease of a part of the Water System; (d) any amount received from the levy or collection of taxes that are solely available and are earmarked for the support of the operation of the Water System; (e) amounts received under contracts or agreements with governmental or private entities and designated for capital costs for the Water System; and (f) grants for maintenance and operations received from the United States of America or from the State; provided, however, that System Revenues shall not include: (1) in all cases, customers’ deposits or any other deposits or advances subject to refund until such deposits or advances have become the property of the City; and (2) the proceeds of borrowings. Notwithstanding the foregoing, there shall be deducted from System Revenues any amounts transferred into a Rate Stabilization Fund Reserve as contemplated by the Master Installment Purchase Agreement and any amounts transferred from current System Revenues to the Secondary Purchase Fund as permitted by the Master Installment Purchase Agreement. There shall be added to System Revenues any amounts transferred out of such Rate Stabilization Fund Reserve or the Secondary Purchase Fund to pay Maintenance and Operation Costs of the Water System. See “WATER SYSTEM FINANCIAL OPERATIONS – Water Utility Fund Reserves – Rate Stabilization Fund Reserve” and “– Secondary Purchase Reserves.”

The term “Maintenance and Operation Costs of the Water System” is defined in the Master Installment Purchase Agreement as (a) any Qualified Take or Pay Obligation, and (b) the reasonable and necessary costs spent or incurred by the City for maintaining and operating the Water System, calculated in accordance with generally accepted accounting principles, including (among other things) the reasonable expenses of maintenance and repair and other expenses necessary to maintain and preserve the

Water System in good repair and working order, and including administrative costs of the City attributable to the Water System, including the Project and the Master Installment Purchase Agreement, salaries and wages of employees of the Water System, payments to such employees' retirement systems (to the extent paid from System Revenues), overhead, taxes (if any), fees of auditors, accountants, attorneys or engineers, and insurance premiums, and including all other reasonable and necessary costs of the City or charges required to be paid by it to comply with the terms of the Obligations, including the Master Installment Purchase Agreement, including any amounts required to be deposited in the Rebate Fund pursuant to a Tax Certificate, and fees and expenses payable to any Credit Provider (other than in repayment of a "Credit Provider Reimbursement Obligation"), but excluding in all cases (1) depreciation, replacement, and obsolescence charges or reserves therefor, (2) amortization of intangibles or other bookkeeping entries of a similar nature, (3) costs of capital additions, replacements, betterments, extensions, or improvements to the Water System, which under generally accepted accounting principles are chargeable to a capital account or to a reserve for depreciation, (4) charges for the payment of principal of and interest on any general obligation bond heretofore or hereafter issued for Water System purposes, and (5) charges for the payment of principal of and interest on any debt service on account of any Obligation on parity with or subordinate to the Installment Payments.

The term "Obligations" is defined in the Master Installment Purchase Agreement as (i) obligations of the City for money borrowed (such as bonds, notes, or other evidences of indebtedness) or as installment purchase payments under any contract (including Installment Payments), or as lease payments under any financing lease (determined to be such in accordance with generally accepted accounting principles), the principal of and interest on which are payable from Net System Revenues; (ii) obligations to replenish any debt service reserve funds with respect to such obligations of the City; (iii) obligations secured by or payable from any of such obligations of the City; and (iv) obligations of the City payable from Net System Revenues under (a) any contract providing for payments based on levels of, or changes in, interest rates, currency exchange rates, stock or other indices, (b) any contract to exchange cash flows or a series of payments, or (c) any contract to hedge payment, currency, rate spread, or similar exposure, including, but not limited, to interest rate cap agreements.

All Senior Obligations (referred to as "Parity Obligations" in the Master Installment Purchase Agreement) are of equal rank with each other without preference, priority, or distinction of any Senior Obligations over any other Senior Obligations. The term "Senior Obligations" is defined in the Master Installment Purchase Agreement as (i) Installment Obligations (as defined herein), (ii) Obligations, the principal of and interest on which are payable on parity with Installment Obligations, and (iii) Reserve Fund Obligations. The term "Installment Obligations" is defined in the Master Installment Purchase Agreement as Obligations consisting of or payable from Installment Payments, which are not subordinated in right of payment to other Installment Payments. The term "Credit Provider" is defined in the Master Installment Purchase Agreement as any municipal bond insurance company, bank, or other financial institution or organization that is performing in all material respects its obligations under any policy of insurance, letter of credit, standby purchase agreement, revolving credit agreement, or other credit arrangement providing credit support or liquidity with respect to Senior Obligations (each, a "Credit Support Instrument"). The term "Reserve Fund Obligations" is defined in the Master Installment Purchase Agreement as the obligations of the City to pay amounts advanced under any Reserve Fund Credit Facility entered into in accordance with the provisions of the related Issuing Instrument or Supplement, which obligations shall constitute Senior Obligations or Subordinated Obligations, as designated by the City.

Senior Obligations

The pledge and right of payment from Net System Revenues securing the 2020 Installment Payments (which, in turn, secure the payment of the 2020 Bonds) will be on parity with the pledge and right of payment from Net System Revenues securing the Senior SRF Loans, Outstanding as of March 1, 2020 in the principal amount of \$78,845,301, and any Senior Obligations hereinafter incurred by the City.

See “INTRODUCTION – Outstanding Senior and Subordinated Obligations” above, “WATER SYSTEM FINANCIAL OPERATIONS – Outstanding Indebtedness,” and “WATER SYSTEM FINANCIAL OPERATIONS – Anticipated Additional Obligations.” All Senior Obligations are secured by a first priority lien on and pledge of Net System Revenues.

Subordinated Obligations

The Master Installment Purchase Agreement permits the issuance of Obligations secured by a lien on and pledge of Net System Revenues, which lien and pledge is subordinate to the lien on and pledge of Net System Revenues securing Senior Obligations (each, a “Subordinated Obligation”). The pledge and right of payment from Net System Revenues securing the 2020 Installment Payments (which, in turn, secure the payment of the 2020 Bonds) will be senior to the pledge and right of payment from Net System Revenues securing Subordinated Obligations incurred in accordance with the Master Installment Purchase Agreement, including the Installment Payments securing the Subordinated Obligations Outstanding as of March 1, 2020 in the principal amount of \$946,290,000, which includes \$113,280,000 aggregate principal amount of 2012A Subordinated Bonds (all maturities of which will be refunded with proceeds of the 2020B Bonds) and \$131,500,000 aggregate principal amount of Commercial Paper Notes, that are on parity with the other Subordinated Obligations, and any Subordinated Obligations hereinafter incurred by the City. Under the Indenture, the aggregate principal amount of Commercial Paper Notes Outstanding at any time may not exceed \$250 million, as described below. The Outstanding Subordinated Obligations principal amount does not include the City’s borrowing of up to \$614 million pursuant to the WIFIA Loan Agreement as the City has not yet requested disbursements of amounts under the WIFIA Loan. See “WATER SYSTEM FINANCIAL OPERATIONS – Outstanding Indebtedness.”

In 2017, the City established the Commercial Paper Notes program and authorized the issuance of up to \$250 million in Commercial Paper Notes that are secured by Subordinated Installment Payments under the Master Installment Payment Agreement. The Series A Commercial Paper Notes are authorized to be issued in the maximum principal amount of \$75 million and are supported by an irrevocable direct-pay letter of credit (the “BotW Letter of Credit”) issued by Bank of the West (“BotW”). The Series B Commercial Paper Notes are authorized to be issued in the maximum principal amount of \$175 million and are supported by an irrevocable direct-pay letter of credit (the “BofA Letter of Credit”) issued by Bank of America, N.A. (“BofA”). Unless extended or terminated sooner in accordance with their terms, the BotW Letter of Credit will expire on December 31, 2021, and the BofA Letter of Credit will expire on December 31, 2021.

To provide credit support for the Commercial Paper Notes, the City entered into two separate reimbursement agreements (collectively, the “CP Reimbursement Agreements”) with BotW and BofA, respectively (collectively, the “CP Banks”), pursuant to which each CP Bank issued the separate irrevocable transferable direct-pay letter of credit described above (collectively, the “CP Letters of Credit”). Each CP Letter of Credit only supports the payment of the principal of or interest on the applicable subseries of Commercial Paper Notes. In the event the City does not immediately reimburse a CP Bank for a drawing under the applicable CP Letter of Credit, the City is required pursuant to the applicable CP Reimbursement Agreement to pay all principal of and interest due to the applicable CP Bank as a result of such drawing within three years for the BofA Letter of Credit and within five years for the BotW Letter of Credit of the applicable date of the original drawing. Upon the happening of an event of default under a CP Reimbursement Agreement the obligations of the City to the applicable CP Bank may become immediately due and payable. Events of default under the CP Reimbursement Agreements include, but are not limited to (i) failure to pay principal of or interest on any drawing, advance or other obligations under the applicable CP Reimbursement Agreement, (ii) failure to perform the terms of the applicable CP Reimbursement Agreement, (iii) defaults in any payment of any Senior Obligations or Subordinate Obligations, and (iv) certain downgrades of Subordinate Obligation ratings. Any obligations of the Authority incurred pursuant to the CP Reimbursement Agreements are Subordinate Installment Payments secured by New System Revenues of the Water Utility fund.

Application of Net System Revenues and Other Amounts under the Collateral Agency Agreement

Pursuant to the Collateral Agency Agreement, the Collateral Agent shall make the following withdrawals, transfers, and payments from the accounts established under the Collateral Agency Agreement into which Net System Revenues have been deposited by the City pursuant to the Master Installment Purchase Agreement:

(i) on each Senior Obligation Interest Payment Date and on each other date on which the following amounts shall be due and payable, the Collateral Agent shall pay to the Holders (as such term is defined in the Collateral Agency Agreement) of Senior Obligations, from the Senior Obligations Interest Account, the interest due and payable, including any amounts overdue and payable, on such date to Holders of Senior Obligations; provided that if the amount on deposit in the Senior Obligations Interest Account is insufficient therefor, the Collateral Agent shall pay each Senior Obligation Holder a Pro Rata Amount.

(ii) on each Senior Obligation Principal Payment Date and on each other date on which the following amounts shall be due and payable, the Collateral Agent shall pay to the Holders of Senior Obligations, from the Senior Obligations Principal Account, the principal and mandatory sinking fund redemptions due and payable, including any amounts overdue and payable, on such date to Holders of Senior Obligations; provided that if the amount on deposit in the Senior Obligations Principal Account is insufficient therefor, the Collateral Agent shall pay each Senior Obligation Holder a Pro Rata Amount.

(iii) on each Senior Obligation Interest Payment Date, the Collateral Agent shall transfer to the holder of each Senior Obligations Reserve Fund (if any) the amount set forth in a written direction of the City, which shall be no more than the amount necessary so that the balance therein equals the applicable Reserve Requirement; provided that if the amount on deposit in the Senior Obligations Reserve Account is insufficient therefor, the Collateral Agent shall transfer to each holder of a Senior Obligations Reserve Fund a Pro Rata Amount; and provided further that in the event of any draw on a Reserve Fund Credit Facility held in any Senior Obligations Reserve Fund, there shall be deemed a deficiency in such Senior Obligations Reserve Fund until the amount of the Reserve Fund Credit Facility is restored to its pre-draw amount.

(iv) on each Subordinated Obligation Interest Payment Date and on each other date on which the following amounts shall be due and payable, the Collateral Agent shall pay to the Holders of Subordinated Obligations, from the Subordinated Obligations Interest Account, the interest due and payable, including any amounts overdue and payable, on such date to Holders of Subordinated Obligations; provided that if the amount on deposit in the Subordinated Obligations Interest Account is insufficient therefor, the Collateral Agent shall pay each Subordinated Obligation Holder a Pro Rata Amount.

(v) on each Subordinated Obligation Principal Payment Date and on each other date on which the following amounts shall be due and payable, the Collateral Agent shall pay to the Holders of Subordinated Obligations, from the Subordinated Obligations Principal Account, the principal and mandatory sinking fund redemptions due and payable, including any amounts overdue and payable, on such date to Holders of Subordinated Obligations; provided that if the amount on deposit in the Subordinated Obligations Principal Account is insufficient therefor, the Collateral Agent shall pay each Subordinated Obligation Holder a Pro Rata Amount.

(vi) on each Subordinated Obligation Interest Payment Date, the Collateral Agent shall transfer to the holder of each Subordinated Obligations Reserve Fund (if any) the amount set forth in a written direction of the City, which shall be no more than the amount necessary so that the balance therein equals the applicable Reserve Requirement; provided that if the amount on

deposit in the Subordinated Obligations Reserve Account is insufficient therefor, the Collateral Agent shall transfer to each holder of a Subordinated Obligations Reserve Fund a Pro Rata Amount; and provided further that in the event of any draw on a Reserve Fund Credit Facility held in any Subordinated Obligations Reserve Fund, there shall be deemed a deficiency in such Subordinated Obligations Reserve Fund until the amount of the Reserve Fund Credit Facility is restored to its pre-draw amount.

“Pro Rata Amount” means, with respect to any payment to be made to a holder of a Secured Obligation from funds held by the Collateral Agent in the applicable account under the Collateral Agency Agreement, an amount equal to the total amount of funds held by the Collateral Agent in such account and available to make such payment to all holders of Secured Obligations entitled to receive such payment multiplied by the quotient of the amount of such payment due and payable on such date to such holder divided by the amount of such payment due and payable on such date to all holders entitled to receive such payment.

Nothing in the Collateral Agency Agreement or the Master Installment Purchase Agreement affects or diminishes the rights and remedies of the holders of Secured Obligations under their respective Issuing Instruments, including any right in such Issuing Instrument to accelerate amounts due under the applicable Secured Obligations. See “APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Collateral Agency, Account and Assignment Agreement.”

Incurrence of Additional Obligations

Under the Master Installment Purchase Agreement. Master Installment Purchase Agreement the City may not create any Obligations, the payments of which are senior or prior in right to the payment by the City of Senior Obligations.

Without regard to the terms of the next paragraph, the City may at any time enter into or create an obligation or commitment which is a Reserve Fund Obligation, provided that the Obligation to which the Reserve Fund Obligation relates is permitted to be entered into under the terms of the Master Installment Purchase Agreement.

After the initial issuance of Senior Obligations under the Master Installment Purchase Agreement, the City may at any time and from time to time issue or create any other Senior Obligations, provided that:

(1) There shall not have occurred and be continuing an Event of Default under the terms of the Master Installment Purchase Agreement, any Issuing Instrument or any Credit Support Instrument; and

(2) The City obtains or provides a certificate or certificates, prepared by the City or at the City’s option by a Consultant, showing that:

(A) the Net System Revenues as shown by the books of the City for any 12-consecutive-month period within the 18 consecutive months ending immediately prior to the incurring of such additional Parity Obligations shall have amounted to or exceeded the greater of (i) at least 1.20 times the Maximum Annual Debt Service on all Senior Obligations to be Outstanding immediately after the issuance of the proposed Senior Obligations or (ii) at least 1.00 times the Maximum Annual Debt Service on all Obligations to be Outstanding immediately after the issuance of the proposed Senior Obligations. For purposes of preparing the certificate or certificates described above, the City or its Consultant may rely upon audited financial statements, or, if audited financial statements for the period are not available, financial

statements prepared by the City that have not been subject to audit by an Independent Certified Public Accountant; or

- (B) the estimated Net System Revenues for the five Fiscal Years following the earlier of (i) the end of the period during which interest on those Senior Obligations is to be capitalized or, if no interest is to be capitalized the Fiscal Year in which the Senior Obligations are issued, or (ii) the date on which substantially all new Components to be financed with such Senior Obligations are expected to commence operations, will be at least equal to 1.20 times the Maximum Annual Debt Service for all Senior Obligations which will be Outstanding immediately after the issuance of the proposed Senior Obligations.

For purposes of the computations to be made as described in paragraph (2)(B) above, the determination of Net System Revenues:

(1) may take into account any increases in rates and charges which relate to the Water System and which have been approved by the City Council, and is required to take into account any reduction in such rates and charges which have been approved by the City Council, which will, for purposes of the test described in paragraph (2)(B) above, be effective during a Fiscal Year ending within the five -Fiscal Year period for which such estimate is being made; and

(2) may take into account an allowance for any estimated increase in such Net System Revenues from any revenue-producing additions or improvements to or extensions of the Water System to be made with the proceeds of such additional indebtedness or with the proceeds of Senior Obligations previously issued, all in an amount equal to the estimated additional average annual Net System Revenues to be derived from such additions, improvements and extensions during the five-Fiscal Year period contemplated by paragraph (2)(B) above, all as shown by such certificate of the City or its Consultant, as applicable; and

(3) for the period contemplated by paragraph (2)(B) above, Maintenance and Operation Costs of the Water System shall initially be deemed to be equal to such costs for the 12 consecutive months immediately prior to incurring such other Senior Obligations for the first Fiscal Year of the five-Fiscal Year period, but adjusted if deemed necessary by the City or its Consultant, as applicable, for any increased Maintenance and Operations Costs of the Water System which are, in the judgment of the City or such Consultant, as applicable, essential to maintaining and operating the Water System and which will occur during any Fiscal Year ending within the period contemplated by paragraph (2)(B) above.

The certificate or certificates described above in paragraph (2)(B) above may not be required if the Senior Obligations being issued are for the purpose of (1) issuing the Senior Obligations initially issued under the Master Installment Purchase Agreement or (2) refunding (A) any then Outstanding Senior Obligations if at the time of the issuance of such Senior Obligations a certificate of an Authorized City Representative is required to be delivered showing that the sum of Adjusted Debt Service on all Senior Obligations Outstanding for all remaining Fiscal Years after the issuance of the refunding Senior Obligations will not exceed the sum of Adjusted Debt Service on all Parity Obligations Outstanding for all remaining Fiscal Years prior to the issuance of such refunding Senior Obligations; or (B) then Outstanding Balloon Indebtedness, Tender Indebtedness or Variable Rate Indebtedness, but only to the extent that the principal amount of such indebtedness has been put, tendered to or otherwise purchased pursuant to a standby purchase or other liquidity facility relating to such indebtedness.

Without regard to the provisions of the third paragraph of under this “–Under the Master Installment Purchase Agreement”, if (i) no Event of Default has occurred and is continuing and (ii) no event of default or termination event attributable to an act of or failure to act by the City under any Credit

Support Instrument has occurred and is continuing, the City may issue or incur Subordinated Obligations, and such Subordinated Obligations must be paid in accordance with the provisions of the Master Installment Purchase Agreement, provided that:

(1) City obtains or provides a certificate or certificates, prepared by the City or at the City's option by a Consultant, showing that:

(A) the Net System Revenues as shown by the books of the City for any 12 - consecutive -month period within the 18 consecutive months ending immediately prior to the incurring of such additional Subordinated Obligations shall have amounted to at least 1.00 times the Maximum Annual Debt Service on all Obligations to be Outstanding immediately after the issuance of the proposed Subordinated Obligations; or

(B) the estimated Net System Revenues for the five Fiscal Years following the earlier of (i) the end of the period during which interest on those Subordinated Obligations is to be capitalized or, if no interest is to be capitalized, the Fiscal Year in which the Subordinated Obligations are issued; or (ii) the date on which substantially all new facilities financed with such Subordinated Obligations are expected to commence operations, will be at least equal to 1.00 times the Maximum Annual Debt Service on all Obligations to be Outstanding immediately after the issuance of the proposed Subordinated Obligations.

(2) For purposes of preparing the certificate or certificates described in clause (A) of above, the City and its Consultant(s) may rely upon audited financial statements or, if audited financial statements for the period are not available, financial statements prepared by the City that have not been subject to audit by an Independent Certified Public Accountant,

(3) For purposes of the computations to be made as described in clause (B) above, the determination of Net System Revenues:

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

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

(C) for the period contemplated by clause (B) above, must initially include Maintenance and Operation Costs of the Water System in an amount equal to such costs for any 12-consecutive month period within the 24 consecutive months ending immediately prior to incurring such Subordinated Obligations for the first Fiscal Year of the five-Fiscal Year period, but adjusted if deemed necessary by the City or its Consultant, as applicable, for any increased Maintenance and Operations Costs of the Water System which are, in the

judgment of the City or its Consultant, as applicable, essential to maintaining and operating the Water System and which will occur during any Fiscal Year ending within the period contemplated by clause (B) above.

(4) The certificate or certificates described above in paragraph (1) above will not be required if the Subordinated Obligations being issued are for the purpose of refunding (i) then Outstanding Senior Obligations or Subordinated Obligations if at the time of the issuance of such Subordinated Obligations a certificate of an Authorized City Representative is delivered showing that the sum of Debt Service for all remaining Fiscal Years on all Senior Obligations and Subordinated Obligations Outstanding after the issuance of the refunding Subordinated Obligations will not exceed the sum of Debt Service for all remaining Fiscal Years on all Senior Obligations and Subordinated Obligations Outstanding prior to the issuance of such refunding Subordinated Obligations; or (ii) then-Outstanding Balloon Indebtedness, Tender Indebtedness or Variable Rate Indebtedness, but only to the extent that the principal amount of such indebtedness has been put, tendered to or otherwise purchased by a standby purchase agreement or other liquidity facility relating to such indebtedness.

See “APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Master Installment Purchase Agreement – System Revenues – Additional Obligations.”

Under Loans. In addition, in connection with execution of certain of the Senior SRF Loans, the City agreed that incurrence of additional Senior Obligations or Subordinated Obligations is subject to Net System Revenues during any 12-consecutive-month period within the 18 consecutive months ending immediately prior to the issuance of such additional debt being at least 1.1 times the SRF MADS (as defined herein) for existing debt and the proposed additional debt, as evidenced by a certificate of the City.

Further, the WIFIA Loan Agreement provides that the City may incur additional Senior Obligations and additional Subordinated Obligations subject to the satisfaction of certain conditions, including, (i) the City may not incur any Senior Obligations, of which any proceeds are or will be applied to project costs of the Pure Water Program Phase 1, (ii) with respect to additional Senior Obligations, provision of a certificate showing that (1) the Net System Revenues as shown by the books of the City for any twelve (12)-consecutive-month period within the eighteen (18) consecutive months ending immediately prior to the incurring of such additional Senior Obligations shall have amounted to or exceeded the greater of (I) at least 1.20 times the Maximum Annual Debt Service on all Senior Obligations to be Outstanding immediately after the issuance of the proposed additional Senior Obligations or (II) at least 1.10 times the Maximum Annual Debt Service on all Obligations to be Outstanding immediately after the issuance of the proposed additional Senior Obligations, or (2) the estimated Net System Revenues for the five City Fiscal Years following the earlier of (I) the end of the period during which interest on those additional Senior Obligations is to be capitalized or, if no interest is to be capitalized, the City Fiscal Year in which the additional Senior Obligations are issued, or (II) the date on which substantially all new components to be financed with such additional Senior Obligations are expected to commence operations, will be at least equal to 1.20 times the Maximum Annual Debt Service for all Senior Obligations which will be Outstanding immediately after the issuance of the proposed additional Senior Obligations, and (iii) with respect to additional Subordinated Obligations, provision of a certificate showing (a) the Net System Revenues as shown by the books of the City for any twelve (12)-consecutive-month period within the eighteen (18) consecutive months ending immediately prior to the incurring of such additional Subordinated Obligations shall have amounted to at least 1.10 times the Maximum Annual Debt Service on all Obligations to be Outstanding immediately after the issuance of the proposed additional Subordinated Obligations; or (b) the estimated Net System Revenues for the five City Fiscal Years following the earlier of (I) the end of the period during which interest on those additional Subordinated Obligations is to be capitalized or, if no interest is to be capitalized, the City Fiscal Year in which the additional Subordinated Obligations are issued; or (II) the date on which

substantially all new facilities financed with such additional Subordinated Obligations are expected to commence operations, will be at least equal to 1.10 times the Maximum Annual Debt Service on all Obligations to be Outstanding immediately after the issuance of the proposed additional Subordinated Obligations.

Rate Covenants

Master Installment Purchase Agreement. The City has covenanted in the Master Installment Purchase Agreement to fix, prescribe, and collect rates and charges for the Water Service that will be at least sufficient to yield the greater of (i) Net System Revenues sufficient to pay during each Fiscal Year all Obligations (including the 2020 Installment Payments and loan payments due on SRF Loans) payable in such Fiscal Year or (ii) Adjusted Net System Revenues during each Fiscal Year equal to 120% of the Adjusted Debt Service (which does not include debt service on Subordinated Obligations) for such Fiscal Year. The City may make adjustments from time to time in such rates and charges and may make such classification thereof as it deems necessary, but the City will not reduce the rates and charges then in effect unless the Net System Revenues from such reduced rates and charges will at all times be sufficient to meet the requirements of the Master Installment Purchase Agreement. The term “Adjusted Net System Revenues” is defined in the Master Installment Purchase Agreement as, for any Fiscal Year, the Net System Revenues for such Fiscal Year, minus an amount equal to earnings from investments in any Reserve Fund securing Senior Obligations for such Fiscal Year. The term “Adjusted Debt Service” is defined in the Master Installment Purchase Agreement as, for any Fiscal Year, Debt Service on Senior Obligations for such Fiscal Year, minus an amount equal to earnings from investments in any Reserve Fund for Senior Obligations for such Fiscal Year. Net System Revenues (and, therefore, Adjusted Net System Revenues) may be increased or reduced by transfers in to or out of the Rate Stabilization Fund Reserve or the Secondary Purchase Fund. See “WATER SYSTEM FINANCIAL OPERATIONS – Water Utility Fund Reserves.”

Senior SRF Loans. Pursuant to certain of the Senior SRF Loans, the City covenanted to ensure that net revenues are equal to at least 1.1 times maximum annual debt service in each Fiscal Year. For purposes of the affected Senior SRF Loans, “maximum annual debt service” means the maximum amount of debt service due on Water System obligations in any Fiscal Year during the period commencing with the Fiscal Year for which such calculation is made and terminating with the last Fiscal Year in which debt service for any Water System obligations will become due (the “SRF MADS”).

WIFIA Loan. Pursuant to the WIFIA Loan Agreement, the City covenanted, to the extent permitted by law, to fix, prescribe and collect rates, fees and charges for the Water System during each Fiscal Year which will be at least sufficient to yield, during each Fiscal Year, Net System Revenues equal to (A) at least one hundred ten percent (110%) of the Debt Service with respect to all Outstanding Obligations for such Fiscal Year and (B) at least one hundred twenty percent (120%) of the Debt Service with respect to all Outstanding Senior Obligations for such Fiscal Year.

The covenants in the agreements for the Senior SRF Loans and the WIFIA Loan Agreement are not made for the benefit of the Owners of the 2020 Bonds and Owners of the 2020 Bonds do not have a right to enforce such covenants.

See “– Pledge of Net System Revenues; Payment of Installment Payments” above. For information on the possible limitation on the City’s ability to comply with its rate covenants described above as a consequence of Proposition 218, see “RISK FACTORS – Rate-Setting Process Under Proposition 218” and “CONSTITUTIONAL LIMITATIONS ON TAXES AND WATER RATES AND CHARGES – Article XIIC” and “– Article XIID.” For a description of the reserve funds established by the City within the Water Utility Fund, see “WATER SYSTEM FINANCIAL OPERATIONS – Water Utility Fund Reserves – Rate Stabilization Fund Reserve.”

The Collateral Agency Agreement

Pursuant to the Collateral Agency Agreement, the Collateral Agent shall serve as agent of the Trustee and the Owners of Secured Obligations for purposes of receiving payments of Net System Revenues from the City and making payments on Obligations from Net System Revenues. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2020 BONDS - Pledge of Net System Revenues; Payment of Installment Payments.” In addition, as provided in the Collateral Agency Agreement, the Collateral Agent shall have the right to exercise all of the rights and remedies described in the Collateral Agency Agreement, on behalf of and for the benefit of Owners of Secured Obligations and any trustee on their behalf, including the Trustee, under the First Amendment thereto, the Indenture and any other Issuing Instrument. Under the Master Installment Purchase Agreement and the Collateral Agency Agreement, the Collateral Agent (rather than the Corporation) shall have all rights, pursuant to the Master Installment Purchase Agreement, the Collateral Agency Agreement or any other Issuing Instrument, (a) as a grantee of a pledge of Net System Revenues, (b) to accelerate or otherwise declare any Obligations immediately due and payable, (c) to exercise any remedies by or on behalf of the Owners of any Obligations or otherwise with respect to the Net System Revenues following an event of default under the Master Installment Purchase Agreement, or (d) to receive and/or apply any Net System Revenues to the payment of any Obligations following an event of default under the Master Installment Purchase Agreement. See “APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Collateral Agency, Account and Assignment Agreement.”

Payment of Bonds Under the Indenture

Senior Bonds. Pursuant to the Indenture, on or before each February 1 and August 1, and such other date as provided for in a Supplemental Indenture (each an “Interest Payment Date”), the Trustee shall transfer from the Senior Bonds Payment Fund and deposit in the Senior Bonds Interest Account that amount of money that, together with any money contained in the Senior Bonds Interest Account, equals the aggregate amount of interest becoming due and payable on all Outstanding Senior Bonds on such Interest Payment Date. No deposit need be made in the Senior Bonds Interest Account if the amount contained in the Senior Bonds Interest Account equals at least the aggregate amount of interest becoming due and payable on all Outstanding Senior Bonds on such Interest Payment Date. All money in the Senior Bonds Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Senior Bonds as it shall become due and payable (including accrued interest on any Senior Bonds redeemed prior to maturity).

On or before each Principal Payment Date, the Trustee shall transfer from the Senior Bonds Payment Fund and deposit in the Senior Bonds Principal Account that amount of money that, together with any money contained in the Senior Bonds Principal Account, equals the aggregate principal becoming due and payable on all Outstanding Senior Bonds. No deposit need be made in the Senior Bonds Principal Account if the amount contained therein is at least equal to the aggregate amount of principal become due and payable on Outstanding Senior Bonds. All money in the Senior Bonds Principal Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of the Senior Bonds as it shall become due and payable. Within the Senior Bonds Payment Fund, there is established a special account designated the “Senior Bonds Redemption Account.” All money in the Senior Bonds Redemption Account shall be held in trust by the Trustee and shall be applied, used, and withdrawn to redeem Senior Bonds.

Any delinquent Installment Payments pledged to the Senior Bonds shall be applied first to the Senior Bonds Interest Account for the immediate payment of interest payments past due and to the Senior Bonds Principal Account for immediate payment of principal payments past due on any Senior Bond. Any remaining money representing delinquent Installment Payments pledged to Senior Bonds shall be deposited in the Senior Bonds Payment Fund to be applied in the manner provided therein. Other than the 2020 Bonds upon their issuance, as of the date of this Official Statement there are currently no other

Outstanding Senior Bonds. See “APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS.”

Subordinated Bonds. Pursuant to the Indenture, except to the extent that payment is made of interest on the Commercial Paper Notes from the proceeds of Commercial Paper Notes or the proceeds of a Draw under the related Subordinated Credit Support Instrument, on or before each Interest Payment Date, the Trustee shall transfer from the Subordinated Bonds Payment Fund and deposit in the Subordinated Bonds Interest Account that amount of money that, together with any money contained in the Subordinated Bonds Interest Account, equals the aggregate amount of interest becoming due and payable on all Outstanding Subordinated Bonds on such Interest Payment Date. No deposit need be made in the Subordinated Bonds Interest Account if the amount contained in the Subordinated Bonds Interest Account equals at least the aggregate amount of interest becoming due and payable on all Outstanding Subordinated Bonds on such Interest Payment Date; provided that the Authority may direct the Trustee to maintain amounts in the Subordinated Bonds Interest Account following payment of all amounts required to be paid under the Indenture to be used for payments on Commercial Paper Notes on future Interest Payment Dates, and in such instance, such additional amount shall not be included as amounts available to pay interest becoming due and payable on Outstanding Subordinated Bonds. All money in the Subordinated Bonds Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Subordinated Bonds as it shall become due and payable (including accrued interest on any Subordinated Bonds redeemed prior to maturity).

Except to the extent that payment is made of the principal of the Commercial Paper Notes from the proceeds of Commercial Paper Notes or the proceeds of a Draw under the related Subordinated Credit Support Instrument, on or before each “Principal Payment Date” (being each August 1, each date on which Commercial Paper Notes are due and payable, and such other date as provided for in a Supplemental Indenture), the Trustee shall transfer from the Subordinated Bonds Payment Fund and deposit in the Subordinated Bonds Principal Account that amount of money that, together with any money contained in the Subordinated Bonds Principal Account, equals the aggregate principal becoming due and payable on all Outstanding Subordinated Bonds. No deposit need be made in the Subordinated Bonds Principal Account if the amount contained therein is at least equal to the aggregate amount of principal become due and payable on Outstanding Subordinated Bonds. All money in the Subordinated Bonds Principal Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of the Subordinated Bonds as it shall become due and payable.

In addition to the above accounts, the Trustee shall establish and maintain within the Subordinated Bonds Payment Fund a special account designated the “Subordinated Bonds Redemption Account.” All money in the Subordinated Bonds Redemption Account shall be held in trust by the Trustee and shall be applied, used, and withdrawn to redeem Subordinated Bonds.

Any delinquent Installment Payments pledged to the Subordinated Bonds shall be applied first to the Subordinated Bonds Interest Account for the immediate payment of interest payments past due and to the Subordinated Bonds Principal Account for immediate payment of principal payments past due on any Subordinated Bond. Any remaining money representing delinquent Subordinated Installment Payments pledged to Subordinated Bonds shall be deposited in the Subordinated Bonds Payment Fund to be applied in the manner provided therein.

On or before each date that any Commercial Paper Note matures, the Trustee shall transfer from the Subordinated Bonds Payment Fund to the Issuing and Paying Agent for deposit in the applicable Reimbursement Account that amount of money that equals the aggregate amount of interest or principal becoming due and payable on the Commercial Paper Notes to the extent that payment of such interest on or principal of the Commercial Paper Notes is not made from the proceeds of Commercial Paper Notes but is made from the proceeds of a Draw under the related Subordinated Credit Support Instrument. On or before each date any related Subordinated Credit Provider Reimbursement Obligations become due and

payable, the Trustee shall transfer from the Subordinated Bonds Payment Fund and deposit in the applicable Reimbursement Account that amount of money that, together with any amounts transferred pursuant to the preceding sentence, equals the amount of any such Subordinated Credit Provider Reimbursement Obligations when due. See “APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Indenture.”

Issuance of Additional Bonds Under the Indenture

Pursuant to the Indenture, the Trustee must, upon Written Request of the Authority, by a supplement to this Indenture, establish one or more other series of Bonds secured by the pledge made under the Indenture equally and ratably with any Senior Bonds previously issued and delivered (if such Bonds are to be Senior Bonds) or equally and ratably with any Subordinated Bonds (if such Bonds are to be Subordinated Bonds), in such principal amount as shall be determined by the Authority, but only upon compliance with the provisions of the Indenture, the requirements of the Agreement applicable to the incurrence of Senior Obligations (if such Bonds are to be Senior Bonds) or Subordinated Obligations (if such Bonds are Subordinated Bonds) and any additional requirements set forth in the applicable Supplemental Indenture, which are conditions precedent to the execution and delivery of Additional Bonds:

- (1) No Event of Default will have occurred and be then continuing;
- (2) The Supplemental Indenture providing for the execution and delivery of such Additional Bonds must specify the purposes for which such Additional Bonds are then proposed to be delivered, which will be one or more of the following: (i) to provide moneys needed to provide for Project Costs by depositing into the Acquisition Fund the proceeds of such Additional Bonds to be so applied; (ii) to provide for the payment or redemption of Bonds then Outstanding under the Indenture, by depositing with the Trustee moneys and/or investments required for such purpose under the defeasance provisions set forth in the Indenture; or (iii) to provide moneys needed to refund or refinance all or part of any other current or future obligations of the City with respect to the funding of the Water System. Such Supplemental Indenture may, but is not be required to, provide for the payment of expenses incidental to such purposes, including the Costs of Issuance of such Additional Bonds, capitalized interest with respect thereto for any period authorized under the Code (in the case of Tax-Exempt Bonds) and, in the case of any Additional Bonds intended to provide for the payment or redemption of existing Bonds, or other Obligations of the City, expenses incident to calling, redeeming, paying or otherwise discharging the Obligations to be paid with the proceeds of the Additional Bonds
- (3) The Supplemental Indenture providing for the execution and delivery of such Additional Bonds must state whether such Additional Bonds shall be Senior Bonds or Subordinated Bonds.
- (4) If such Additional Bonds are Subordinated Bonds, the Supplemental Indenture must specify whether such Additional Bonds will be secured by the Common Subordinated Bonds Reserve Fund, a Separate Subordinated Bonds Reserve Bonds or no reserve fund.
- (5) The Additional Bonds must be payable as to principal and interest on such dates as will be provided for in the Supplemental Indenture, except that the first interest payment due with respect thereto may be for a period of not longer than twelve (12) months.
- (6) If such Additional Bonds are Senior Bonds, the Authority must deliver or cause to be delivered to the Trustee, from the proceeds of such Additional Bonds or from any other lawfully available source of moneys, an amount (or a Surety Bond in an amount) sufficient to increase the balance in the Reserve Fund to the Reserve Fund Requirement
- (7) If such Additional Bonds are Common Subordinated Reserve Fund Bonds, the Authority must deliver or cause to be delivered by the Trustee, from the proceeds of such Additional

Bonds or from any other lawfully available source of moneys, an amount sufficient to increase the balance of the Common Subordinated Bonds Reserve Fund to the Common Subordinated Bonds Reserve Fund Requirement.

(8) If such Additional Bonds are Subordinated Bonds to be secured by a Separate Subordinated Bonds Reserve Fund, the Authority must deliver or cause to be delivered by the Trustee, from the proceeds of such Additional Bonds or from any other lawfully available source of moneys, an amount (or a Surety Bond in an amount) sufficient to increase the balance in such Separate Subordinated Bonds Reserve Fund to the Separate Subordinated Bonds Reserve Fund for such Series of Subordinated Bonds.

(9) The Additional Bonds must be payable as to principal on August 1 and as to interest on February 1 and August 1 of each year during their term, except that the first interest payment due with respect thereto may be for a period of not longer than twelve (12) months. Fixed serial maturities or mandatory sinking account payments, or any combination thereof, shall be established in amounts sufficient to provide for the retirement of all of the Additional Bonds of such Series on or before their respective maturity dates.

(10) The aggregate principal amount of Bonds and Additional Bonds executed and delivered under the Indenture may not exceed any limitation imposed by law or by any Supplemental Indenture.

(11) The Trustee must be the Trustee for the Additional Bonds.

Nothing in the Indenture will limit in any way the power and authority of the Authority to incur other obligations payable from other lawful sources.

The term “Additional Senior Bonds” means those Bonds authorized and issued pursuant to the Indenture and payable on parity with other Bonds having a first priority lien on Net System Revenues, including the 2020 Bonds. The term “Additional Subordinated Bonds” mean those Bonds authorized and issued pursuant to the Indenture on parity with the 2012A Subordinated Bonds, the 2016A Subordinated Bonds, the 2016B Subordinated Bonds and the 2018A Subordinated Bonds. See “APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Indenture – Additional Bonds – Execution and Delivery of Additional Bonds.”

No Debt Service Reserve Fund for the 2020 Bonds

No debt service reserve fund will be created or funded to secure the 2020 Bonds. Debt service reserve funds were created in connection with the issuance of certain of the Authority’s Bonds and the incurrence of certain of the City’s Obligations, and amounts on deposit in, or to be on deposit in, such debt service reserve funds are not available to secure the 2020 Bonds.

DEBT SERVICE SCHEDULE

The following table sets forth the amounts required in each Fiscal Year for the payment of principal of and interest on Outstanding Senior Obligations and Subordinated Obligations, including the expected issuance of the 2020 Bonds, secured by Net System Revenues. A portion of the proceeds of the 2020 Bonds will be used to pay in full the principal of certain Commercial Paper Notes.

(Unaudited)

Fiscal Year	Outstanding Senior Obligations Debt Service ⁽²⁾	2020 Bonds			Total Debt Service on Senior Obligations	Total Subordinated Obligations Debt Service ⁽³⁾	Total Debt Service
		Principal	Interest	Total Principal and Interest			
	\$	-	\$	\$	\$	\$	\$
		\$					

Total⁽⁴⁾:	\$	\$	\$	\$			\$
-----------------------------	-----------	-----------	-----------	-----------	--	--	-----------

- (1) Includes current debt service on Outstanding Obligations, except for debt service on the outstanding Commercial Paper Notes. Does not include the Equipment Leases (as herein defined), any future indebtedness under the Master Installment Purchase Agreement, the WIFIA Loan or any additional SRF loans. See “WATER SYSTEM FINANCIAL OPERATIONS – Outstanding Indebtedness” and “WATER SYSTEM FINANCIAL OPERATIONS – Anticipated Additional Obligations.” In addition, the schedule of debt service assumes that there is no redemption or prepayment of obligations prior to their scheduled maturity.
- (2) Debt service on the Senior SRF Loans.
- (3) Debt service on the 2012A Subordinated Bonds (to be refunded with proceeds of the 2020B Bonds), the 2016A Subordinated Bonds, the 2016B Subordinated Bonds and the 2018A Subordinated Bonds. Excludes principal of and interest on the Commercial Paper Notes; a portion of the proceeds of the 2020A Bonds will be used to pay a portion of the outstanding principal of the Commercial Paper Notes. Does not include the City’s borrowing of up to \$614 million pursuant to the WIFIA Loan Agreement as the City has not yet requested disbursements of amounts under the WIFIA Loan and no principal is outstanding under the WIFIA Loan.
- (4) Amounts have been rounded; total may not equal the sum of the components.

Source: Debt Management Department, City of San Diego.

WATER SYSTEM ORGANIZATION AND MANAGEMENT

Governance and Management of Water System

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

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

Johnnie Perkins Jr. Mr. Perkins serves as the Deputy Chief Operating Officer for Public Utilities, where he oversees the branch and the Department’s implementation of audit recommendations. He works closely with Department staff on these ongoing assessments and accompanying reforms. Mr. Perkins has over 28 years of experience in the public and private sector managing transportation, water, recycling and solid waste, land use, healthcare, capital projects, crisis management issues and financial management oversight. Prior to his appointment as Deputy Chief Operating Officer, Mr. Perkins served as the Deputy Director of the City’s Environmental Services Department. Mr. Perkins holds a Bachelor of Arts degree in Political Science from the University of California, Los Angeles.

Sauna Lorange. Ms. Lorange serves as the Director of the Department. Ms. Lorange’s responsibilities include the oversight of the operations of the Public Utilities Department, as well as continuous improvements and implementation of audit recommendations. Ms. Lorange has over 30 years’ experience in the water and wastewater fields, including 20 years as assistant and general manager at a California water district. She has a Bachelor of Science degree in Mechanical Engineering from the University of California at Davis, and is a Registered Professional Engineer in the State of California. She also holds a Special District Leadership Foundation Special District Administrator Certification.

*Matthew Vespi.** Mr. Vespi serves as the Executive Assistant Director of the Department. Mr. Vespi’s duties include oversight of the day-to-day operations of the Department’s Customer Support Division, and general oversight over all other areas of the Department. Mr. Vespi has served as the City Department of Finance’s Assistant Director and as Interim Director of the Financial Management and Risk Management Departments. Mr. Vespi earned a Bachelor of Science degree in Business Administration and a Master of Business Administration from the University of Central Florida.

*Juan Guerreiro.** Mr. Guerreiro serves as the Assistant Director of the Distribution and Collections Branch overseeing the Water Construction & Maintenance Division, and Wastewater Collections Division. He has over 15 years of experience throughout the San Diego region in water and wastewater operations, maintenance, management, and training. He started with the City of San Diego in 2016 as an Assistant Deputy Director and later that year promoted to Deputy Director for the Wastewater Treatment & Disposal Division. Mr. Guerreiro has a Dual-Associate in Science degree from Cuyamaca College in Water and Wastewater Treatment Operations, a Bachelor of Arts degree from San Diego State

* Mr. Vespi is becoming the Director of Finance of the City. He is expected to remain in his position with the Department through April 15, 2020. Mr. Guerreiro has been named his interim successor.

University in Public Administration, and a Master of Science degree from the University of Oxford in Water Science, Policy and Management.

Lisa Celaya. Ms. Celaya serves as the Assistant Director of the Business Support Branch. Ms. Celaya's duties include oversight of the day-to-day operations of the Finance, Employee Services and Quality Assurance, and Innovation and Technology Divisions. Her 20-year professional background in financial and administrative function includes process review and improvements, utility rate setting, budget development and financial forecasting. Ms. Celaya holds a Bachelor of Science degree in Business Administration – Accounting and a Master of Arts degree in Public Administration.

John Stufflebean. Mr. Stufflebean serves as the Assistant Director of Pure Water and Technical Services. His duties include oversight of the Pure Water Division and the Environmental Monitoring and Technical Services Division. He has over 35 years of experience in local government, mainly in water and wastewater related positions. His career has included serving as the director of environmental services for the cities of Sunnyvale and San Jose, California, where he oversaw services including wastewater collection and treatment, watershed protection, waste management, environmental policy, and the business administration of the utilities. Mr. Stufflebean holds a Bachelor of Science degree in Civil Engineering from Colorado State University, a Masters in Sanitary Engineering from the University of Arizona, and a Masters degree in Public Administration from the University of Missouri-Kansas City.

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

Water Utility Customer Billing Operations, Internal Audits, and Other Related Matters

In response to some customers reporting higher than average water bills in late 2017, Department operations were closely scrutinized. In July 2018, the City Auditor released an audit on Department billing issues that found less than 1% of bills required corrections for incorrect billings, but that the Department could have more proactively communicated factors that might impact upcoming bills to customers. Additionally, in 2018 and 2019, the Department underwent a thorough internal review of operations, which led to several management changes, structural changes in the department to better align reporting responsibilities with actual work performed, and the creation of the Executive Assistant Director position described under “Officers.” Additionally, the Departments Customer Support functions were moved directly under the new Executive Assistant Director position.

While audits and assessments revealed areas where Department operations could be improved, they revealed no deficiencies in the Department's delivery of clean and safe water, and direct impacts of changes to management and organizational structure have not resulted in a material adverse impact on the Department's budget, Net System Revenues, rates or finances.

WATER SYSTEM SERVICE AREA, CUSTOMERS AND FACILITIES

Water System Service Area

The Water System serves the City and the cities of Del Mar, Coronado and Imperial Beach, providing water to retail, wholesale, and recycled water customers. The Water System's service area covers 404 square miles, including 325 square miles of the City, and a population of approximately 1.4

million people as of January 1, 2019. The map that follows the Table of Contents of this Official Statement shows the boundaries of the service area of the Water System.

The following table sets forth the volume of water deliveries made by the Department to its retail and wholesale customers for Fiscal Years 2015 through 2019. Potable water includes local water and purchased water. See “WATER SUPPLY”.

TABLE 2
WATER DELIVERIES
Fiscal Years 2015 through 2019
(In AF; Unaudited)

Delivery Type	2015	2016	2017	2018	2019
Potable Water	196,457	168,864	177,625	186,039	173,310
Recycled/Untreated Water	11,526	9,332	10,258	12,066	10,693
Total Water Deliveries	207,983	178,196	187,883	198,105	184,003

Source: Public Utilities Department, City of San Diego.

Retail Customer Base. The City has five types of potable retail customer groups, consisting of Single Family Residential (“SFR”), Multi-Family Residential (“MFR”), Non-Residential, Irrigation, and Temporary Construction. For Fiscal Year 2019, retail customers accounted for approximately 94% of total potable water deliveries and represented approximately 96% of the revenues from total water sales with the balance being provided to wholesale customers. Of the Water System’s roughly 282,000 retail service connections, approximately 91% are SFR and MFR accounts, which comprised approximately 59% of total water sales revenue in Fiscal Year 2019.

Single Family Residential. SFR refers to individual dwelling units served by a separate meter, and accounted for approximately 39% of total water sales revenues in Fiscal Year 2019.

Multi-Family Residential. MFR encompasses multi-family dwellings such as apartment or condominium complexes, in which two or more dwelling units share a meter, and accounted for approximately 20% of total water sales revenues in Fiscal Year 2019.

Non-Residential. Non-Residential users are comprised of a diverse group of customers and accounted for 24% of total water sales revenues in Fiscal Year 2019. These customers are treated equivalently in cost calculations and are assigned the same peaking factors. These customers also typically have lower peaking factors than residential customers due to their relatively consistent usage trend.

Irrigation. Irrigation customers consist of SFR, MFR, and Non-Residential accounts that are used solely for irrigation. These customers use water primarily to irrigate personal or business landscaping. This diverse group of customers accounted for 11% of total water sales revenue for Fiscal Year 2019.

Temporary Construction. Temporary construction refers to meters that are placed on fire hydrants during construction in order to provide water to the construction site until the installation of a permanent meter. Costs for these customers are usually higher than the average customer because of additional administrative costs associated with transient meters. This group of customers generated approximately 0.5% of total water sales revenue for Fiscal Year 2019.

Irrigation and Temporary Construction customers typically have high peak demands characterized by relatively large amounts of water used in short periods of time when compared to average usage. Peak usage is more costly to deliver than constant usage.

The following table sets forth the historical number of retail metered connections to the Water System for each year from Fiscal Years 2015 through 2019.

TABLE 3
HISTORICAL NUMBER OF RETAIL METERED CONNECTIONS TO WATER SYSTEM
Fiscal Years 2015 through 2019
(Unaudited)

Customer Type	2015	2016	2017	2018	2019
Single Family Residential	223,629	224,354	224,861	225,158	225,597
Multi-Family Residential	30,202	30,313	30,364	30,406	30,458
Non-Residential ⁽¹⁾	17,069	17,056	17,075	17,091	17,134
Irrigation	8,262	7,741	7,787	7,816	7,838
Recycled Water	617	683	706	718	748
Temporary Construction	463	505	551	552	531
Total	280,242	280,652	281,344	281,741	282,306
Percent Growth		0.15%	0.25%	0.14%	0.20%

⁽¹⁾ "Non-Residential" consists of customers previously categorized as Commercial, Industrial or Outside City.
Source: Public Utilities Department, City of San Diego

The following table sets forth the 10 major retail customers of the Water System for Fiscal Year 2019. These customers provided approximately 10.7% of the total sales revenues for such Fiscal Year.

TABLE 4
MAJOR RETAIL CUSTOMERS
Fiscal Year 2019
(Unaudited)

Customers	Millions of Cubic Feet	Billings	% of Total Sales Revenues
City of San Diego	375.80	\$22,671,745	4.31%
United States Navy	139.78	8,341,120	1.59
San Diego Family Housing LLC	75.08	5,292,397	1.01
University of California San Diego	85.82	5,196,661	0.99
San Diego Unified School District	44.18	3,435,160	0.65
Other Federal Agencies ⁽¹⁾	48.29	2,529,904	0.48
The Irvine Company	39.72	2,675,066	0.51
California Department of Transportation	39.97	2,384,100	0.45
CP Kelco	38.22	2,233,703	0.42
San Diego Zoo	<u>26.56</u>	<u>1,570,156</u>	<u>0.30</u>
Total ⁽²⁾	913.42	\$56,330,012	10.71%

⁽¹⁾ Excludes the United States Navy.

⁽²⁾ Figures may not add to total due to independent rounding.

Source: Public Utilities Department, City of San Diego.

Wholesale Treated Water Customer Base. The City currently sells and delivers potable water on a wholesale basis to the California-American Water Company (“Cal-American”) and the Otay Water District (the “OWD”). The City also treats and delivers potable water to the City of Del Mar (“Del Mar”). Del Mar initially purchases untreated water directly from CWA, which water is delivered for the benefit of Del Mar to the City’s Miramar Water Treatment Plant. Del Mar then pays its apportioned expenses to the Department for treating and pumping the water to Del Mar’s connection. As a result, deliveries to Del Mar are included in the total deliveries of potable water by the City, but are not considered to be a component of total water sales. Deliveries to Del Mar totaled 961 AF in Fiscal Year 2019. For Fiscal Year 2019, wholesale treated water customers accounted for approximately 5.3% of total water deliveries and represented approximately 3.6% of the revenues from total water sales.

Recycled Water Customer Base. Recycled water (also referred to as reclaimed water) is produced from wastewater processed at water reclamation plants owned and operated by the City as part of the City’s Wastewater System. The City has three recycled wholesale customers, OWD, the Olivenhain Municipal Water District and the City of Poway. The City has 753 (748 retail and 5 wholesale) metered Recycled Water System connections. For Fiscal Year 2019, retail and wholesale recycled water customers accounted for approximately 2.7% of the revenues from total sales of water.

Existing Water System Facilities

In order to serve its 404 square mile service area, the Water System maintains nine raw water storage reservoirs, three water treatment plants, 29 treated water storage facilities, and approximately 3,300 miles of water transmission and distribution lines. Water is transported from the treatment plants through the transmission and distribution system to supply approximately 282,000 metered service connections. The Water System consists of approximately 130 different pressure zones, which may be gravity supplied, pressure reduced (via 384 pressure regulating stations), or pressure boosted (via 49 water-pumping stations).

Raw Water Reservoirs. The City has nine reservoirs with a total capacity of 569,021 acre feet (“AF”), of which, the City has rights to 373,260 AF of total storage (with 192,979 AF of capacity belonging to CWA and other local water agencies). As of June 30, 2019, the City had 186,154 AF of water in storage, or 50% of total City storage capacity. The following table outlines each of the nine reservoirs’ total capacity, City owned capacity, and current City storage. See “Reservoir Storage Rights” immediately following this table. The City is cooperating with CWA on the Emergency Storage Project, pursuant to which a system of reservoirs, interconnected pipelines and pumping stations is being created to improve the availability of water to the San Diego region in the event of an interruption in imported water deliveries. Currently, the pipelines that carry imported water for CWA, a portion of which is purchased by the Department, extend for hundreds of miles and cross several major fault lines along the region. A severe earthquake, drought or other significant disaster could cut off the City’s imported water supply for up to six months. See “FACTORS AFFECTING THE DEPARTMENT AND THE WATER UTILITY INDUSTRY – Dam Licensing and Safety Issues”

TABLE 5
RAW WATER RESERVOIRS
(As of June 30, 2019)
(Amounts in AF)

Reservoir	Total Storage Capacity (A)	City Storage Capacity (B)	Current City Storage Levels (C)	Current City Storage Levels to City Storage Capacity (C/B)
Barrett	34,806	34,806	17,448	50%
El Capitan ⁽¹⁾	112,807	102,807	39,075	38
Lake Hodges ⁽¹⁾	30,633	5,317	2,179	41
Lake Murray	4,684	4,684	3,951	84
Lower Otay ⁽²⁾	49,849	47,067	37,972	81
Miramar	6,682	6,682	5,424	81
Morena	50,694	50,694	5,207	10
San Vicente ⁽¹⁾	249,358	91,695	68,522	75
Sutherland	29,508	29,508	6,376	22
Total	569,021⁽³⁾	373,260	186,154	50%

(1) The El Capitan, Lake Hodges, and San Vicente Reservoirs have shared storage rights with other Agencies and Water Districts.

(2) Lower Otay Reservoir has operational flood gates at the 47,067 AF spillway level that could be closed to capture an additional 2,782 AF in an auxiliary spillway basin if decided upon for operational purposes.

(3) Figure includes approximately 2% - 5% of total amount of water in storage that is inaccessible due to reservoir outlets being abandoned, blind flagged, or silted.

Source: Public Utilities Department, City of San Diego.

City Council policy requires the City have approximately 7.2 months of the annual (rolling 12 months) requirement of the City’s demand available in primary water storage facilities. This water is to be used during emergencies, in the event of substantial disruption or interruption of imported water service. The City has maintained, and continues to maintain, amounts at or above the requirement. For Fiscal Year 2020 the requirement ranges from approximately 100,000 to 123,000 AF.

Reservoir Storage Rights. The City has executed agreements with various water districts and the CWA to provide for storage capacity rights at the El Capitan Reservoir, Lake Hodges Reservoir, and the San Vicente Reservoir. Helix Water District has storage capacity rights of up to 10,000 AF of water in El Capitan Reservoir. CWA has storage capacity rights of up to 20,000 AF in Lake Hodges Reservoir and nearly 158,000 AF in San Vicente Reservoir due to CWA’s Emergency Storage Project (“ESP”); CWA

fully funded and built various facilities and infrastructure in order to raise the height of the City’s San Vicente Dam and increase the reservoir’s storage capacity. In addition, the Santa Fe Irrigation District and the San Dieguito Water District (“SFSD Districts”) have combined total storage capacity rights of approximately 5,300 AF in Lake Hodges Reservoir. See “FACTORS AFFECTING THE DEPARTMENT AND THE WATER UTILITY INDUSTRY – Dam Licensing and Safety Issues.”

Water Treatment Plants. The Department maintains and operates three water treatment plants, Alvarado Water Treatment Plant, Miramar Water Treatment Plant and Otay Water Treatment Plant, with a combined rated capacity of 378 million gallons per day (“mgd”) through which potable water is supplied. Supplemental treated supplies from CWA are used to help operate the distribution system reliably and efficiently. Of the total of approximately 152,300 AF of water purchased from CWA during Fiscal Year 2019, approximately 21,300 AF was treated water.

The following table summarizes the capacity and demands of the three Water Treatment Plants.

TABLE 6
CAPACITY AND DEMAND OF WATER SYSTEM WATER TREATMENT PLANTS
(In mgd)
As of June 30, 2019

Water Treatment Plant	Current Rated Capacity	Future Rated Capacity⁽¹⁾	Current Average Demand⁽²⁾	Current Peak/Max Demand⁽²⁾
Alvarado	200	200	71.04	104.26
Miramar	144	215	51.74	83.06
Otay	34	40	13.08	24.47
Total	378	455	135.86	211.79⁽³⁾

(1) The Otay and Miramar plants require additional improvements, and/or further studies, followed by approval by the State Department of Drinking Water to reach their Future Rated Capacity. Additional improvements include the \$38 million Miramar Clearwell Project expected to be complete by Fiscal Year 2021.

(2) Current Demand data calculated for Fiscal Year 2019.

(3) Total is not intended to reflect the aggregate peak/maximum demand supported by all water treatment plants, because such plants do not all reach the peak/maximum demand simultaneously.

Source: Public Utilities Department, City of San Diego.

Treated Water Storage Facilities. The Department maintains and operates 29 treated water storage facilities, including steel tanks, standpipes, concrete tanks, and rectangular concrete reservoirs. These water storage facilities are used to regulate system pressure, provide peaking and emergency supply, and provide level control of pump stations. Capacities vary for these facilities from less than 0.5 million gallons to 35 million gallons and in the aggregate hold a daily total of approximately 280 million gallons, which represents 1.2 to 2.2 days depending on daily demand.

Delivery System. The Water System consists of approximately 3,300 miles of transmission and distribution pipelines, including transmission lines up to 84 inches in diameter and distribution lines as small as four inches in diameter. Transmission lines are pipelines with larger diameters that convey raw water to the water treatment plants and convey treated water from the water treatment plants to the treated water storage facilities. Distribution lines are pipelines with smaller diameters that directly service the retail users connected to a meter. The Department also maintains and operates 49 water pump stations that deliver treated water from the water treatment plants to over 282,000 metered service connections in approximately 130 different pressure zones. In addition, the Department maintains several emergency connections to and from neighboring water agencies, including the Santa Fe Irrigation District, the Poway Municipal Water District, Cal-American, the Sweetwater Authority and the OWD.

Utility Costs

The Water System is supplied with gas and electricity by San Diego Gas & Electric Company (“SDG&E”). Based on the Fiscal Year 2020 Adopted Budget, such expenditures are budgeted at approximately \$7.0 million, or 1.6% of the total operating budget.

WATER SUPPLY

Sources of Water Supply

The Water System typically receives approximately 85-90% of its potable water supply from water purchased from CWA; and 10-15% from rainfall or runoff captured in its nine impounding reservoirs, groundwater. The CWA purchases water from MWD and has entered into various contracts to diversify its water supply.

The following table reflects the total water sources of supply used for delivery of potable water to the City for Fiscal Years 2015 through 2019.

TABLE 7
WATER SUPPLIES USED FOR DELIVERY OF POTABLE WATER
Fiscal Years 2015 through 2019
(In AF; Unaudited)

Fiscal Year	Local Water	CWA Water	Total
2015	10,524	192,553	203,077
2016	20,117	155,460	175,577
2017	22,792	162,401	185,193
2018	32,626	156,075	188,701
2019	28,656	152,322	180,978

Source: Public Utilities Department, City of San Diego

Certain Information Regarding the San Diego County Water Authority and Metropolitan Water District of Southern California

CWA/MWD Information Disclaimer

From time to time, CWA and MWD provide information (“CWA/MWD Information”) about their financial and operating conditions to the public. This information often includes information concerning, among other things, the recent developments with respect to CWA and MWD, operating revenues and expenses (historical and projected), debt service, water supply, conservation measures, water delivery systems and capital investment plans. CWA/MWD Information can be found on the website of the Municipal Securities Rulemaking Board (“MSRB”) through the EMMA System, including offering documents related to securities of CWA or MWD or for which CWA or MWD, as the case may be, is an obligated person for the purposes of SEC Rule 15c2-12. CWA and MWD have indicated that each, as the case may be, has entered into certain continuing disclosure undertakings pursuant to which it is required to file certain annual financial and operating information and notices of certain enumerated events with the MSRB through the EMMA System. CWA/MWD Information, including information contained in the aforementioned offering documents and continuing disclosure reports, and any other information contained on the website of the MSRB is not incorporated by reference into this Official Statement. The City undertakes no responsibility for and makes no representation as to the accuracy or completeness of (i) any CWA/MWD Information or (ii) any material contained on the website of the MSRB, including, but not limited to, updated information on the website of the MSRB or links to other

Internet sites accessed through the website of the MSRB. Such information is not guaranteed by the City as to its accuracy or completeness and no representation is made as to the sufficiency of such information for all purposes or the absence of material adverse changes in such information subsequent to the date of the respective publicly available source document. Neither CWA nor MWD has entered into any contractual commitment with the City or the owner of the Bonds to provide information with respect to CWA to the City or the owner of the 2020 Bonds. Neither CWA or MWD has reviewed this Official Statement and neither of CWA or MWD has made not representations or warranties with respect to the accuracy or completeness of the information contained or incorporated in this Official Statement, including information regarding CWA or MWD.

San Diego County Water Authority

The Department relies on water purchased from CWA to meet its current water supply requirements. According to CWA, CWA currently acquires the majority of its water from three main sources: (i) desalinated water, (ii) independent water purchases and (iii) MWD. According to MWD, MWD obtains its water from the Colorado River through the United States Bureau of Reclamation and from northern California via the State Water Project (the “SWP”), through the California Department of Water Resources (“DWR”).

According to publically available information published by CWA:

In Fiscal Year 2019, (i) CWA member agencies’ combined imported and local water use totaled 463,329 AF; (ii) imported supplies accounted for 365,083 AF or 79% of the total water used, excluding estimated water savings from conservation programs; and (iii) approximately 339,527 acre-feet or 93% of imported water supplies was used for municipal and industrial needs, with the balance going to meet agricultural demands.

CWA has sued MWD in various related cases, mainly pertaining to alleged rate overcharges by MWD. CWA has been paying the disputed MWD rates over the years, so the cases generally relate to potential damages to be awarded to CWA, not additional new payments or damages to MWD.

See the CWA/MWD Information for additional information regarding CWA.

The Metropolitan Water District of Southern California

MWD was created in 1928 to provide wholesale imported water to its member agencies.

According to publically available information published by MWD:

MWD sources portions of water from legal entitlements to receive water from the Colorado River by means of the Colorado River Aqueduct (“CRA”) and from legal entitlements to receive water from the Feather River by means of the Sacramento-San Joaquin Delta and the California Aqueduct through SWP and MWD’s State Water Contract (as amended, the “State Water Contract”) with DWR.

MWD also has a number of water transfer and storage and exchange programs with state, federal, public and private water districts and individuals in order to augment its imported water supplies.

In addition to making its imported water supplies available for annual consumptive uses, MWD also purchases and stores excess imported water in wet years for use in dry years.

Historically, CWA has been the largest purchaser of water from MWD, however this is evolving as CWA and its member agencies develop proprietary water supplies.

CWA has a statutory preferential right to approximately 24.79% of MWD’s total supply as of June 30, 2019.

For a discussion of certain risk factors related to the foregoing, see “FACTORS AFFECTING THE DEPARTMENT AND THE WATER UTILITY INDUSTRY” and “RISK FACTORS.”

CWA Wholesale Water Rates

CWA charges a volumetric rate that includes both a commodity rate and a transportation rate, both of which have been increasing, as indicated in the table below. Historically, on average, approximately 85% of the City’s potable water deliveries were provided from purchases of water via CWA. The following table describes the cost to purchase treated and untreated water per AF from CWA, as well as the cost to transport the purchased water. Of the total amount of water purchased from CWA during Fiscal Year 2019, approximately 130,900 AF was untreated water, and 21,300 was treated water. Over the last five calendar years, the combined rate of untreated water and transportation from CWA has increased approximately 19.4%.

TABLE 8
CWA WATER SUPPLY RATES⁽¹⁾
for Calendar Years 2016 through 2020

Calendar Year	Municipal & Industrial (M&I) Rates		Transportation Rate per AF
	Untreated Rate per AF	Treated Rate per AF	
2016	\$780	\$1,060	\$105
2017	855	1,145	110
2018	894	1,194	115
2019	909	1,185	120
2020	925	1,205	132

⁽¹⁾ Rates shown are for volumetric charges only and do not include the additional fixed charges displayed in the following table.
Source: San Diego County Water Authority Board Meeting Documents.

In addition to the volumetric charges the City pays for imported water, both CWA and MWD also levy fixed charges on their member agencies. CWA assesses fixed charges to maintain their system capacity and infrastructure, and fixed charges are allocated to member agencies based on either their historical share of delivered water or their number of retail water meters. MWD assesses fixed charges to CWA, and CWA passes through these MWD charges to member agencies based on historical averages of delivered water sourced from MWD. The following table provides the fixed charges allocated to the City by CWA between calendar years 2016 and 2020. Because some of the fixed charges are based on a Fiscal Year basis, while other fixed charges and commodity charges are based on Calendar Year, total water purchase costs for Fiscal Year 2019 are calculated using a combination of Calendar Year 2018 and 2019 fixed supply rates in Table 9 and commodity (water supply) rates in Table 8. As shown in Table 16, in Fiscal Year 2019, the total Cost of Purchased Water Used was \$235.9 million (with \$72.8 million of the cost for fixed charges; \$160.7 million for commodity charges; and \$2.4 million for In Lieu Tax payment.) Cost of Purchased Water was approximately 49% of the total Water Utility Fund’s Operating Expenses in Fiscal Year 2019.

TABLE 9
MWD AND CWA FIXED WATER SUPPLY COSTS
Calendar Years 2016 through 2020
(\$ Amounts in Thousands)

Calendar Year	2016	2017	2018	2019	2020
MWD Fixed Charges					
Capacity Reservation Charges	\$ 4,338	\$ 3,058	\$ 3,330	\$ 2,759	\$ 2,744
Readiness-to-Serve Charge ⁽¹⁾	9,346	7,910	6,965	6,384	5,515
CWA Fixed Charges					
Customer Service	9,781	9,867	9,928	9,952	9,810
Storage Charge	25,768	26,704	26,714	27,456	27,045
Infrastructure Access Charge ⁽²⁾	13,173	13,764	14,147	14,190	17,297
Supply Reliability Charge ⁽³⁾	10,798	10,313	11,808	12,516	15,425
In Lieu Tax Payment ⁽¹⁾	2,000	2,096	2,238	2,386	2,504
Total Fixed Charges Paid	\$ 75,204	\$ 73,712	\$ 75,130	\$ 75,643	\$ 80,340

(1) Fiscal Year charge; all other charges based on Calendar Year.

(2) A policy decision was made by CWA to cash fund their entire replacement capital improvements over the next five years or more. The Infrastructure Access Charge policy states that its goal is to bridge the gap from other non-rate revenues to 25% of fixed costs, including paygo necessitating the larger than typical increase. CWA is projecting a similar increase for 2021 than a leveling off starting in 2022.

(3) The Supply Reliability Charge is a fixed charge introduced in FY 2016 in response to CWA's desire to collect more of their charges as fixed charges, because they have substantial "Take or Pay" contracts for the considerably more expensive desalinated water and Quantification Settlement Agreement ("QSA") supplies with the Imperial Irrigation District ("IID"). The large increase in Fiscal Year 2020 reflects an additional 30,000 AF of the IID transfer water used in the calculation of the Supply Reliability Charge.

Source: San Diego County Water Authority Board Meeting Documents and Public Utilities Department, City of San Diego.

Local supply and storage programs. Both MWD and CWA have encouraged the development of additional water supply projects such as water recycling and groundwater projects by their member agencies. MWD offers incentives of up to \$340 per AF for up to 25 years for recycled water and desalinated groundwater and seawater produced and beneficially reused within MWD's service territory through its Local Resources Program. CWA provides similar incentives through its Local Water Supply Development Program. The purpose of the Local Resources and Local Water Supply Development Programs is to promote the development of cost-effective local supply projects that prevent or reduce the demand for imported water and improve regional water supply reliability. These two programs reimburse member agencies for all or a portion of the difference between the actual per AF cost of producing local supplies, and the revenue generated by the participant through the sale of that AF of recycled water. The City's existing water recycling projects receive incentives from both MWD and CWA programs with contract terms expiring in 2023. CWA stopped accepting new applications for the Local Water Supply Development Program in 2009.

MWD's Local Resources Program incentive continues to be an attractive option for future water supply projects such as the City's Pure Water Program, which is intended to reduce the Department's dependence on CWA water supplies. See "Pure Water Program." In December 2017, the City submitted an application for MWD's Local Resources Program funding for the City's Pure Water Program Phase I project. In December 2019, the MWD Board approved the City's application for funding up to 33,600 AFY at a rate of \$340 per AF for 25 years, or up to \$11,424,000 per year once Phase I is in full production.

Local Water

The vast majority of the City's local water comes from the rainfall that is captured as run-off via the watersheds of its nine impounding reservoirs. Although the City has several groundwater basins

within its jurisdiction, the groundwater from these basins is predominantly brackish. Improved technologies for processing brackish groundwater and severe drought have made using groundwater more attractive when discussing a foreseeable affordable water supply source. While the City is pursuing several groundwater projects, groundwater does not currently provide a significant source of water for the City. The City is assessing the development potential of its groundwater basins.

Recycled Water

The City has made significant capital investments in the recycled water program, which treats wastewater so that it can be used for purposes other than drinking water. Recycled water usage is seasonal and is primarily used for irrigation. Customers also use the water for dust suppression or soil compaction at construction sites, in cooling towers, ornamental fountains, and for office building toilet and urinal flushing (dual plumbing). To date, the Water Utility Fund has spent approximately \$112 million, net of grants, on recycled water distribution systems; and the Sewer Revenue Fund has spent approximately \$548 million, net of grants, on two water reclamation plants, the North City Water Reclamation Plant (the “North City Plant”) and the South Bay Water Reclamation Plant (the “South Bay Plant”), and related facilities. In Fiscal Year 2019, the North City Plant operated at an average flow rate of approximately 16.35 mgd, producing an average of 5.98 mgd of recycled water. In Fiscal Year 2019 the South Bay Plant operated at an average flow rate of approximately 6.4 mgd, producing an average of 2.4 mgd of recycled water. The City is significantly upgrading its use of recycled water through its Pure Water Program. See “–Pure Water Program.”

City Water Conservation Efforts

The Water Conservation Program was established by the City Council in 1985 and promotes permanent water savings. These savings have been achieved by creating a water conservation ethic, adopting programs, policies, and ordinances designed to promote water conservation practices, and implementing comprehensive public information and education campaigns.

The Department utilizes a broad range of conservation methods, including public outreach, rebate incentives, residential and commercial surveys, use restrictions and enforcement. Since the Governor’s mandate in 2015 during the height of the last multi-year drought; the City’s direction was to cut back 16% from its 2013 usage. The City has consistently met or exceeded the target since then, even though the restrictions have been lifted by the State. To achieve this goal, the City has instituted several conservation measures such as: offering rebates for installation of pressure reducing valves, grey water systems, rain barrels and turf conversion projects. The Department also encourages customers to participate in regional rebate programs to utilize non-city funding while achieving additional conservation. Water Conservation efforts also include free residential and commercial surveys. The surveys are offered to City water customers and provide an in-depth assessment of the customer’s water fixtures and usage throughout the property.

The Department works closely with the City’s Planning and Development Services Departments to incorporate water conservation requirements into the City’s planning and permitting processes in order for new communities and properties to have water-efficient landscapes. Changes in water conservation technologies may require periodic reassessment of long-range plans and water conservation programs to ensure that savings are realized.

City Planning and Resource Management

The City has developed and continues to develop strategic plans for the Water System to address water supplies and future demand.

2012 Long-Range Plan. A principal planning document is the City’s 2012 Long-Range Water Resources Plan (“2012 Long-Range Plan”), completed in December 2013. It is a high-level strategy document that was created to provide information to decision-makers regarding the tradeoffs of future

water resource investments, with a long-range viewpoint through the year 2035 planning horizon. It presented a strategic vision for water supply, identified a number of short-term and long-term actions to reduce reliance on imported water and improve supply reliability for the City. The plan recommended that the City implement potable reuse as a long-term strategy for maximizing local supply – this ultimately led the City to pursue the Pure Water Program. See “– Pure Water Program” for additional information.

Urban Water Management Plan. The Department is required by the Urban Water Management Planning Act, California Water Code Sections 10610 through 10657, to prepare and adopt an Urban Water Management Plan (“UWMP”) every five years. These plans support the suppliers’ long-term resource planning to ensure that adequate water supplies are available to meet existing and future water needs over a 20-year planning time frame. The plans describe and evaluate sources of supply, reasonable and practical efficient uses, reclamation, and demand management activities. Within UWMPs, urban water suppliers must assess the reliability of water sources over a 20-year planning time frame, describe demand management measures and water shortage contingency plans. In addition, the UWMP will act as the Department’s Long Range Strategic Planning document, because it incorporates much of information that went into the Strategic Plan and it is updated more frequently. The 2015 Urban Water Management Plan (“2015 UWMP”) was the last UWMP adopted by the City Council on June 20, 2016.

In preparation for the City’s 2020 Urban Water Management Plan (the “2020 UWMP”), the Department is coordinating with CWA for consistency of data and receiving regional supply options. The 2020 UWMP will assess current demands; supplies over a 20-year planning horizon; and details contingency plans and drought response actions for various drought scenarios. A draft of the 2020 UWMP is anticipated to be completed in June 2021.

Projected Future City Water Demand

When compared with the long-range demand projections published in the City’s 2015 UMWP; the Department is assuming lower near-term potable water demand of 179,600 – 181,300 AFY based on observed sustained conservation efforts and response to drought in the cost of service (“COS”) study (a “COS Study”) (which is currently being prepared) for Fiscal Years 2021-2025. See “WATER SYSTEM FINANCIAL OPERATIONS – Rate Setting” and “– Financial Projections and Modeling Assumptions” for more information. There can be no assurance that the local demand for the services provided by the Water System will be maintained at these levels. See “RISK FACTORS – Water System Demand.”

Pure Water Program

General. The City is engaged in a phased multi-year water reuse program titled the “Pure Water Program” to develop treatment, storage, and conveyance facilities in order to provide a safe, secure, and sustainable local drinking water supply for the City. Advanced water purification technology will be used to produce potable water from recycled water already treated to Title 22 specifications under the California Code.

The Pure Water Program represents a significant capital improvement program of the City’s Water System and Wastewater System that is expected, upon full implementation by the end of calendar year 2035, to create at least 83 mgd capacity of locally controlled water. The program is contemplated to occur in multiple phases.

The Pure Water Program is also expected to reduce flows into the Point Loma Wastewater Treatment Plant (“Point Loma Plant”), which would reduce total suspended solids discharged and recycle a valuable and limited resource that is currently discharged to the Pacific Ocean. The City was granted a renewed modified National Pollutant Discharge Elimination System (“NPDES”) permit from the EPA and San Diego Regional Water Quality Control Board in 2017 for the Point Loma Plant and a waiver from secondary treatment due in part to the progress of the Pure Water Program, which significantly reduces potential compliance costs to ratepayers of the City’s Wastewater System (these are also Water System ratepayers).

Pure Water Program – Phase 1. The Phase 1 projects will be constructed in the North City Area of the City and are expected to produce up to 30 mgd of purified drinking water. Projects include: (1) the North City Plant Expansion and Influent Conveyance; (2) the new North City Advanced Water Purification Facility which will treat the tertiary-treated water to purified water standards; (3) a new 30-mgd North City Pure Water Program Pump Station, which will convey the purified water to the Miramar Reservoir; (4) a new 8-mile North City Pure Water Program Pipeline at the end of which the purified water will blend with the City’s other water supplies and be treated at the adjacent Miramar Water Treatment Plant and distributed to customers; (5) the North City Morena Boulevard Pump Station and Pipeline, that will convey wastewater from the pump station to the North City Water Reclamation Plant for treatment; and (6) certain Miramar Water Treatment Plant and Miramar Reservoir Pump Station Improvements, which will continuously pump the raw water from the Miramar Reservoir to the Miramar Water Treatment Plant. The North City Plant Expansion and Influent Conveyance and the North City Morena Boulevard Pump Station are joint projects of the Water and Wastewater Systems and the costs are allocated to both Water and Wastewater Systems, see cost estimates below for methodology.

On November 15, 2018, the City Council voted to authorize the bid, award, and execution of construction contracts for Phase 1 of the Pure Water Program of up to \$1.08 billion, to establish a \$103 million contingency pool for Pure Water Program projects, to establish an Owner-Controlled Insurance Program (“OCIP”) for Pure Water Program projects, and to negotiate a Reservation of Rights Agreement with SDG&E that provides initial funding to SDG&E to begin design and relocation of existing gas and electrical facilities. See “LITIGATION – San Diego Gas and Electric (SDG&E) Reservation of Rights Agreement (Agreement).” Subsequently the local chapter of the Associated of General Contractors of America (“AGC”) filed a lawsuit disputing labor provisions in the construction contracts. City Council removed these provisions from the contracts in November 2019. In the midst of activities associated with litigation, the State of California adopted legislation that requires a project labor agreement (“PLA”) on all Pure Water construction contracts awarded on or after January 1, 2020. The City is now negotiating a PLA with the relevant trade and labor organizations and anticipates resuming the advertisement of Pure Water construction contracts in the second half of calendar year 2020. See “LITIGATION – AGC Litigation.”

The Phase 1 projects are expected to be substantially completed by February 2025 and, following a mandated ramp-up schedule, to produce 30 mgd of additional locally controlled water by August 2025. The Department has determined that costs for the program will be allocated between the Water Utility and Sewer Revenue Funds of the Water System and Wastewater System, respectively, in the following way: all capital and operational costs related to facilities for the conveyance of wastewater and the treatment of the wastewater through secondary treatment would be borne by the Sewer Revenue Fund (including its customers and regional partners); all capital and operational costs related to treatment and conveyance of process water post the secondary phase will be borne by the Water Utility Fund. Based on the cost allocation between the Water and Wastewater Systems, approximately \$831 million is allocated to the Water Utility Fund and approximately \$589 million is allocated to the Sewer Revenue Fund (including its customers and Participating Agencies, which are required to pay their respective share of the Metropolitan Sub-System maintenance and operation and capital improvement program costs, currently approximately 33% of these total costs). Between both Water and Wastewater Systems, these costs include contractual services for program management, treatment process optimization, environmental reports, and design and construction support services. CEQA and NEPA are complete for the North City Phase 1 Project. The Environmental Impact Report (“EIR”) was certified by the San Diego City Council on April 10, 2018. The Bureau of Reclamation issued the Record of Decision on the Final Environmental Impact Statement on November 1, 2018. However, there is a community group challenging the City’s EIR. See “LITIGATION – UCCF Litigation.”

The Phase 1 projects expected to be funded with various funding sources available to the City. See “WATER SYSTEM CAPITAL IMPROVEMENT PROGRAM – Description of Major Projects” and Table 11 under that heading.

Pure Water Program costs as described in this Official Statement are based upon the Department’s current estimates. See “RISK FACTORS – Pure Water Program.”

Future Pure Water Program Phases. The City has taken a phased approach to the Pure Water Program’s implementation, with full implementation expected by 2035. Phased implementation will allow the City to adapt to changing conditions, and in some cases, to update previous planning assumptions. The City continues to review and evaluate future phases of the Pure Water Program, including the methods to be employed to purify water and the locations of the purification facilities. The remaining 53 mgd of the total 83-mgd Pure Water Program goal were originally planned to be delivered by facilities located in the central and southern areas of the City. Master planning was originally performed in 2012 and is currently being revisited to account for changes in treatment technology, wastewater flows, water demands, and projections of both flows and demands. As part of the current Pure Water Program planning update, other alternatives, including the feasibility of producing all of the remaining 53 mgd in the Central Area (Phase 2), are being evaluated. Thus, the southern area facilities may or may not be utilized. The implementation of Phase 1 is not dependent on implementation of the future Pure Water Program phases.

Because the wastewater supplying the Phase 2 facilities is being generated from a sewer shed different than that supplying Phase 1, the regulating agencies require a new demonstration facility to be constructed and operated to prove that the processes can produce purified water that meets regulatory requirements. The City has begun planning activities for the design and construction of the Phase 2 demonstration facility. The Phase 2 demonstration facility is expected to begin operations in 2024.

WATER SYSTEM CAPITAL IMPROVEMENT PROGRAM

The Capital Improvement Program

The Water System CIP is established to address current and future system needs in a cost effective manner. The principal drivers of the Water System CIP are: improving infrastructure to reduce pipeline breaks and emergency repairs; improving process technology; expansion of the Water System to accommodate growth; compliance with the Federal Safe Drinking Water Act and the DDW Compliance Order; and implementation of the Pure Water Program.

Description of Major Projects

The Department has developed the Water System CIP to address current and future Water System needs. The current cost estimate of Water System CIP projects for the period from Fiscal Years 2020 through 2025, with inflation, is nearly \$2.0 billion, and the cost estimates are subject to change. The budget for each project and program is established and approved by the City Council and adjustments to such budgets require approval of the City Council. The Water System CIP is comprised of nine project categories. The following is a brief description of the Water System CIP by categories. The eight categories below that are not Pure Water Program projects are collectively referred to as the Water System’s “Baseline” CIP projects.

Pure Water Program. The Pure Water Program is the Department’s program to provide a safe, secure, and sustainable local drinking water supply for San Diego. Advanced water purification technology will be used to produce potable water from advanced primary treated water. See “WATER SUPPLY – Pure Water Program” for additional information on the Pure Water Program.

Transmission Pipelines. Transmission pipelines are designed to transport water from the major supply sources (water treatment plants, pump stations and potable reservoirs) to supply the distribution grid. The Water System CIP provides for the replacement of 16-inch and larger diameter water pipelines

at various locations throughout the City, which are in a deteriorated condition or have reached the end of their service life. The Department is also assessing its transmission pipelines and is scheduling the replacement of these pipelines based on the condition of existing facilities, system needs and available funds.

Distribution Pipelines. The Water System CIP includes the replacement of distribution water pipelines located throughout the City. Distribution pipelines are supplied by the transmission system and run throughout the City's street grid to supply the customer service connections. The Department plans the awarding of contracts for the replacement of 30 to 35 miles per fiscal year, which includes cast iron pipes mandated by the DDW Compliance Order and high priority asbestos cement pipes based on their higher risk of failure and degraded condition.

Water Storage Facilities. The Water System CIP includes projects that will replace and/or make improvements to the existing water outlet structures at Lower Otay and Morena reservoirs to comply with the California Department of Water Resources' Division of Safety of Dams seismic requirements as well as the construction of two new clearwells to increase the water storage capacity at the Miramar Water Treatment Plant.

Water Treatment Plants. The Water System CIP provides for upgrades and improvement of the treatment facilities at Alvarado, Miramar, and OWTP.

Pump Stations. The Water System CIP includes projects that will upgrade, rehabilitate and construct pump stations throughout the Water System to improve service reliability and the ability to accommodate current and future water demands.

SDG&E Relocation Advance. The City and SDG&E are currently in dispute over the costs of utility relocations in connection with the Pure Water Program. Absent and until a resolution is reached, to avoid project delays, the City has included projected costs to advance funding to SDG&E to relocate certain electricity transmission lines. See "LITIGATION – SDG&E Dispute."

Groundwater. The Water System CIP provides for investigation work related to legal, technical, regulatory, and water quality issues; and for the planning, design, and construction of groundwater facilities to increase the local water supply. The groundwater feasibility projects being explored by the City are in San Pasqual, Mission Valley, San Diego Formation and the Santee-El Monte.

Miscellaneous. Other CIP projects include the construction of an administrative building (Chollas Building), water security projects at reservoirs and dams; solar projects; pressure regulating station replacements; instrumentation and control upgrades at water facilities; and the Advanced Metering Infrastructure ("AMI") project, which is the Department's project to replace all existing meters with automated "Smart Meters" and its associated infrastructure.

The following table shows categories of projects with the estimated cost of expenditures contained in the Water System CIP for the period of Fiscal Years 2020 through 2025. Final Water System CIP project costs will be refined as the Water System CIP progresses. The budget for each project and program is established and approved by the City Council and adjustments to such budgets require approval of the City Council.

TABLE 10
SUMMARY OF PROJECTED WATER SYSTEM CIP PROJECTS⁽¹⁾⁽²⁾⁽³⁾
Fiscal Years 2020 through 2025
(\$ Amounts in Thousands)

Description	Estimated	Projected					FY 2020-2025
	2020	2021	2022	2023	2024	2025	Total ⁽⁴⁾
Pure Water Program ⁽⁵⁾	\$22,644	\$64,110	\$220,998	\$239,958	\$177,273	\$76,997	\$801,980
Transmission Pipelines	36,109	47,194	86,022	71,627	43,819	32,354	317,125
Pipelines	84,873	63,677	73,290	85,319	56,047	56,422	419,628
Storage Facilities ⁽⁶⁾	5,184	12,470	34,273	31,523	23,646	30,106	137,202
Water Treatment Plants	15,239	10,089	2,413	2,644	11,147	15,220	56,751
Pump Stations	7,332	4,512	3,584	6,653	13,874	6,540	42,495
SDG&E Relocation Advance ⁽⁷⁾	-	-	58,351	-	-	-	58,351
Groundwater Projects	336	367	4,320	3,772	77	113	8,985
Miscellaneous Projects ⁽⁸⁾	19,883	18,692	20,417	30,447	24,831	5,737	120,008
Total⁽⁴⁾	\$191,599	\$221,112	\$503,668	\$471,943	\$350,715	\$223,488	\$1,962,526

(1) Projections as of March 2020 for the Water System Baseline CIP (which represents the Water System CIP costs excluding the costs of the Pure Water Program) and for the Pure Water Program.

(2) Amounts reflect the aggregate costs of all Water System CIP projects required to satisfy the DDW Compliance Order as well as projects related thereto or necessary for the operation thereof. It is the Department's expectation that the final awarding of cast iron distribution line replacement will be completed by Calendar Year 2021, thus fulfilling the requirements of the compliance order. For Fiscal Years 2020 through 2025, approximately 3% of the Baseline CIP is mandated by the DDW.

(3) The projected amounts in Fiscal Years 2022 and onward reflect an annual inflation rate of 3.1% due to anticipated increases in construction costs over time and the expected execution of the Water System CIP.

(4) Figures may not add to total due to independent rounding.

(5) Projections are based on expected substantial completion of the Pure Water Program Phase 1 by the end of February 2025 and include only the portion of the Pure Water Program attributable to the Water System.

(6) Storage Facilities include treated and untreated water reservoirs.

(7) Funding for the SDG&E Relocation Advance in Fiscal Year 2022 will be provided by the unallocated Fund Balance. See "LITIGATION – SDG&E Dispute."

(8) Miscellaneous Projects include water security projects, solar projects, and the Advanced Metering Infrastructure project.

Source: Public Utilities Department, City of San Diego.

Capital Improvement Financing Plan

The Department's share of the costs of the projects in the Water System CIP for Fiscal Years 2020 through 2025 is expected to be nearly \$2.0 billion in the aggregate.

Overall, the Water System CIP for Fiscal Years 2020 through 2025 is expected to be financed with a combination of additional Obligations (revenue bonds, bond anticipation notes ("BAN"), Commercial Paper Notes), WIFIA Loan proceeds, proceeds from several SRF Loans; and funded by cash and Capacity Charge revenues. Some, but not all, of the funding sources for certain projects of the Water System CIP have already been secured. The estimated costs of, and the projected schedule for, the Water System CIP are subject to various uncertainties. In addition, it is possible that the City will pursue projects not incorporated in the Water System CIP. The City may ultimately decide not to proceed with certain Water System CIP projects or may proceed with them on a different schedule, resulting in different results than those described in this Official Statement. See "RISK FACTORS – Water System CIP Projects; Pure Water Program; Environmental Compliance."

WIFIA Loan. A portion of the Phase 1 Pure Water Program expenditures is expected to be financed with the proceeds of WIFIA Loan in the amount of approximately \$614.0 million. This loan was approved but as of the date of this Official Statement no funds have been advanced. On an interim

basis, the City expects to issue BANs during Fiscal Years 2022-2024 for these expenditures, including paying down previously issued Commercial Paper Notes for the Pure Water Program during Fiscal Years 2019-2021. The WIFIA Loan will be the permanent financing source upon a draw to pay down the BANs in Fiscal Year 2024. Water Utility Fund Obligations incurred to finance Phase 1 of the Pure Water Program are expected to be subordinate to the City's obligation to make 2020 Installment Payments.

SRF Loans. The City anticipates financing a total of \$399 million on Water System CIP with SRF Loans, of which the State has allocated to the City a \$71 million loan for a Pure Water Program Phase 1 project; and certain Baseline CIP projects are expected to be financed with the proceeds of SRF Loans in the total amount of approximately \$328 million. Of the total \$399 million in anticipated SRF financing, the City has submitted loan applications requesting \$303.8 million. Of that amount, the City was allocated \$179.5 million of funding by the State, but funding agreements have not yet been executed.

Additional Obligations. A portion of the Pure Water Program is expected to be financed with the proceeds of Commercial Paper Notes in the amount of approximately \$67 million on an interim basis, to be taken out with BANs and then the WIFIA Loan; and \$50 million in revenue bonds in Fiscal Year 2025. For Baseline CIP, it is expected that costs will be financed with proceeds from Commercial Paper Notes/Revenue Bonds in the amount of approximately \$645 million during this period.

Department Cash and Capacity Charge Revenues. A portion of the Pure Water Program is expected to be funded with Department cash in the amount of approximately \$60 million, which is offset by BAN proceeds used to take out a portion of Commercial Paper Notes (\$79 million); and a portion of the Baseline CIP is expected to be funded with Department cash and Capacity Charge revenues in the amount of approximately \$186 million.

Additional Sources of Funding. In June 2018, subsequent to the passage of Proposition 68 ("Prop 68"), the "Parks, Environment, and Water Bond," the State allocated a \$30 million grant for the Pure Water Program, which will be used to offset the costs attributable to the Water Utility Fund and the Sewer Revenue Fund, respectively. The Water Utility share is estimated at \$17.4 million. Additionally, approximately \$4 million in funding from Integrated Regional Water Management ("IRWM") grants is anticipated in Fiscal Year 2021 for Baseline CIP (\$2.5 million) and in Fiscal Year 2022 for Pure Water Phase 1 (\$1.5 million).

See "WATER SYSTEM FINANCIAL OPERATIONS – Financial Projections and Modeling Assumptions." Notwithstanding any contributions from the Sewer Revenue Fund to finance Pure Water Program components of the Water System CIP, amounts from the Sewer Revenue Fund are not available to pay principal of and interest on the 2020 Bonds.

TABLE 11
PROJECTED SOURCES OF FUNDS FOR CAPITAL EXPENDITURES OF THE
WATER SYSTEM CAPITAL IMPROVEMENT PROGRAM
Fiscal Years 2020 through 2025
(\$ Amounts in Thousands; Except for Footnotes)

	Estimated	Projected					FY 2020-2025
	2020	2021	2022	2023	2024	2025	Total
Source of Funds for Pure Water							
Program CIP⁽¹⁾:							
BANs/WIFIA Loan ⁽²⁾⁽³⁾	-	-	\$267,403	\$185,633	\$160,965	-	\$614,000
Commercial Paper/Revenue Bonds	\$21,477	\$45,887	-	-	-	\$50,000	117,364
SRF Loan	-	-	30,000	40,667	-	-	70,667
Grants ⁽⁴⁾	-	17,400	1,478	-	-	-	18,878
Cash	1,167	822	(77,882) ⁽⁵⁾	13,658	16,308	26,997	(18,929) ⁽⁶⁾
Total Source of Funds for Pure Water Program CIP	\$22,644	\$64,110	\$220,998	\$239,958	\$177,273	\$76,997	\$801,980
Source of Funds for Baseline CIP:							
Commercial Paper/Revenue Bonds	\$137,417	\$107,177	\$90,000	\$110,000	\$100,000	\$100,000	\$644,594
SRF Loans ⁽⁷⁾	1,212	26,001	114,557	106,451	66,821	12,756	327,798
Grant ⁽⁸⁾	-	2,545	-	-	-	-	2,545
Capacity Charge revenues/Cash ⁽⁹⁾	30,326	21,280	78,113	15,534	6,621	33,734	185,609
Total Source of Funds for Baseline CIP	\$168,955	\$157,002	\$282,670	\$231,985	\$173,442	\$146,491	\$1,160,545

(1) Projects are based on expected substantial completion of the Pure Water Program Phase 1 by in February 2025.

(2) BANs will fund Pure Water Program Phase 1 expenditures in Fiscal Year 2022-2024. In Fiscal Year 2022, a portion of the proceeds will take out approximately \$79 million in outstanding Commercial Paper Notes issued for Pure Water expenditures during Fiscal Years 2019-2021.

(3) In Fiscal Year 2024, proceeds from a draw on the \$614 million WIFIA Loan will be used to pay down BANs issued in Fiscal Years 2022-2024.

(4) Grant funding for Pure Water includes Prop 68 funding in Fiscal Year 2021 and IRWM grant funding in Fiscal Year 2022.

(5) Fiscal Year 2022 cash funding for Pure Water is \$1.3 million; however, it is offset by \$79 million in BAN proceeds to reimburse prior year expenditures, resulting in a negative \$78 million in cash funding for Fiscal Year 2022.

(6) The total cash funding for Pure Water is \$60 million; however, when offset by \$79 million in BAN proceeds, it results in a negative \$19 million in total cash funding.

(7) Includes proceeds from existing SRF loans (approximately \$2 million), and additional proceeds through Fiscal Year 2025 (approximately \$325 million) for SRF loans for certain Baseline CIP projects which the City plans to apply.

(8) Consists of the IRWM funding grant for Baseline CIP projects in Fiscal Year 2021.

(9) The increase in use of Capacity Charge revenues/Cash as a source for Baseline CIP in Fiscal Year 2022 reflects projected SDG&E relocation costs. See "Litigation – SDG&E Dispute."

Source: Public Utilities Department, City of San Diego.

WATER SYSTEM FINANCIAL OPERATIONS

Establishment of Water Service Charges

The primary revenue sources of the Water Utility Fund are generated from water sales to retail and wholesale customers. Retail water sales are collected on a combined utility bill, which includes water as well as sewer charges and storm drain fees; only receipts from water sales are revenues to the Water Utility Fund. The water component is comprised of two parts, a fixed monthly service charge or "Base Fee," based on the size of the water meter, and a commodity charge that is for the volume of water used. Bills are distributed on a bi-monthly basis for most customers and a monthly basis for high consumption

residential, non-residential, and irrigation customers. Additional revenues are derived from capacity charges, interest earnings from the investments of available funds and rental income.

Water Service Charges. The Water System’s water service charge for all retail user classes includes a fixed monthly service charge (also referred to as a base fee) and a commodity charge that is for the volume of water used. The base fee is determined by the customer’s meter size, and is charged to the customer whether or not the customer uses water. The base fee is based upon the assumption that the Department incurs certain costs to make water available to serve the commodity to the water customer upon demand. The fee covers costs such as the general administrative costs of the Department for billing, payment processing, and account management related to the Water System. The size of the customer’s connection provides an approximation of the amount of water the customer conceivably could have delivered to his or her property. The commodity charge is a set rate charge for each customer class based upon the amount of HCF of water consumed during the billing cycle multiplied by the fee associated with each tier or class. The City has a four-tiered commodity charge structure for SFR customers while all other customer classes are billed a uniform rate for their respective customer classification. See Table 14 above for a schedule of commodity charges applicable to each customer class and the base fees for the various water meter sizes in the Water System through Fiscal Year 2020.

Wholesale Revenues. Wholesale customers pay negotiated charges that are calculated differently based on their unique characteristics and are contracted for specified terms. See Table 15 for historical water sale revenue for wholesale customers.

Capacity Charges. The term “Capacity Charge” means a charge imposed upon a person, firm, corporation or other entity incident to the granting of a permit for a new water connection or due to an increase in water usage by the addition of any type of dwelling, commercial or industrial unit, which charge is based upon an increase in water consumption as measured by equivalent dwelling units (“EDUs”), and the proceeds of which are restricted to be used to construct, improve and expand the Water System to accommodate the additional business of such added dwellings or commercial or industrial units.

Capacity charges are not treated as operating income for financial reporting purposes but are considered System Revenues and are accounted for in debt service coverage calculations. Pursuant to State law, capacity charge revenue can be applied only for paying costs associated with capital expansion, bonds, contracts, or other indebtedness of the Water System related to expansion. Capacity charges are included in the Capital Contributions line of Table 16 – Statement of Revenues, Expenses and Changes in Fund Net Position for the Water Utility Fund. Because capacity charges are primarily collected on new construction within the City, capacity charge revenues are impacted by increases and decreases in residential and non-residential construction. The current capacity charge is \$3,047 per EDU, and has been unchanged since last adjusted in 2007. The City will be preparing a COS Study to determine whether adjustments to the capacity charge are necessary. The water available for use for a typical SFR is equated to one EDU and equals 500 gallons per day.

Non-residential customers are charged based upon calculated usage or an inventory of plumbing components that are assigned a number of “fixture units,” which are converted to EDUs using a conversion factor that equates 20 fixture units to one EDU. The minimum capacity assigned to any user is one EDU.

The following table sets forth the historical capacity charge revenues from Fiscal Years 2015 through 2019. Aggregate capacity charge revenues may not equal the amount derived by multiplying the capacity charge rate by the number of EDUs because of individual customer account characteristics.

TABLE 12
WATER UTILITY FUND
HISTORICAL CAPACITY CHARGE REVENUES
Fiscal Years 2015 through 2019

Fiscal Year	New Equivalent Dwelling Units⁽¹⁾	Capacity Charge Revenues⁽²⁾
2015	5,152	\$ 15,760,349
2016	4,578	14,452,683
2017	4,998	15,269,582
2018	5,722	17,543,421
2019	3,273	10,125,667

(1) Unaudited.

(2) Audited. Amounts include potable and recycled capacity charge revenues. Amounts are not available to pay for operations and maintenance costs.

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

Collection of Water Service Charges

In order for a person to receive water service and be billed for water fees, he or she must contact the Department to have water service initiated. The person initiating the service does not have to be the owner of the property to which the water is delivered. Each customer has a meter from which the Department measures the amount of the water consumed. The meter is read by the Department to calculate the volumetric portion of water fees to be charged based on customer classification.

All of the water used by the customer is billed. While water shutoffs for nonpayment are currently suspended (see “– Accounts Receivable” below), the Department’s general practice is to grant one 14-day payment time extension on any invoice to help customers weather short-term financial challenges and time extensions for payment under limited conditions (*e.g.*, public health and safety, legal negotiations, or to avoid a negative impact to other ratepayers overall). The Department may also grant a payment plan where: a customer is receiving a bill greater than 200% of the usage on their normal bill or a customer is being back-billed for services received but previously unbilled. In both cases, the customer is allowed only one payment plan at a time. The Department may require a security deposit equal to two average billing periods and a fee of \$25 will be imposed for each payment returned unpaid.

Accounts Receivable

During Fiscal Years 2015 through 2018, accounts receivable amounts outstanding for more than 120 days ranged from approximately \$2.9 million to approximately \$5 million. In Fiscal Year 2019, after the Department suspended water shutoffs, the amount increased to nearly \$10.0 million.

The Department suspended water shutoffs for nonpayment in March 2018, with the intention of resuming shutoffs upon resolution of various billing issues. In September 2018, new California laws were enacted which restrict residential service from being discontinued unless certain policies are in place, including, among others, plans for deferred payments, alternative payment schedules, and formal mechanisms to dispute bills. The suspension of water shutoffs is reflected in the decreased number of shutoffs in Fiscal Years 2018 and 2019 shown in Table 13.

[In Fiscal Year 2020, the outbreak of a new strain of coronavirus (also known as COVID-19), which has caused severe respiratory diseases in China and has spread to other countries, including the United States, has been declared a pandemic by the World Health Organization. The Department anticipates continued suspension of water shutoffs and may implement an option to defer water bills for those facing economic hardships related to the COVID-19 pandemic.

The Department is currently in the process of updating its billing manual and shutoff policy to comply with California's new requirements, and these updates are expected to be completed in 2020. Upon resolution of the COVID-19 pandemic, completion of these billing manual updates, and a subsequent outreach period, water-shutoffs for nonpayment will comply with California law.]

See "RISK FACTORS- COVID-19-Related Matters" regarding, among other things a Mayoral order regarding a moratorium on utility shutoffs and payment deferrals.

The following table sets forth information related to accounts receivable and number of shutoffs.

TABLE 13
WATER CUSTOMER ACCOUNTS RECEIVABLE
AND SHUTOFFS BY FISCAL YEAR
Fiscal Years 2015 through 2019
(\$ Amounts in Thousands)
(Unaudited; except as otherwise noted)

	2015	2016	2017	2018	2019
Water Sales Revenue ⁽¹⁾	\$ 439,744	\$ 401,907	\$ 488,172	\$551,275	\$525,967
Accounts Receivable ⁽²⁾	\$ 68,630	\$ 61,585	\$ 68,208	\$ 81,812	\$101,179
Accounts Receivable Over 120 Days	\$ 4,593	\$ 2,798	\$ 2,906	\$ 4,966	\$9,810 ⁽³⁾
% of Total Water Sales Revenues ⁽⁴⁾	1.04%	0.70%	0.60%	0.90%	1.87%
Number of Shutoffs ⁽⁵⁾	17,373	16,642	13,479	8,564	0

(1) Audited.

(2) Accounts Receivable are as of June 30, Fiscal Year-End, and include the receivable portion of the billed customer accounts as well as amounts for water delivered but not yet billed.

(3) The suspension of shutoffs, as described in footnote 5 below, contributes to the increase from the prior Fiscal Year.

(4) Percentage of Accounts Receivable over 120 days as compared to Total Water Sales Revenues.

(5) Shutoffs for non-payment may include multiple shutoffs associated with the same account throughout the Fiscal Year. The City suspended shutoffs beginning in March 2018 related to billing issues, and the suspension continued in Fiscal Year 2019 due to the California Senate Bill 998 passage in September 2018, applying to all water agencies, to restrict the practice of shutting off customer's water service until certain measures are reached by the agency.

Sources: The City's Comprehensive Annual Financial Reports for the indicated Fiscal Years 2015 through 2019 with respect to "Water Sales Revenue;" Public Utilities Department and Department of Finance, City of San Diego, for all other line items.

Rate Setting. Periodically, the City will enlist the services of an outside consulting firm to perform a full COS Study, typically producing a rate case for two to five years. The City last conducted a COS Study in 2015 (the "2015 COS Study"), which produced a five-year rate case (the "2016 Rate Case"). The 2015 COS Study was based on comprehensive forecasted annual operation and maintenance and capital costs expenditures including the beginning of Pure Water Program for the Fiscal Years 2016 through 2020.

The 2016 Rate Case covered Fiscal Years 2016 through 2020, and was approved by the City Council in November 2015 adhering to the Proposition 218 process. The approved rate case allowed for rate increases to support water system operating costs, and to additionally pass through CWA water rate increases of up to 7.0% per year. The adopted rate case included projected rate increases of 9.8% on January 1, 2016, 6.4% on July 1, 2016, 6.4% on July 1, 2017, 5.0% on July 1, 2018 and 7.0% on July 1, 2019.

Of those amounts, CWA rate increase impacts to the City were projected to be 2.5% in Fiscal Years 2018 and 2019, and 3.0% in Fiscal Year 2020, which were based on estimates at the time. Because actual impacts of the CWA pass through increases were different than the projections, the City passed

through only the actual CWA pass-through cost impact to its ratepayers. The actual rate adjustments and pass through adjustments are shown on Table 14.

TABLE 14
FIVE-YEAR WATER SERVICE CHARGE HISTORY FOR SINGLE FAMILY RESIDENTIAL,
MULTI-FAMILY RESIDENTIAL, NON-RESIDENTIAL, IRRIGATION, AND
TEMPORARY CONSTRUCTION
Fiscal Years 2016 through 2020
(Unaudited)

		Fiscal Year 2016 (effective 1/1/2016)	Fiscal Year 2017 (effective 8/1/2016)	Fiscal Year 2018 (effective 8/1/2017)	Fiscal Year 2019 (effective 8/1/2018)	Fiscal Year 2020 (effective 9/1/2019)
	<u>CWA pass-through costs:</u>	4.50%	2.97%	2.67%	1.60%	1.46%
	<u>Increase in Water System costs⁽¹⁾:</u>	5.30%	4.26%	4.26%	0.55%	4.82%
	<u>Total Increase amount⁽²⁾:</u>	9.80%	7.23%	6.93%	2.15%	6.28%
BASE FEES⁽³⁾						
Meter Size:	5/8 inch	\$ 22.26	\$ 23.92	\$ 24.22	\$ 24.74	\$ 26.30
	¾ inch	22.26	23.92	24.22	24.74	26.30
	1 inch	29.50	31.52	32.08	32.77	34.83
	1.5 inch	46.04	48.89	50.05	51.13	54.34
	2 inch	66.72	70.60	72.51	74.07	78.72
	3 inch	115.32	121.62	125.28	127.98	136.01
	4 inch	184.59	194.36	200.51	204.83	217.69
	6 inch	356.23	374.57	386.90	395.23	420.05
	8 inch	563.03	591.69	611.46	624.62	663.85
	10 inch	804.98	845.72	874.20	893.02	949.10
	12 inch	1,493.60	1,568.73	1,622.00	1,656.92	1,760.96
	16 inch	2,596.85	2,727.07	2,820.05	2,880.76	3,061.65
COMMODITY CHARGE						
<u>Customer Type:</u>						
Single Family Residential						
	Tier 1 0-4 HCF ⁽⁴⁾	\$ 4.240	\$ 4.504	\$ 4.842	\$ 4.946	\$ 5.257
	Tier 2 5-12 HCF	4.754	5.044	5.423	5.540	5.888
	Tier 3 13-18 HCF	6.791	7.206	7.748	7.915	8.412
	Tier 4 19+ HCF	9.550	10.134	10.895	11.130	11.828
	Typical Single Family Monthly Bill ⁽⁵⁾	\$ 77.25	\$ 82.29	\$ 86.97	\$ 88.84	\$ 94.42
Multi-Family Residential	per HCF ⁽⁶⁾	\$ 5.125	\$ 5.449	\$ 5.860	\$ 5.986	6.362
Non-Residential ⁽⁷⁾	per HCF ⁽⁶⁾	5.020	5.327	5.718	5.841	6.208
Irrigation	per HCF ⁽⁶⁾	5.666	6.032	6.496	6.636	7.053
Temporary Construction	per HCF ⁽⁶⁾	6.023	6.133	6.607	6.749	7.173

(1) Increases in Water System costs due to CIP, implementation of Pure Water Program, and drought.

(2) Percentages reflect the total impact on Department water service charge revenue for the indicated fiscal year. Increased percentage amounts for individual customers may vary depending on the service type provided and actual volume of water delivered. Total Increase amounts for Fiscal Years 2017 to 2020 include additional sums relating to 30-day notice period for CWA-related pass-through costs.

(3) The base fee is dependent on the meter size.

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

(5) Reflects base fee and commodity charge. Based on 12 HCF per month and an average meter size of ¾ inch.

(6) One rate applies for all usage amounts.

(7) Non-Residential consists of Commercial and Industrial customer types.

Source: Public Utilities Department, City of San Diego.

The City is currently reviewing various options for rates for a multi-year period beginning Fiscal Year 2021. The City has engaged Raftelis Financial Consultants, Inc. to assist in the preparation of the

COS Study. The COS Study will be based on a comprehensive forecast of maintenance and operation costs and capital expenditures over a multi-year period, including maintenance and operation costs and capital expenditures of the Pure Water Program. The review period of the COS is anticipated to cover five years, starting in Fiscal Year 2021 and a corresponding rate case is anticipated to cover three to five years. Rate adjustments are not currently projected to be necessary in Fiscal Year 2021, as operational efficiencies and the expected receipt of \$33.6 million in revenue from the sale of Water Utility Fund-owned land at the SDCCU Stadium site are projected to allow the Department to absorb increased CWA rates for Fiscal Year 2021. Rate adjustments are projected to be necessary in Fiscal Years 2022 and beyond. The corresponding rate increases for Fiscal Years 2022 through 2025 are preliminarily projected to range from 4.4% to 5.0% (including rate increases resulting from both CWA pass throughs and revenue adjustments projected for the Department's maintenance and operations costs and capital expenditures). Any new rates resulting from the COS and subsequent City deliberations are expected to be effective in Fiscal Year 2021. See "WATER SYSTEM FINANCIAL OPERATIONS – Financial Projects and Modeling Assumptions."

Revenues

The Water Utility Fund's principal source of revenues is water service charges to City residents and non-residential enterprises as shown below. The following tables set forth the historical sources of water sales revenues of the Water Utility Fund for Fiscal Years 2015 through 2019, followed by the Water Utility Fund's Statements of Revenues, Expenses, and Changes in Fund Net Assets for Fiscal Years 2015 through 2019.

TABLE 15
HISTORICAL SOURCES OF WATER SALES REVENUES
Fiscal Years 2015 through 2019
(\$ Amounts in Thousands)
(Unaudited; except as otherwise noted)

Sources	2015	2016	2017	2018	2019
Retail					
Single Family Residential	\$176,841	\$157,968	\$187,360	\$213,131	\$204,128
Multi-Family Residential	86,096	85,175	98,242	108,545	105,335
Non-Residential ⁽¹⁾	102,237	99,615	117,676	127,011	124,889
Irrigation	50,924	37,136	53,515	67,858	57,628
Recycled	5,352	5,755	8,820	10,574	10,506
Untreated	126	380	66	10	10
Wholesale to Other Retailers					
Treated ⁽²⁾	15,375	13,505	18,367	19,614	19,155
Recycled	2,793	2,373	4,126	4,532	4,316
Total⁽³⁾	\$439,744	\$401,907	\$488,172	\$551,275	\$525,967

(1) Consists of revenues from Non-Residential customers and Temporary Construction customers.

(2) Primarily reflects wholesale revenues from Cal-American Water Company.

(3) Audited.

Source: Department of Finance, City of San Diego.

TABLE 16
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
FOR THE WATER UTILITY FUND
(Audited)
(\$ Amounts in Thousands, Except in Footnotes)

	2015	2016 ⁽¹⁾	2017	2018	2019 ⁽²⁾
OPERATING REVENUES					
Sales of Water	\$ 439,744	\$ 401,907	\$ 488,172	\$ 551,275	\$ 525,967
Charges for Services	6,432	3,586	4,517	5,218	4,079
Revenue from Use of Property	6,693	6,003	5,850	6,104	7,271
Other	2,353	1,512	2,865	6,927	1,811
TOTAL OPERATING REVENUES	\$ 455,222	\$ 413,008	\$ 501,404	\$ 569,524	\$ 539,128
OPERATING EXPENSES⁽³⁾					
Maintenance and Operations	\$ 79,732	\$ 84,364	\$ 95,874	\$ --	\$ --
Cost of Purchased Water Used	237,274	201,098	222,555	--	--
Taxes ⁽⁴⁾	2,117	2,165	2,299	--	--
Administration	58,599	72,311	81,730	--	--
Salary and Benefits	--	--	--	89,891	93,729 ⁽⁵⁾
Supplies	--	--	--	211,688	208,780
Contracts	--	--	--	108,325	108,369
Information Technology	--	--	--	5,658	5,596
Energy and Utility	--	--	--	13,535	9,093
Other Expenses	--	--	--	4,334	3,039
Depreciation	51,935	55,882	55,885	57,007	57,268
TOTAL OPERATING EXPENSES	\$ 429,657	\$ 415,820	\$ 458,343	\$ 490,438	\$ 485,874
OPERATING INCOME (LOSS)	\$ 25,565	\$ (2,812)	\$ 43,061	\$ 79,086	\$ 53,254
NONOPERATING REVENUES (EXPENSES)					
Earnings on Investments	\$ 2,714	\$ 5,825	\$ 749	\$2,085	\$ 9,240 ⁽⁶⁾
Federal Grant Assistance	--	--	3,359	3,126	75
Other Agency Grant Assistance	627	2,264	319	266	441
Gain (Loss) on Sale/Retirement of Capital Assets	(2,431)	(1,104)	(3,629)	(15,327)	7,477
Debt Service Interest Expense	(35,771)	(20,731)	(14,826)	(25,512)	(35,964)
Other	2,432	11,915	426	4,480	319
TOTAL NON OPERATING REVENUES (EXPENSES)	\$ (32,429)	\$ (1,831)	\$ (13,602)	\$ (30,883)	\$ (18,412)
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	\$ (6,864)	\$ (4,643)	\$ 29,459	\$ 48,203	\$ 34,842
Capital Contributions ⁽⁷⁾	\$ 358,451 ⁽⁸⁾	\$ 24,438	\$ 26,150	\$ 42,633 ⁽⁸⁾	13,470
Transfers from Other Funds	58	90	156	--	181
Transfers from Governmental Funds	--	--	12	495	--
Transfers to Other Funds	(3,651)	(10,110)	--	(2,228)	(312)
Transfer to Governmental Funds	(16)	(16)	(16)	(14)	(14)
CHANGE IN NET POSITION	\$ 347,978	\$ 9,759	\$ 55,761	\$ 89,089	\$ 48,167
Net Position at Beginning of Year	\$1,572,384 ⁽⁹⁾	\$1,920,362	\$1,929,938 ⁽¹⁰⁾	\$1,967,063 ⁽¹¹⁾	\$2,056,152
NET POSITION AT END OF YEAR	\$1,920,362	\$1,930,121	\$1,985,699	\$2,056,152	\$2,104,319

- (1) Declines in Sales of Water and Cost of Purchased Water Used seen in Fiscal Year 2016 reflect the imposition of statewide water conservation mandates that impacted all California water agencies.
- (2) In Fiscal Year 2019, operating income decreased from prior year due to decreases in sales of water resulting from the extended rainy season and conservation efforts.
- (3) Effective Fiscal Year 2018, the City modified the Operating Expense reporting presentation for Business-Type Funds, including Water Utilities in its CAFR. Cost of Purchase Water Used is divided between Supplies, Contracts and other expenses. In Fiscal Year 2019, the total Cost of Purchase Water Used was \$235.9 million (with \$200.0 million of the cost allocated to Supplies; \$33.5 million allocated to Contracts; and \$2.4 million allocated to Other Expenses, which included the quarterly payments of taxes in lieu to CWA).
- (4) Includes annual property taxes and quarterly payments of taxes in-lieu to CWA (Fiscal Year 2015-2017).
- (5) After completion of Fiscal Year 2019, a reallocation of Salary and Benefits was made between employees of the Water Utility Fund and the Sewer Revenue Fund of the Public Utilities Department. This reallocation lowers the Fiscal Year 2019 amount by approximately \$4.5 million for the Water Utility Fund.
- (6) Investment Income increased primarily due to the change from a net unrealized loss in Fiscal Year 2018 to a net unrealized gain in Fiscal Year 2019.
- (7) Capital contributions include capital grants, donated/found assets, and Capacity Charges.
- (8) Pursuant to the ESP Agreement between CWA and the City, CWA fully funded and built various facilities and infrastructure in order to raise the height of the City's San Vicente Dam and increase the reservoir's capacity. During Fiscal Year 2015, CWA conveyed the facilities and infrastructure related to the expansion, valued at over \$330.4 million, to the City, which was the primary source of the Capital Contribution. In Fiscal Year 2018, additional donated assets were recorded from CWA for the same San Vicente Dam project.
- (9) Beginning balance restated due to the net effects of the implementation of GASB Statement Nos. 68 and 71, which both became effective after June 15, 2014.
- (10) Beginning balance restated due to the net effects of GASB Statement No. 73 implementation (see Note 1(v) in City's Fiscal Year 2017 CAFR).
- (11) Beginning balance restated due to the net effects of GASB Statement No. 75 implementation (see Note 1(w) in City's Fiscal Year 2017 CAFR and Note 1(x) in the City's Fiscal Year 2018 CAFR).

Source: The City's Comprehensive Annual Financial Reports for Fiscal Years 2015 through 2019.

Management's Discussion and Analysis

The following discussion relates to certain items set forth in Table 16. Some of the following information in connection with the financial condition and results of operations of the Water Utility Fund for Fiscal Year 2019.

Operating Revenues. Total operating revenues for Fiscal Year 2019 were \$539.1 million, which represented a decrease of \$30.4 million from the previous Fiscal Year. This was primarily due to a decrease in water sales revenue, which was the result of an extended rainy season that occurred during Fiscal Year 2019, combined with conservation efforts of rate payers.

Operating Expenses. Total operating expenses for Fiscal Year 2019 were \$485.9 million, a decrease of \$4.6 million from the previous Fiscal Year. This is due to a slight reduction in water supply and utility costs.

Non-operating Revenues (Expenses). Non-operating expenses for Fiscal Year 2019 decreased by \$12.5 million from non-operating transactions in Fiscal Year 2018. This was due to the change from a net unrealized loss in Fiscal Year 2018 to a net unrealized gain in Fiscal Year 2019 as well as change from a net loss in Fiscal Year 2018 to a net gain on the sale/retirement of capital assets in Fiscal Year 2019.

Contributions and Transfers. Capital contributions were lower in Fiscal Year 2019 from Fiscal Year 2018 by \$29.5 million due to lower Capacity Charge revenues from to less construction permits and market fluctuation in Fiscal Year 2019 and a decrease in donated/found assets, which vary year to year.

Water Utility Fund Reserves

The City has established four reserves within the Water Utility Fund: the Emergency Operating Reserve, the Secondary Purchase Reserve, the Rate Stabilization Fund Reserve ("Rate Stabilization Fund Reserve"), and the Emergency Capital Reserve. The Department operates these reserve funds in accordance with the City's reserve policy (the "City Reserve Policy"). The City's Reserve Policy is reviewed biennially. Changes are approved by the City Council and incorporated into City Council Policy. The most recent updates to the City Reserve Policy were approved by the City Council in June 2018. As of June 30, 2019, the Water Utility Fund had estimated total reserves of approximately \$131.6 million.

Emergency Operating Reserve. The Emergency Operating Reserve is intended to be used in the event of a catastrophe that prevents the Water System from operating in its normal course of business. The reserve level is defined as the number of days of operation it could support in the event of a major disruption to the Water System. It is calculated based on the annual operating budget for the Fiscal Year, less the budgeted operating contingency and the budget for water purchases and debt service (including SRF loan repayments). The Emergency Operating Reserve target is equivalent to 70 days of operation. This reserve level target of 70 days recognizes that the Water System has a large diversified customer base, a steady and reliable demand for services, and other reserves available for specific needs. Use of the Emergency Operating Reserve is restricted to emergency situations, and City Council approval is required to appropriate these reserves. Any request to utilize the Emergency Operating Reserve will include a plan and timeline for replenishment, which may be in conjunction with the City Council authorization of a future Cost of Service Study and rate adjustment. As of June 30, 2019, there was \$40.1 million in the Emergency Operating Reserve (equivalent to 78.4 days of operation), compared to the target amount of \$38.1 million.

Secondary Purchase Reserve. The Secondary Purchase Reserve was established and is maintained pursuant to the Master Installment Purchase Agreement to purchase additional water supply in case of a major drought or unforeseen emergency that diminishes the City's normal supply. The size of the reserve is equal to 6% of the annual water purchase budget (including commodity charge and fixed costs). City Council action is required in order to appropriate this reserve as well. As of June 30, 2019, there was \$16.4 million in the Secondary Purchase Reserve, which is funded at the target amount.

Rate Stabilization Fund Reserve. The Rate Stabilization Fund Reserve was established and is maintained pursuant to the Master Installment Purchase Agreement. Transfers in and out of this fund serve as a revolving mechanism to mitigate potential fluctuations in the rates for the Water System operations, and maintain stable debt service coverage ratios for the Outstanding Obligations. The permitted uses of the Rate Stabilization Fund Reserve are limited to the Maintenance and Operation Costs of the Water System. Funds transferred to the Rate Stabilization Fund Reserve from system revenues are deducted from the amount of system revenues for purposes of calculating debt service coverage. The City Reserve Policy establishes a baseline target for the Rate Stabilization Fund Reserve in an amount equal to 5% of the prior Fiscal Year Water System total operating revenues. The funding level in the Rate Stabilization Fund Reserve can go up or down depending on year to year changes in the Water System's operating revenues and expenditures.

In Fiscal Year 2016, the Department transferred \$7.5 million from the Rate Stabilization Fund Reserve to the System's operating funds to offset lower revenues resulting from the Department's extraordinary conservation efforts (which were taken in part to comply with conservation mandates from the Governor and the State Water Resources Control Board ("SWRCB")) and to maintain contractually required debt service coverage levels. In Fiscal Years 2017 and 2018, revenues increased due in part to rate increases and the Department made contributions of \$23.5 million in Fiscal Year 2017 and \$8 million in Fiscal Year 2018 to the Rate Stabilization Fund Reserve. There was no change for Fiscal Year 2019; the \$70.1 million balance in the Rate Stabilization Fund Reserve exceeded the Department's reserve target by nearly \$41.6 million. The Department expects to transfer \$10 million to the Rate Stabilization Reserve Fund in Fiscal Year 2020 due to increased operational efficiencies, and \$33.6 million in Fiscal Year 2021 due to proceeds from the anticipated sale of Water System-owned land beneath a stadium. In subsequent years, the Department expects to draw down the overage over the next several years to mitigate rate increases and maintain debt service coverage ratios that meet or exceed covenanted ratios. Table 18 illustrates the historic use of the Rate Stabilization Fund Reserve, and Table 19 illustrates the projected utilization in future years.

Emergency Capital Reserve. The Emergency Capital Reserve is intended to be used for emergency capital needs. The reserve is budgeted annually at \$5.0 million in the Water System CIP budget. If the reserve is used to fund unforeseen emergency conditions resulting in the need to

immediately repair or replace existing assets, approval from the Chief Financial Officer or the Chief Operating Officer is required per City Reserve Policy. As of June 30, 2019, there was \$5.0 million in the Emergency Capital Reserve.

In addition to these four reserves, the Water System has contributed to the citywide Pension Payment Stabilization Reserve which was established in 2016 to mitigate any unanticipated increases in the annual pension payment, also known as the Actuarially Determined Contribution (“ADC”). For more information, see “—San Diego City Employees’ Retirement System – Water Utility Fund Contribution.”

The following table presents the Water Utility Fund’s reserve amounts, total cash and cash equivalents, and days of cash on hand as of June 30 for the Fiscal Years 2015 through 2019.

TABLE 17
RESERVES AND TOTAL CASH AND CASH EQUIVALENTS
IN WATER UTILITY FUND
Fiscal Years 2015 through 2019
(\$ Amounts in Thousands)
(Unaudited, except as otherwise noted)

	2015	2016	2017	2018	2019
Reserve Funds⁽¹⁾					
Emergency Operating Reserve	\$ 31,696	\$ 40,108	\$ 40,108	\$ 40,108	\$ 40,108
Secondary Purchase Reserve	13,582	13,582	14,344	15,229	16,388
Rate Stabilization Fund Reserve	46,117	38,617	62,117	70,117	70,117
Emergency Capital Reserve	<u>5,000</u>	<u>5,000</u>	<u>5,000</u>	<u>5,000</u>	<u>5,000</u>
Total Reserve Funds	<u>\$ 96,395</u>	<u>\$ 97,307</u>	<u>\$ 121,569</u>	<u>\$ 130,454</u>	<u>\$ 131,613</u>
Total Cash and Cash Equivalents in Water Utility Fund⁽²⁾	\$ 250,477	\$ 218,580	\$ 218,370	\$ 267,823	\$ 278,363
Days of Cash on Hand⁽³⁾	234	214	191	219	234

(1) Established in accordance with City Reserve Policy.

(2) Audited. Includes Cash and Investments (which includes the Reserve totals above), Restricted Cash and Investments, less Investments Not Meeting the Definition of Cash Equivalents.

(3) Days of cash on hand is calculated by: Cash and Investments / Operating Expenses less Depreciation / 365 days).

Source for Cash and Cash Equivalents: The City’s Comprehensive Annual Financial Reports for Fiscal Years 2015 through 2019.

Source for Reserves and Days of Cash on hand: Public Utilities Department and Department of Finance, City of San Diego.

Debt Service Coverage

The following table sets forth the historic debt service coverage for the Water Utility Fund for Fiscal Years 2015 through 2019.

TABLE 18
CALCULATION OF HISTORIC DEBT SERVICE COVERAGE
Fiscal Years 2015 through 2019
(\$ Amounts in Thousands)
(Unaudited)

		2015	2016	2017	2018	2019
All System Revenues prior to Rate Stabilization Fund Reserve transfers ⁽¹⁾		\$ 475,874	\$447,555	\$522,020	\$ 597,608	\$ 558,349
Transfers (to)/from Rate Stabilization Fund Reserve		(7,600)	7,500	(23,500)	(8,000)	--
Total System Revenues ⁽¹⁾		\$ 468,274	\$455,055	\$498,520	\$ 589,608	\$ 558,349
Total Maintenance & Operation Costs⁽²⁾		(381,389)	(370,064)	(402,475)	(435,673)	(428,932)
Net System Revenues prior to transfers (to) from the Rate Stabilization Fund Reserve	A	\$ 94,485	\$ 77,491	\$119,545	\$ 161,935	\$ 129,417
Net System Revenues	B	\$ 86,885	\$ 84,991	\$ 96,045	\$153,935	\$ 129,417
Less: Interest Earnings on Reserve Fund ⁽³⁾		<u>(897)</u>	<u>(4,474)</u>	<u>(4)</u>	<u>(35)</u>	<u>(73)</u>
Adjusted Net System Revenues	C	\$ 85,988	\$ 80,517	\$ 96,041	\$153,900	\$ 129,344
Senior Obligations⁽⁴⁾						
Total Senior Debt Service		\$ 40,063	\$ 40,993	\$ 4,005	\$ 4,259	\$ 4,487
Less: Interest Earnings on Reserve Fund ⁽³⁾		<u>(897)</u>	<u>(4,474)</u>	<u>(4)</u>	<u>(35)</u>	<u>(73)</u>
Adjusted Senior Debt Service	D	\$ 39,166	\$ 36,519	\$ 4,001	\$ 4,224	\$ 4,414
Adjusted Senior Debt Service Coverage⁽⁵⁾⁽⁶⁾	C/D	2.20x	2.20x	24.00x	36.43x	29.30x
All Obligations⁽⁷⁾						
Total Debt Service	E	\$ 66,835	\$ 67,389	\$ 61,842	\$ 65,613	\$ 68,136
Aggregate Debt Service Coverage prior to transfers (to) from the Rate Stabilization Fund Reserve	A/E	1.41x	1.15x	1.93x	2.47x	1.90x
Aggregate Debt Service Coverage⁽⁶⁾	B/E	1.30x	1.26x	1.55x	2.35x	1.90x

(1) "System Revenues," as defined in the Master Installment Purchase Agreement, includes operating and non-operating receipts (i.e. interest earnings, capacity charges, other income) as well as transfers to and from certain funds and the cash-based components of capital contributions. Pursuant to the Master Installment Purchase Agreement, there is deducted from "System Revenues" any amounts transferred into the Rate Stabilization Fund Reserve and there is added to "System Revenues" any amounts transferred out of such Rate Stabilization Fund Reserve. Amounts in the Rate Stabilization Fund Reserve are not included in the calculation of debt service coverage for purposes of the Master Installment Purchase Agreement. The amounts reflected as "All Revenues" are revenues of the Water System prior to any such transfer and is provided for information only.

(2) Amounts under Total Maintenance and Operation Costs, in accordance with the Master Installment Purchase Agreement, generally include maintenance and operations, administration, cost of water purchases, transfers to other funds, pension benefits, and retiree health costs, and exclude depreciation.

(3) Interest earnings on the Senior Debt Service Reserve Fund are netted out of both System Revenues and Total Debt Service to calculate Senior Debt Service Coverage Ratios, but are not netted out for Aggregate Debt Service Coverage Ratios.

(4) Senior Obligations consist of Senior Bonds and Senior SRF Loans. Since June 2016, the only Senior Obligations Outstanding during this period are the Senior SRF Loans.

(5) The Adjusted Debt Service Coverage increased significantly in Fiscal Year 2017 because all outstanding Senior Bonds were refunded with proceeds of Subordinated Bonds in June 2016.

(6) Pursuant to Section 6.08(a) of the Master Installment Purchase Agreement, the City shall fix, prescribe and collect rates and charges for the Water Service which will be at least sufficient to yield the greater of (1) Net System Revenues sufficient to pay during each Fiscal Year all Obligations payable in such Fiscal Year or (2) Adjusted Net System Revenues during each Fiscal Year equal to 120% of the Adjusted Debt Service for such Fiscal Year.

(7) All Obligations include debt service on Outstanding Senior Obligations and the Outstanding Subordinated Obligations, including interest paid on outstanding Subordinated Commercial Paper Notes.

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

Source: Statistical Section (Unaudited) of the City's Comprehensive Annual Financial Reports for Fiscal Years 2015 through 2019 (excluding data under the headings "Net System Revenues prior transfers (to)/from the Rate Stabilization Fund Reserve" and "Aggregate Debt Service Coverage prior to transfers (to)/from the Rate Stabilization Fund Reserve"); Department of Finance for data under the headings "Net System Revenues prior to transfers (to)/from the Rate Stabilization Fund" and "Aggregate Debt Service Coverage prior to transfers (to)/from the Rate Stabilization Fund Reserve."

Financial Projections and Modeling Assumptions

Table 19 below sets forth the financial forecast for Fiscal Years 2020 through 2025. See “INTRODUCTION – Forward-Looking Statements.”

The figures incorporate the actual rate increase of 6.28% that went into effect September 1, 2019.

The financial projections assume rate increases of 2.0% for Fiscal Year 2022, and 2.5% for Fiscal Years 2023 through 2025 for Departmental needs. Additionally, for Fiscal Years 2022 through 2025, CWA rate increase impacts to the City are projected to be between 2.3% to 2.5%. The City has historically increased water rates over time to adjust to increases in the cost of water purchased from CWA, which increases are generally based on the costs for the infrastructure, maintenance and operation of CWA's water supply system and the cost CWA pays to purchase water. The projections do not include any potential refund of prior water transportation charges previously paid to CWA related to litigation between CWA and MWD. See “WATER SUPPLY” for information on water supply costs, and “– Rate Setting” for information on the rate setting process.

The assumed rate increases for Fiscal Years 2022 through 2025 are based on the Department's forecasted annual maintenance and operation costs and capital expenditures. The assumed rates are also intended to maintain the Water Utility's core financial metrics of cash balances, reserves, and financial debt service coverage ratios. These rate increase assumptions are subject to change based on the preparation of the COS Study and actual rate increases will vary. Actual rate increases that are lower than assumed rate increases would result in less favorable financial metrics. Likewise, actual rate increases that are higher than assumed increases would result in more favorable financial metrics in those years. In order to achieve desired financial results, the Department may exercise discretion in reevaluating projected capital expenditures and discretionary maintenance and operation costs.

Net System Revenues are projected to increase as a result of projected rate increases, assumed growth in customer base, and certain interest rate assumptions. The projections assume demand for potable water ranges from 179,600-181,300 AFY. In Fiscal Year 2021, the City anticipates revenue from the sale of Water Utility Fund-owned land at the SDCCU Stadium site. The Department's share of the proceeds is expected to be \$33.6 million which the Department intends to transfer to its Rate Stabilization Fund Reserve in Fiscal Year 2021. The Department anticipates making transfers from the Rate Stabilization Fund Reserve in Fiscal Years 2022 through 2025 as reflected in Table 19 to mitigate rate adjustments in those years.

Maintenance and operation costs are projected to increase during this period for several factors: annual increases for energy and utilities, contracts, and supplies; Water Purchases are projected to annually increase through Fiscal Year 2024 before decreasing in Fiscal Year 2025 as Phase 1 of the Pure Water Program begins to produce a local supply of water. Energy and supplies are anticipated to be higher in Fiscal Years 2024 and 2025 due to anticipated costs for Pure Water operations.

Projected Debt Service costs increase during this period reflecting the anticipated additional Obligations to support Water System CIP for Pure Water and Baseline projects. In Fiscal Year 2020 and future years, this includes the anticipated issuance of 2020A and 2020B Bonds, issuance of a combination of Commercial Paper Notes, future bond offerings, interim Bond Anticipation Notes (BANs), the WIFIA Loan, and SRF Loans. See also “WATER SYSTEM CAPITAL IMPROVEMENT PROGRAM – Capital Improvement Program Financing Plan” and “WATER SYSTEM FINANCIAL OPERATIONS - Anticipated Additional Obligations.” For a discussion of the Water System CIP and certain projected costs thereof, see “WATER SYTEM CAPITAL IMPROVEMENT PROGRAM.” For other anticipated sources of funding, such as cash and grants, see Table 11.

TABLE 19
PROJECTED NET SYSTEM REVENUES AND DEBT SERVICE COVERAGE
(as of March 1, 2020)
Fiscal Years 2020 through 2025
(\$ Amounts in Thousands)

DESCRIPTION	Fiscal Year 2020 Estimated ⁽¹⁾	Fiscal Year 2021 Projected	Fiscal Year 2022 Projected	Fiscal Year 2023 Projected	Fiscal Year 2024 Projected	Fiscal Year 2025 Projected
System Revenues						
Operating Revenues ⁽²⁾	\$581,716	\$590,108	\$611,028	\$639,759	\$669,237	\$706,224
Interest Income on Operating Funds	8,433	6,180	6,441	6,276	6,507	6,539
Interest Earnings on Debt Service Reserve Funds ⁽³⁾	163	20	20	20	20	20
Other Non-Operating Revenues	5,825	36,825	3,325	3,325	3,325	3,325
Capacity Charge Revenue ⁽⁴⁾	10,000	10,000	10,000	10,000	10,000	10,000
Grant Proceeds	7,993	19,945	1,478	-	-	-
Transfers (to)/from Rate Stabilization Reserve ⁽⁵⁾	(10,000)	(33,600)	7,500	20,000	38,000	5,000
Transfers (to)/from Secondary Purchase Reserve ⁽⁶⁾	-	-	(258)	(852)	(895)	-
Total System Revenues	\$604,131	\$629,477	\$639,534	\$678,528	\$726,194	\$731,108
Maintenance and Operation Costs						
Water Purchases ⁽⁷⁾	\$252,176	\$263,932	\$277,443	\$291,642	\$306,564	\$299,333
Water System Expenses ⁽⁸⁾	173,673	197,170	205,559	205,736	206,882	207,079
Pure Water Program Expenses ⁽⁹⁾	8,532	13,377	15,110	16,582	32,760	39,773
Total Maintenance and Operation Costs	\$434,381	\$474,479	\$498,112	\$513,960	\$546,206	\$546,184
Net System Revenues	\$169,750	\$154,998	\$141,422	\$164,568	\$179,988	\$184,924
Senior Debt Service Coverage						
Adjusted Net System Revenues ⁽¹⁰⁾	\$169,730	\$154,978	\$141,402	\$164,548	\$179,968	\$184,904
Adjusted Senior Debt Service ⁽¹¹⁾⁽¹²⁾	5,751	28,711	28,717	29,648	31,099	39,610
Senior Debt Service Coverage ⁽¹¹⁾	29.51x ⁽¹³⁾	5.40x ⁽¹³⁾	4.92x	5.55x	5.79x	4.67x
Aggregate Debt Service Coverage						
Net System Revenues	\$169,750	\$154,998	\$141,422	\$164,568	\$179,988	\$184,924
Senior Debt Service ⁽¹²⁾	5,771	28,731	28,738	29,668	31,119	39,630
Subordinate Debt Service ⁽¹²⁾	78,907	67,703	75,800	93,758	104,100	98,309
Aggregate Debt Service Coverage ⁽¹²⁾	2.00x	1.61x	1.35x	1.33x	1.33x	1.34x

(1) Fiscal Year 2020 estimates are based on actual mid-year results and projections through year-end.

(2) Includes City Council approved rate increase through Fiscal Year 2020, and assumes the following rate increases not yet approved by City Council: Fiscal Year 2021, 0%; Fiscal Year 2022, 4.4%, which is comprised of 2.4% estimated CWA pass-through costs and 2.0% for Water System needs; Fiscal Year 2023 and 2024, 5.0%, which consists of 2.5% CWA pass-through costs and 2.5% for Water System needs; and 4.8% for Fiscal Year 2025, which is comprised of 2.3% CWA pass-through and 2.5% for Water System needs. Projected rate increases for Fiscal Years 2021 through 2025 are subject to change based on the completion an ongoing COS Study and City Council approval of the rate case. Debt service coverage in Fiscal Years 2021 through 2025 will be lower than projected if the actual approved rate increases are lower than current projections. See "WATER SYSTEM FINANCIAL OPERATIONS – Establishment of Water Service Charges."

(3) Includes interest earnings on reserve funds for Senior Obligations and Subordinated Obligations. Assumes the reserve fund for the 2012A Bonds will be released in Fiscal Year 2020 with the refunding and issuance of the 2020B Bonds.

(4) Capacity Charge revenue is based on projected population growth and building permits.

(5) The projected Rate Stabilization Fund Reserve transfer in Fiscal Year 2021 is from an increase in Other Non-Operating Revenues due to the anticipated sale of certain Water System-owned land. See "—Water Utility Fund Reserves, Rate Stabilization Fund Reserve" for a discussion of anticipated utilization in future years.

(6) Reflects projected transfers to Secondary Purchase Reserve to meet reserve level requirements. See "SECURITY AND SOURCES OF PAYMENT – Pledge of Net System Revenues."

(7) Water purchase projections include the Department's projections for CWA rate increase. See "WATER SYSTEM FINANCIAL OPERATIONS – Establishment of Water Service Charges."

(8) Includes costs of maintenance and operations, administration, pension benefits and retiree health costs, and the projected cost impacts from the negotiated labor agreements with employee bargaining organizations through Fiscal Year 2020. See "Labor Relations" below. This does not include Pure Water Program costs, which are reflected below.

(9) Includes pre-design and planning costs for Phase 2 of the Pure Water Program and the ramp up of operating costs for Phase 1 starting in Fiscal Year 2024. Full operating costs for Phase 1 begin in Fiscal Year 2026. See "WATER SUPPLY – Pure Water Program."

(10) Adjusted Net System Revenues is Net System Revenues less earnings from investments in the Common Senior Debt Service Reserve Fund.

(11) Adjusted Senior Debt Service is the Senior Debt Service less earnings from investments in the Common Senior Debt Service Reserve Fund.

- (12) Reflects scheduled debt service on outstanding Obligations; projected debt service on additional Senior and Subordinate Obligations the City assumes to issue, including debt service on BANs expected to be issued on an interim basis prior to drawing on the WIFIA Loan, projected WIFIA Loan debt service beginning in Fiscal Year 2025, and estimated interest payments for Commercial Paper Notes, and additional SRF Loans the City expects to receive from the SWRCB.
- (13) The Senior Debt Service Coverage is expected to decrease in Fiscal Year 2021 due to the addition of anticipated 2020 Water Bonds debt service.

Source: Public Utilities Department, City of San Diego.

The ongoing CIP and operational expenditures are rate dependent, including, particularly, the Water Utility Fund's share of Pure Water Program expenditures in Fiscal Years 2021 through 2025. The City anticipates that additional rate capacity is necessary after Fiscal Year 2021. The City expects to prepare a Cost of Service Study to prepare a new rate case for recommended rate adjustments for the Water Utility Fund for Fiscal Years 2022 and later Fiscal Years. Current financial projections suggest that there is no need for a rate increase in Fiscal Year 2021. See "Rate Setting" for more information.

The achievement of certain results or other expectations contained in Table 19 involve known and unknown risks, uncertainties, and other factors that may cause actual results, performance, or achievements reflected in Table 19 to be materially different from any future results, performance, or achievements expressed or implied in such Table 19. Although, in the opinion of the Department, such projections are reasonable, there can be no assurance that any or all of such projections will be realized or predictive of future results. See also "INTRODUCTION – Forward-Looking Statements."

Outstanding Indebtedness

As of March 1, 2020, Senior Obligations consisted of \$78,845,301 principal amount of Senior SRF Loans. There are no Outstanding Senior Bonds. As of March 1, 2020, there was \$946,290,000 aggregate principal amount of Outstanding Subordinated Obligations that are payable from Net System Revenues junior to the 2020 Installment Payments. The Outstanding Subordinated Obligations principal amount does not include the City's borrowing of up to \$614,000,000 pursuant to the WIFIA Loan Agreement as the City has not yet requested disbursements of amounts under the WIFIA Loan. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2020 BONDS – Senior Obligations" and "– Subordinated Obligations."

The following table sets forth as of March 1, 2020 the outstanding indebtedness secured by installment payments to be made by the City from Net System Revenues.

TABLE 20
OUTSTANDING DEBT
As of March 1, 2020
(Unaudited)

	<u>Final Maturity</u>	<u>Outstanding Principal Amount as of March 1, 2020</u>
Senior Obligations:		
Senior SRF Loans		
Miramar Water Treatment Plant	July 1, 2031	\$ 12,601,901
Alvarado Water Treatment Plant	July 1, 2031	7,562,567
Otay Water Treatment Plant	January 1, 2032	11,851,076
Harbor Drive Pipeline Replacement	January 1, 2036	8,823,302
Lindbergh Field Pipeline Replacement	January 1, 2036	2,720,883
University Ave Pipeline Replacement ⁽¹⁾	January 1, 2039	23,467,972
69th Street and Mohawk Pump Station ⁽¹⁾	January 1, 2050	11,817,600
Total SRF Loans		<u>\$ 78,845,301</u>
Total Senior Obligations		<u>\$ 78,845,301</u>
Subordinated Obligations ⁽²⁾ :		
2012A Subordinated Bonds ⁽³⁾	August 1, 2032	\$113,280,000
2016A Subordinated Bonds	August 1, 2045	38,360,000
2016B Subordinated Bonds	August 1, 2039	423,785,000
2018 Subordinated Bonds	August 1, 2047	239,365,000
Commercial Paper Notes ⁽⁴⁾	Varies (7 – 180 days)	131,500,000
Total Subordinated Obligations		<u>\$946,290,000</u>
Total All Obligations		<u>\$1,025,135,301</u>

(1) The projects remain under construction. The indicated maturity date and principal amount are based on loan disbursements as March 1, 2020. The maturity date and principal amount will be finalized upon completion of the project.

(2) Outstanding Subordinated Obligations does not include the City's borrowing of up to \$614 million pursuant to the WIFIA Loan Agreement as the City has not yet requested disbursements of amounts under the WIFIA Loan and no principal is outstanding under the WIFIA Loan.

(3) To be refunded with the 2020B Bonds.

(4) Certain Outstanding Commercial Paper Notes will be refunded with the 2020A Bonds.

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

In addition, the City has entered into various Master Lease Agreements (the "Equipment Leases") under which the Department has financed certain equipment. Lease payments due on a total principal outstanding amount of approximately \$400,000 as of March 1, 2020 are payable from amounts in the Water Utility Fund, subsequent to the payment of all Senior Obligations and all Subordinated Obligations. The lease payments payable from amounts in the Water Utility Fund are not secured by a pledge of or lien on Net System Revenues and therefore are neither a Senior Obligation nor a Subordinated Obligation. The lease payments allocated to the Water Utility Fund are made from any available moneys in the Water Utility Fund. Final payment of the lease payments is due on July 1, 2021. As of the date of this Official Statement, other than the obligations under the Equipment Leases, the Senior SRF Loans and the WIFIA Loan, the Department has not entered into any direct bank loans or issued any direct placement debt secured or payable from amounts in the Water Utility Fund.

The City has no general obligation bonds outstanding (for water purposes or otherwise) and has no immediate plans to issue such indebtedness. See “WATER SYSTEM CAPITAL IMPROVEMENT PROGRAM – Capital Improvement Financing Plan.”

Anticipated Additional Obligations

Pursuant to the Master Installment Purchase Agreement, the City may incur additional obligations, payments with respect to which will be senior to, or on parity with, the City’s obligation to make 2020 Installment Payments, subject to satisfaction of the conditions specified in the Master Installment Purchase Agreement. Table 11 sets forth the projected sources and uses of funds for the Water System CIP for Fiscal Years 2020 through 2025. See “WATER SYSTEM CAPITAL IMPROVEMENT PROGRAM – Capital Improvement Financing Plan.”

The City anticipates issuing additional debt in Fiscal Years 2020 through 2025 to finance the costs of certain projects in the Water System Baseline CIP in the approximate amount of \$972 million through a combination of SRF Loans, revenue bonds, and Commercial Paper. Of this amount, \$2 million is expected from existing SRF Loans, approximately \$325 million from SRF Loans for which the City intends to apply or has applied for, and \$645 million from bonds and commercial paper combined. The expected receipt of the additional SRF Loan proceeds and bond funds are included in the City’s financial projections in Table 19. Proceeds from the additional SRF Loans will provide funding in Fiscal Years 2020 through 2025, with interest only repayment projected to begin in Fiscal Year 2020 until construction completion of the projects, which vary from Fiscal Year 2020 to Fiscal Year 2025. Any additional SRF Loans are assumed to be on a senior lien basis, payable on parity with the Net System Revenues securing the Senior Obligations, except for an anticipated SRF Loan to fund Pure Water Program Phase 1 which is anticipated be on a subordinated lien basis. The lien status of future Obligations payable from System Revenues is yet to be determined.

In addition, the City expects to incur additional Obligations in Fiscal Years 2020 through 2025 to finance the costs of the Pure Water Program Phase 1 through a combination of Commercial Paper Notes and BANs on a short-term interim basis, and the WIFIA Loan for up to \$614 million and revenue bonds of \$50 million on a long-term basis. The WIFIA Loan was executed in November 2018, but as of the date of this Official Statement no funds have been advanced.

See “SECURITY AND SOURCES OF PAYMENT FOR THE 2020 BONDS – Incurrence of Additional Obligations,” “WATER SYSTEM CAPITAL IMPROVEMENT PROGRAM – Capital Improvement Financing Plan” and “RISK FACTORS.” There can be no assurances as to timing and availability of additional funding.

Labor Relations

As provided in the Fiscal Year 2020 Adopted Budget, there are approximately 808 full time equivalent employees of the Department (Water Branch) of which approximately 423 are represented by the San Diego Municipal Employees’ Association (“MEA”), and approximately 328 are represented by American Federation of State, County, and Municipal Employees, Local 127 (“AFSCME Local 127”) (both “Recognized Employee Organizations”). The remaining employees are not represented by any labor organizations. On a citywide basis, there are four other Recognized Employee Organizations that do not represent any Department (Water Branch) employees.

The City Council has authorized general salary/wage increases for all employees in Fiscal Year 2020 (detailed below). This pay increase resulted in increased compensation going toward employees’ defined benefit or defined contribution plans. In addition, in April 2019, the City Council approved special adjustments for certain unrepresented employees in the classified service ranging from 7.5% to 10% implemented in Fiscal Year 2020. These special salary/wage adjustments are for those classifications experiencing recruitment or retention issues, significant change in duties or other special factors, as determined by the City’s Civil Service Commission.

Collective Bargaining Agreements. The City currently has collective bargaining agreements with each of its Recognized Employee Organizations that all terminate on June 30, 2020, including MEA and AFSCME Local 127 which represent employees of the Department (Water Branch). The City is in negotiations with its Recognized Employee Organizations regarding successor collective bargaining agreements. The outcomes of the labor negotiations are unknown at this time. If the salaries/wages are to be adjusted, the preliminary cost estimate for a 1% salary increase is approximately \$0.5 million to the Water Utility Fund. This impact includes variable fringe and add-on pays but does not include any impact resulting from overtime or increased pension payments (above the 3.05% inflation assumption). All current collective bargaining agreements included pay increases in Fiscal Year 2020, as described below.

MEA. As part of a multi-year agreement which also included provisions implemented in Fiscal Year 2019, MEA-represented employees received a 3.3% increase in pensionable compensation in Fiscal Year 2020. In April 2018, the City Council approved additional special adjustments ranging from 1% to 10% to be implemented on January 1, 2020. On October 16, 2018, the City Council approved pay increases ranging from 4% to 8% to be implemented the first full pay period following January 1, 2020 for Infrastructure Premium Pay for certain Engineers and Land Surveyors, who have a state registration as an engineer, geologist or land surveyor, or have an Engineer-in-Training, Land Surveyor-in-Training or Geologist-in-Training certification.

AFSCME Local 127. As part of a multi-year agreement which also included provisions implemented in Fiscal Year 2019, AFSME Local 127-represented employees received a 3.3% general salary increase in pensionable compensation in Fiscal Year 2020. In April 2018, the City Council approved additional special adjustments ranging from 5% to 10% to be implemented in Fiscal Year 2020 (on January 1, 2020) for certain classifications.

Information Technology

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

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

The Fiscal Year 2020 through Fiscal Year 2024 IT Strategic Plan is a comprehensive plan developed to align with the Citywide Strategic Plan; modernize the City's networks, infrastructure, and applications; and integrate IT industry best practices with the delivery and contracting of technology services. It provides the plans to accelerate the move of City applications to cloud services and enhance the resiliency of the City's application portfolio. Roadmaps were developed for each major area of service, which contain hundreds of projects that keep the City's systems current, target cost reductions, enhance security, improve efficiencies, accelerate mobile and cloud adoption, drive innovation, modernize services, and increase automation. These roadmaps represent projects and initiatives outside of the daily operational support by IT staff to keep 300 City locations connected to each other and on the internet; keep 380 applications operational and available; 13,000 desktops and laptops secure and

patched; 9,000 phones operational for calls; 1,100 servers operational, patched, and secure; 11,000 email accounts functional; and public-safety radio services available for the City's first responders. The Public Utilities Department employs additional systems and industrial controls, including a Supervisory Control and Data Acquisition (SCADA) system that is used to monitor and control the water system, and employs additional system security safeguards and controls pursuant to protecting the public safety interests related to clean water delivery and wastewater treatment, following definitive and published guidelines for the extra security required of industrial control systems by the National Institute of Standards and Technology Special Publication 800-82.

Cybersecurity. The City's Information Security Office, a group within the City's Department of Information Technology, centrally works to protect the City from cyber threats by adopting new technology and procedures in an effort to protect City systems and citizen data. This office also provides the development, implementation and management of all citywide information security policies, standards, procedures, and internal controls. The Information Security Office focuses on three core components: an appropriate governance and policy structure; a robust and scalable security architecture and solutions; and an expansive and continuous security awareness program. The Information Security Office 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 Information Security Office and contracted third parties. The Cyber Security team comprises of 5 team members with a Fiscal Year 2020 budget of \$3.8 million.

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

Insurance and Liability Claims

General. The City is self-insured for public liability, workers' compensation, and long term disability claims and also maintains contracts with various insurance companies to manage additional risks. The City is self-insured up to \$5 million for workers' compensation program with purchased excess coverage up to the statutory amount. For liability claims, the City's self-insured retention is \$3 million per occurrence with a one-time individual member corridor deductible of \$2.5 million. The City maintains excess public liability insurance policies in collaboration with a statewide joint powers authority risk pool, the California State Association of Counties-Excess Insurance Authority ("CSAC-EIA") for amounts up to \$50 million per occurrence (inclusive of the self-insured retention and individual member corridor deductible). The Department is covered by the City's insurance coverage.

Property and Flood Insurance. The City participates in the joint purchase of property insurance and flood insurance through the CSAC-EIA pool (policy term March 31, 2019 through March 31, 2020 and is expected to be renewed for an additional annual policy from March 31, 2020 through March 31, 2021), which includes flood and earthquake coverage for certain scheduled locations, including bond financed locations of the Water System.

This joint purchase of the City's "All Risk" property insurance through the CSAC-EIA pool, insures approximately \$4.5 billion of City property, and provides coverage for loss to City property under the primary policy up to \$25 million per occurrence and with access to additional excess limits. The policy is subject to a \$25,000 deductible. Additional excess limits are available as part of the City's insurance property program through CSAC-EIA where coverage "towers" with designated coverage limits are provided. Coverage towers are groups of properties, which are diversified based on occupancy

(risk-pool members) and geographical location. The City participates in four coverage towers with dedicated coverage limits of \$300 million for “All Risk” and Flood. Additional rooftop limits of \$300 million for “All Risk” may be accessible. There is no sharing of limits among the City and member counties of the CSAC-EIA pool, unless the City and member counties are mutually subject to losses due to the same occurrence. Limits and coverage may be adjusted periodically in response to requirements of bond financed projects, acquisitions, and in response to changes in the insurance marketplace. The City can give no assurance that any future losses will be covered or that its insurance provider will be able to cover any such losses.

Earthquake Insurance. CSAC-EIA’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 limits 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. Earthquake coverage is subject to a deductible of 2% of total insured values per unit per occurrence, subject to a \$100,000 minimum. The City’s earthquake coverage is purchased jointly and limits are shared with the member counties in the CSAC-EIA pool. Due to the potential for geographically concentrated earthquake losses, the CSAC-EIA pool is geographically diverse to minimize any potential sharing of coverage in the case of an earthquake. Depending on 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.

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

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 CSAC-EIA pool. \$7 million per occurrence and \$50 million program aggregate limits are available to the City subject to a \$100,000 self-insured retention per claim. See “RISK FACTORS — Cybersecurity” for information with respect to the City’s practices to protect against cyber threats.

Insurance for the Water System. Coverage under the City’s CSAC-EIA policy extends to losses arising out of the operation of the Water System, including, among other assets, treatment plants, pump stations, administration buildings, garages, warehouses, concession buildings, and labs. However, the City does not maintain any insurance for the pipelines of the Water System because such insurance is not available at commercially reasonable rates. The City is not obligated under the Master Installment Purchase Agreement to procure and maintain, or cause to be procured and maintained, earthquake insurance on the Water System.

See Note 15 “– RISK MANAGEMENT” contained in the City’s CAFR for Fiscal Year 2019 which is available through EMMA and incorporated by reference in this Official Statement, for additional information on the City’s insurance coverages. See “FINANCIAL STATEMENTS” herein.

The following table sets forth the liabilities claims expenditures for liability claims of the Water System for Fiscal Years 2015 through 2019.

TABLE 21
WATER UTILITY FUND LIABILITY CLAIMS EXPENDITURES
Fiscal Years 2015 through 2019
(Unaudited)

<u>Fiscal Year</u>	<u>Expenditures</u>
2015	\$4,554,115
2016	2,671,028
2017	4,256,340
2018	5,873,310
2019 ⁽¹⁾	9,221,215

(1) Liability claims expenditures increased in Fiscal Year 2019 from third-party property damage claims from fewer, but larger diameter water main breaks, resulting in more expensive claims per occurrence.

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

Investment of Funds

General. Amounts in the funds and accounts of the Water Utility Fund are invested by the City Treasurer in the City Treasurer’s Pooled Investment Fund (the “City Pool”) described below. Approximately 9.2% of the City Pool is allocable to the Water Utility Fund.

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

The following table sets forth the investments in the City Pool as of December 31, 2019.

TABLE 22
CITY OF SAN DIEGO POOLED INVESTMENT FUND
At December 31, 2019
(\$ Amounts in Thousands; Except for Percentages)
(Unaudited)

Investment Instrument	Book Value	Fair Value	Percent of Total⁽¹⁾
U.S. Treasury Notes	\$ 755,896	\$ 761,539	34.65%
Agency Notes	110,490	111,692	5.06
Supranationals ⁽²⁾	30,126	29,973	1.38
Commercial Paper	305,420	305,782	14.00
Corporate Notes	550,643	557,317	25.24
Local Agency Investment Fund	43,287	43,287	1.98
Asset Backed Securities	<u>385,952</u>	<u>389,785</u>	<u>17.69</u>
TOTAL INVESTMENTS	<u>\$2,181,812⁽³⁾</u>	<u>\$ 2,199,375</u>	100.00%

(1) Based on book value.

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

(3) Total does not foot due to rounding.

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 in connection with its investment program.

A summary of the investments held by the City Pool as of June 30, 2019, a description of the City's Investment Policy, as well as a list of investments authorized under the California Government Code and the City's Investment Policy, are set forth in the City's CAFR at Note 3, "Cash and Investments."

Oversight and Reporting Requirements. The City Treasurer provides a monthly investment report, including the portfolio market valuation, to the Mayor, City Council, Chief Financial Officer, and other senior management officials. In addition to the monthly investment reports, the Department presents the City Treasurer's Investment Policy to the City Treasurer's Investment Advisory Committee, the Budget and Government Efficiency Committee, and the City Council. The City Treasurer's Investment Advisory Committee is comprised of two City employees, currently the Chief Financial Officer and the Director of Debt Management, and three outside investment professionals and is charged with overseeing the review of the City Treasurer's Investment Policy and 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 services to provide investment portfolio valuations, accounting, and reporting services. These services provide monthly portfolio valuation, investment performance statistics, and other portfolio reports that are distributed to the Office of the City Treasurer Accounting program and the Department of Finance for review and reconciliation.

San Diego City Employees' Retirement System – Water Utility Fund Contribution

General. The City has an unfunded pension liability of approximately \$3 billion as of June 30, 2019. However, the Water Utility Fund's proportionate share of the City's Actuarially Determined

Contribution (“ADC”) to San Diego City Employees’ Retirement System (“SDCERS”) was approximately 4.8% (equal to approximately \$15.39 million or 3.2% of the Water System’s Maintenance and Operation Costs, based on a City pension payment of \$322.9 million) for Fiscal Year 2019 and projected to be approximately 4.8% (equal to approximately \$16.72 million or 3.3% of the Water System’s Maintenance and Operations Costs, based on a City pension payment of \$350.5 million) for Fiscal Year 2020, as included in the Fiscal Year 2020 Adopted Budget.

SDCERS is a public employee retirement system established in Fiscal Year 1927 by the City. SDCERS administers independent, qualified, single employer governmental defined benefit plans and trusts for the City, the San Diego Unified Port District (the “Port”) and the San Diego County Regional Airport Authority (the “Airport”). The assets of the three separate plans and trusts are pooled in the SDCERS Group Trust for investment purposes. These plans are administered by the SDCERS Board to provide retirement, disability, death and survivor benefits for its members. Amendments to the City’s benefit provisions require City Council approval and amendments to retirement benefits require a majority vote by those SDCERS members who are also eligible City employees or retirees. Benefit increases also require a majority vote of the public. All approved benefit changes are codified in the City’s Municipal Code. The plans cover all eligible employees of the City, the Port, and the Airport. All City employees initially hired before July 20, 2012 working half-time or greater, all sworn police officers of the City irrespective of hire date, and full-time employees of the Port and the Airport are eligible for membership and are required to join SDCERS.

Due to the implementation of Proposition B (as discussed below), as of July 20, 2012, SDCERS is closed to new City employees, except for the Police plan, which will remain open. SDCERS is considered part of the City’s financial reporting entity and is included in the City’s CAFR as a pension trust fund. See Note 12, “Pension Plans,” in the City’s Fiscal Year 2019 CAFR. SDCERS also prepares its own Comprehensive Annual Financial Report, the most recent of which is for Fiscal Year 2019.

The amounts and percentages set forth under this caption relating to SDCERS, including, for example, actuarial accrued liabilities and funded ratios, are based upon numerous demographic and economic assumptions, including investment return rates, inflation rates, salary increase rates, cost of living adjustments, postemployment mortality, active member mortality, and rates of retirement. Prospective purchasers of the 2020 Bonds are cautioned to review and carefully assess the reasonableness of the assumptions set forth in this Official Statement and in the documents that are cited as the sources for the information under this caption. In addition, the prospective purchasers of the 2020 Bonds are cautioned that such sources and the underlying assumptions speak as of their respective dates, and are subject to change. Prospective purchasers of the 2020 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 Recognized Employee Organizations depending on the type and nature of work performed, except for elected officials, unclassified and unrepresented employees. For information on labor relations of Department employees, see “—Labor Relations.”

TABLE 23
CITY OF SAN DIEGO PLAN MEMBERSHIP
As of June 30, 2019

	<u>General</u>	<u>Safety</u>	<u>Total by Classification</u>
Active Members	3,608	2,149	5,757
Inactive Members	2,250	655	2,905
Retirees	5,677	3,562	9,239
DROP Participants ⁽¹⁾	669	297	966
Total Members	12,204	6,663	18,867

⁽¹⁾ Participants in the Deferred Retirement Option Plan ("DROP") no longer accrue service credits and do not make contributions to SDCERS. They continue to work for the City and contribute 3.05% of their salary, with an employer match, into a personal DROP account. Their service retirement benefit is also deposited into their DROP account and they must retire within five years of entering DROP. Employees hired after June 30, 2005 are ineligible for DROP.

Source: SDCERS Actuarial Valuation Report as of June 30, 2019.

The City is required to make contributions to the pension system as determined by the SDCERS Board. Pension contributions are authorized and appropriated annually in accordance with the adoption of the City's annual budget. The City's ADC is calculated by the SDCERS' actuary, Cheiron, Inc. ("Cheiron") and approved by the SDCERS Board. Cheiron conducts an actuarial analysis for SDCERS annually, the most recent of which is the June 30, 2019 Annual Actuarial Valuation of SDCERS, dated December 2019 (the "2019 Actuarial Valuation"). The 2019 Actuarial Valuation serves as the basis for the City's pension contribution for Fiscal Year 2021. The City's actual annual pension contribution may differ from the ADC based on a number of factors discussed below, but the pension contribution is not expected to be less than the ADC in any Fiscal Year.

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

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

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

On March 25, 2019, the Court of Appeal affirmed the PERB Order with the following modifications (the "Modified PERB Order"): (1) The City must meet and confer with the Recognized Employee Organizations over the effects of Proposition B; (2) Until the completion of the bargaining process (including the exhaustion of impasse measures, if an impasse occurs), the City must pay the affected current and former employees represented by the Recognized Employee Organizations the difference, plus seven percent annual interest between the compensation (including retirement benefits)

the employees would have received prior to when Proposition B took effect and the compensation those employees received after Proposition B took effect (the “Make-Whole Provision”); and (3) The City must meet and confer at the Recognized Employee Organizations’ request and is precluded from placing a charter amendment on the ballot that is advanced by the City that affects employee pension benefits and/or other negotiable subjects until the bargaining process is complete.

The Recognized Employee Organizations had requested that the Court of Appeal invalidate Proposition B, however, the court declined to do so, concluding that the question of Proposition B’s validity would be more appropriately decided in a separate quo warranto proceeding. On June 25, 2019, the Recognized Employee Organizations served the California Attorney General with an Application for Leave to Sue in quo warranto. The Attorney General granted the Recognized Employee Organizations leave to sue and on September 27, 2019, the Recognized Employee Organizations filed their complaint in Superior Court. Depending on the nature of the Proposition B proponents’ opposition and potential appeals, it could take until 2024 before there is final resolution of Proposition B’s validity if the quo warranto action is ultimately reviewed by the California Supreme Court.

Neither PERB nor the Appellate Court clearly defined how the value of the benefits under the Make-Whole Provision should be calculated; meaning the ultimate cost to the City, if any, will likely be the subject of negotiations between the City and the Recognized Employee Organizations. The City’s preliminary analysis and work performed by SDCERS’ actuary has provided a preliminary understanding of what disparity exists between the benefits provided under Proposition B versus what employees would have otherwise received under the City’s defined benefit plan. That preliminary analysis identified several assumptions that would be the subject of negotiations between the City and Recognized Employee Organizations including, but not limited to, the investment rate of return, the discount rate, and how interest earnings are calculated. Any one of these assumptions could significantly alter the estimated one-time and ongoing costs to the City and such costs could be material. A further consideration in implementing any compensatory remedy is compliance with federal tax laws and regulations, which may also restrict the remedies available through labor negotiations. Accordingly, it would not be meaningful or informative for the City to provide any such preliminary cost estimates at this time. The Fiscal Year 2020 Adopted Budget does not include any potential costs associated with implementation of the remedy.

Actuarial Assumptions. The following are the principal actuarial assumptions used by Cheiron in preparing the 2019 Actuarial Valuation. The actuarial assumptions reflect recommendations approved by the SDCERS Board in January 2019.

1. Investment Return Rate: 6.50% net of investment expenses.
2. Inflation Rate: 3.05% per year, compounded annually.
3. Administrative Expense Assumption: Administrative expenses are assumed to be \$12.4 million for Fiscal Year 2021 (assuming payment at the beginning of the fiscal year, increasing by 2.50% annually).
4. Interest Credited to Member Contributions: 6.50% compounded annually.
5. Projected Salary Increases Due to Inflation: 3.05%.
6. Cost-of-Living Adjustments: 1.90% per year, compounded annually.
7. Additional Assumptions: Additional assumptions were used regarding cost of living annuity benefit, member refunds of contributions, rates of separation from active membership, rates of disability, post-retirement mortality, disability mortality, active member mortality, family composition, rates of retirement, spousal continuances and rates of retirement.

Funding Status. According to the 2019 Actuarial Valuation, at June 30, 2019, the City had an Unfunded Actuarial Liability (“UAL”) of \$3.007 billion and a funded ratio based on the actuarial value of

assets of 71.6%. The UAL increased by \$29.2 million over the UAL set forth in the Actuarial Valuation at June 30, 2018 (“2018 Actuarial Valuation”), which was \$2.978 billion, and the funded ratio increased by 0.8%. In the Fiscal Year 2018 Actuarial Valuation it was projected that the Fiscal Year 2019 UAL would decrease by \$143.7 million. The increase in the Fiscal Year 2019 UAL was primarily driven by the liability loss due to salary increases higher than expected. Net asset experience was also unfavorable, decreasing the UAL by \$6.4 million.

The following table sets forth the City’s portion of SDCERS historical funding progress for Fiscal Years 2010 through 2019. Additionally, see Note 12, “Pension Plans,” in the City’s Fiscal Year 2019 CAFR.

TABLE 24
CITY OF SAN DIEGO
SCHEDULE OF FUNDING PROGRESS
Fiscal Years 2010 through 2019
(\$ Amounts in Thousands; Except for Percentages)
(Unaudited)

Valuation Date (June 30)	Actuarial Value of Assets (A)	Market Value of Assets (B)	AL (C)	Funded Ratio (Actuarial) (A/C)	Funded Ratio (Market) (B/C)	Unfunded AL (Actuarial) (C – A)	AL Less Market Value of Assets (C – B)
2010	\$4,382,047	\$3,900,537	\$6,527,224	67.1%	59.8%	\$2,145,177	\$2,626,687
2011	4,739,399	4,848,054	6,917,175	68.5	70.1	2,177,776	2,069,121
2012	4,982,442	4,799,827	7,261,731	68.6	66.1	2,279,289	2,461,904
2013	5,317,778	5,395,158	7,555,527	70.4	71.4	2,237,749	2,160,369
2014	5,828,594	6,292,855	7,858,703	74.2	80.1	2,030,110	1,565,848
2015	6,204,244	6,387,829	8,205,953	75.6	77.8	2,001,709	1,818,124
2016	6,455,378	6,307,412	9,013,130	71.6	70.0	2,557,752	2,705,718
2017	6,808,418	7,000,220	9,565,802	71.2	73.2	2,757,384	2,565,582
2018	7,214,925	7,456,337	10,192,808	70.8	73.2	2,977,883	2,736,471
2019	7,595,073	7,779,226	10,602,166	71.6	73.4	3,007,093	2,822,941

Source: SDCERS Comprehensive Annual Financial Reports from 2011-2019 (2010-2018). Cheiron Actuarial Valuation Report as of June 30, 2019 (2019). City of San Diego for Funded Ratio (Market) (2010-2019) and AL Less Market Value of Assets (2010-2019).

City and Water System Pension Contributions. The following table sets forth the City’s ADC and pension contributions, the Water System’s share of payments for Fiscal Years 2016 through 2019. Preservation of Benefits (“POB”) Plan contributions are made on a monthly basis as payments are owed to beneficiaries. The City does not pay any portion of employee pension contributions.

TABLE 25
CITY OF SAN DIEGO AND WATER UTILITY FUND
PENSION CONTRIBUTION
Fiscal Years 2015 through 2019
(\$ Amounts in Thousands; Except for Percentages and in Footnotes)
(Unaudited)

Fiscal Year	Pension Plan ADC	POB Plan Contribution	Total Pension Contribution⁽¹⁾	Water System Contribution to Pension Plan ADC⁽²⁾	Water System Operating Expenses⁽³⁾	Water System Contribution (% of O&M)
	(A)	(B)	(A+B)	(C)	(D)	(C/D)
2015	\$263,600	\$1,399	\$264,999	\$16,907	\$429,657	3.9%
2016	254,900	1,595	256,495	16,297	415,820	3.9
2017	261,100	1,633	262,733	17,049	458,343	3.7
2018	324,500	1,430	325,930	20,257	490,438	4.1
2019 ⁽⁴⁾	322,900	1,403	324,303	15,395	485,874	3.2

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

(2) In addition to the annual Water System contribution to the Pension Plan ADC, the Water System contributed \$1.5 million and \$0.4 million to the Pension Payment Stabilization Reserve in Fiscal Years 2016 and 2019, respectively. See below for more information on the reserve.

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

(4) For Fiscal Year 2019 Water System Contribution, a revised metric was identified to provide an updated allocation between Water Utility Fund and Sewer Revenue Fund contributions.

Source: SDCERS Comprehensive Annual Financial Reports for Pension Plan ADC (2015-2019). Comprehensive Annual Financial Report, City of San Diego for POB Plan Contribution (2015-2019), and Water System Operating Expenses (2015-2019). Department of Finance, City of San Diego for Water System Contribution to Pension Plan ADC (2015-2019).

Per the Fiscal Year 2020 Adopted Budget, the City's pension payment is \$350.5 million, an increase of \$27.6 million from Fiscal Year 2019; approximately \$16.72 million, or 4.8% of the ADC is budgeted in the Water Utility Fund. The Water System contribution to Pension Plan ADC of \$16.72 million represents 3.3% of the Water System's operating expense budget of \$508.6 million for Fiscal Year 2020.

Water System Contributions to Pension Payment Stabilization Reserve. The Water System contributes to the Citywide Pension Payment Stabilization Reserve which was established in 2016 to mitigate any unanticipated increase in the ADC for the Water Utility. The City Reserve Policy goal for the Pension Reserve is to fund this reserve at 8% of the ADC by Fiscal Year 2023, which is currently estimated at \$28.2 million. The City is incrementally funding the Pension Reserve by annually appropriating funds through the budget process. The Citywide Fiscal Year-End 2020 reserve amount target is \$10.6 million (with \$0.8 million total contributed from the Water Utility Fund in Fiscal Years 2019 and 2020). The forecast for total reserve contributions for the Water Utility Fund's portion is estimated to be \$1.5 million in Fiscal Years 2021-2023.

Postemployment Healthcare Benefits – Water Utility Fund Contribution

General. The City provides retiree healthcare benefits, also known as other post-employment benefits ("OPEB"), to certain health-eligible retirees and employees who were initially hired prior to July 1, 2005. As a result of a 15-year memorandum of understanding regarding post-employment healthcare benefits ("PEHB MOU") with the City's recognized employee organizations, there are two retiree healthcare plans: a defined benefit OPEB plan ("DB OPEB Plan") and a defined contribution plan ("DC Plan"). See Note 13, "Other Postemployment Benefits," in the City's Fiscal Year 2019 CAFR for information regarding the City's OPEB plans.

Citywide and Water Utility Fund OPEB Contributions. Pursuant to the PEHB MOU, the City's total retiree healthcare annual contribution ("MOU Contribution") was \$63.8 million for Fiscal Year

2019, distributed among the City's pay-go contribution to the DB OPEB Plan ("DB OPEB Pay-go") and its contribution to the DC Plan. The PEHB MOU also requires that certain employees contribute towards the DB OPEB Plan to fund a portion of the DB OPEB Pay-go. The terms of the PEHB MOU may be renegotiated with a two-thirds vote of the City Council. As of the date of this Official Statement, there are no discussions ongoing to renegotiate the level of funding for the MOU Contribution.

The City's annual payment for the DB OPEB Plan and the DC Plan are made on a pay-go basis. For the last five fiscal years, the Water Fund retiree health contribution has been less than \$5.0 million annually, which has represented approximately 1.00% of the Water Fund's maintenance and operation expenses.

FACTORS AFFECTING THE DEPARTMENT AND THE WATER UTILITY INDUSTRY

The Department is required to comply with various federal and State drinking water rules and regulations. The Department monitors federal and State drinking water rules and regulations and the Water System's compliance with these rules and regulations. Following is a discussion of certain federal and State rules and regulations that must be complied with by the Department in connection with the operation of the Water System.

California Safe Drinking Water Act of 1996

The California Safe Drinking Water Act of 1996 introduced recommended Public Health Goals to drinking water regulations, which represent non-mandatory goals based solely on public health considerations (without consideration of occurrence, technical feasibility or cost) developed on the basis of the best available health effects data in current scientific literature. Public Health Goals, established by the Office of Environmental Health Hazard Assessment of the California Environmental Protection Agency are analogous to the federal maximum contaminant level goals. Every three years, water agencies must prepare a Public Health Goals Report that discusses how closely the water served meets the State Public Health Goals and the federal maximum contaminant level goals. For contaminants that are above their respective Public Health Goals, the water agency must present the known health effects and estimate the cost to treat the water to achieve the applicable Public Health Goals. The City's drinking water meets all California SWRCB's DDW and EPA drinking water quality standards in all material respects.

Federal Safe Drinking Water Act Amendments of 1996

As noted above, the federal Safe Drinking Water Act Amendments of 1996 require all public water systems to prepare an annual consumer confidence report that describes in plain language the Department's water quality and relevant health information. The EPA grants the State "primacy" to enforce all federal drinking water regulations as long as the state standards are not less stringent than federal standards. California has required similar reporting since 1989. The City's water meets or exceeds all State and federal standards in all material respects.

Surface Water Treatment

1989 Surface Water Treatment Rule. The Federal Surface Water Treatment Rule, issued by the EPA in 1989 under the Safe Drinking Water Act Amendments of 1986 (the "Federal Surface Water Treatment Rule"), established specific treatment requirements as an alternative to numerical drinking water standards for several microbiological contaminants commonly found in surface water. The Federal Surface Water Treatment Rule requires the Department to filter and disinfect its surface water supply, and any open distribution reservoir vulnerable to contamination by storm water runoff. The City continues to remain in compliance with the Surface Water Treatment Rule in all material respects.

Subsequent Surface Water Treatment Rules. The EPA continued to refine the Federal Surface Water Treatment Rule by issuing several subsequent regulations including the Enhanced Surface Water Treatment Rule, the Long Term 1 Enhanced Surface Water Treatment Rule, the Backwash Rule and most

recently the Long Term 2 Enhanced Surface Water Treatment Rule promulgated by the EPA in January 2006 pursuant to the Safe Drinking Water Act Amendments of 1996. The City continues to remain in compliance with the Surface Water Treatment Rule in all material respects.

Disinfection Byproduct Rule

Pathogens, such as *Giardia* and *Cryptosporidium*, are often found in surface water, and can cause gastrointestinal illness and other health risks. In many cases, water must be disinfected to inactivate (or kill) these microbial pathogens. However, disinfectants like chlorine and ozone can react with naturally-occurring materials in the water to form byproducts such as, trihalomethanes, haloacetic acids, chlorite and bromate. These byproducts, if consumed in excess of the EPA's standard over many years, may lead to increased health risks. The EPA issued the Stage 2 Disinfection Byproduct Rule to further protect public health by limiting exposure to these disinfectant byproducts. The City monitors sixteen sites located throughout the distribution system to determine compliance with the Stage 2 Disinfection Byproduct Rule. Since the initiation of the rule the City has had no violations of the Locational Running Annual Average ("LRAA") at any of these sixteen sites.

Compliance Order of the California Department of Public Health/DDW

The Water System is subject to a Compliance Order (as amended to date, the "DDW Compliance Order") issued by the Division of Drinking Water ("DDW," the successor to the California Department of Public Health), which is the State regulatory agency responsible for ensuring that water systems meet the federal regulations, as well as additional or stricter State regulations. To address certain deficiencies in the future reliability of various components of the Water System, the DDW Compliance Order, issued in 1997, required the Department to complete eight pump stations, 10 reservoirs/standpipes, nine treatment-related projects and four pipelines and award 10 miles of distribution (small diameter) cast iron water main replacement per Fiscal Year until all small diameter cast iron water mains within the Water System have been replaced. Except the pipeline small diameter water main replacement pipelines, all of the required projects were completed in Calendar Year 2012. The awarding of contracts for distribution pipelines is ongoing and the Department expects to award the replacement of all remaining small diameter cast iron water mains by calendar year 2021, which will fulfill the final requirement of the DDW Compliance Order. The Department is meeting all other ongoing requirements of the DDW Compliance Order, including the provision to the DDW of quarterly progress reports.

The costs for bidding, constructing and completing the required work fluctuates depending on variables such as changes in the cost of materials and labor. The estimated DDW Compliance Order project costs for Fiscal Years 2020 through 2025 total approximately \$36.9 million. The Department anticipates financing such costs with existing net assets, present and future revenues, and financing proceeds secured by System Revenues.

Inventory of Lead User Service Lines

California Health and Safety Code Section 116885 required the City to submit the results of an inventory of lead user service lines to the SWRCB by July 1, 2018. User service lines includes pipes, tubing, and fittings connecting the water main (distribution) lines to an individual water meter or service connection. The City completed the initial inventory of user service lines in accordance with applicable law and submitted reporting in May 2018. The City identified approximately 281,000 service lines; of which 192,507 service lines and 15,863 fittings were of unknown material. Under State law, the City must provide to the SWRCB by July 1, 2020 a timeline for replacement of both service lines that are known to contain lead and service lines that are of an unknown material. The City prepared a plan with the DDW in May 2019 to identify the material used in those service lines that were categorized as unknown. Using Standard Drawings, Specifications, Capital Improvement Project Bid Package and Design Guidelines, the material type of 140,000 service lines were identified as of May 2019. Additional research and data including as-built drawings, maps, water service permit records and field check

verifications have been used to further identify service line material type. To date, only one service line was identified as being made of lead, and the service line was immediately replaced by City construction forces on the day it was discovered. As of February 2020, 700 service lines remain to be evaluated for material type. The City will complete the identification of material type for all remaining service lines by April 2020. The City believes that lead user service lines, if any, would very likely be connected to cast iron main lines, and not to main lines made of PVC or asbestos cement. The City estimates that there are approximately 20 miles of cast iron main lines that remain to be replaced.

Dam Licensing and Safety Issues

Among the Water System's facilities are thirteen dams that are subject to the jurisdiction of the California Department of Water Resources' Division of Safety of Dams ("DOSD"), which has various inspection and approval authority relative to operation of and improvements to dams. Among the authority granted to DOSD is the power to impose water level restrictions on dams for safety reasons, which may restrict reservoir capacity. These water level restrictions apply to Hodges Dam and El Capitan Dam. Hodges Dam is a Multiple Arch Buttress Dam and El Capitan Dam is a Hydraulic Fill Rock Embankment Dam. Hodges Dam was downgraded from "Fair" to "Poor" condition in September 2019, due to dam safety deficiencies. The water level restriction is a mitigation measure for ensuring dam safety of Hodges Dam. The DOSD can potentially downgrade and imposed water level restrictions on other City dams due to their condition.

In addition, the California Office of Emergency Services has imposed requirements for the review and approval of inundation maps for dams, critical appurtenant structures, and enhanced dam inspection practices. As a result, the City developed a plan for a comprehensive condition assessment of four of the City's "extremely high" hazard dam appurtenant structures: Lake Hodges, Savage (for Lower Otay Reservoir), Morena and El Capitan dams. The plan was reviewed and approved by the DOSD. The City has completed inundation studies for most of its dams and is developing condition assessment reports to fulfill the DOSD requirements.

The City was awarded grant funding for three City-owned dams from the Federal Emergency Management Agency ("FEMA") National Dam Safety Program. These grants are being administered by the DOSD, and the City is working with DSOD to effectively and proactively maintain safe infrastructure for all residents and industries within dam inundation zones. The Department will continue to pursue funding during each year of the grant opportunity to complete rehabilitation efforts of each eligible dam.

Corrosion Control

Corrosion control strategies have been developed in response to the federal Lead and Copper Rule. The Department was required to identify and remove all known lead pipes in the distribution system. Regulation require water agencies like the Department to implement optimized corrosion control treatment to further reduce the corrosivity of tap water and the subsequent leaching of lead and copper from home plumbing. The City has complied in all material respect with the Lead and Copper Rule.

Fluoride

In October 1995, California State Assembly Bill No. 773 became law and required water agencies serving more than 10,000 people to add fluoride to the water supply if funding became available. In October 2007, Metropolitan began adding fluoride to treated water, which eliminated the Department's need to fluoridate Metropolitan sources that supplement the City's supplies. In 2011, the City began fluoridating the water treated at the three plants owned and operated by the City. All of the Department's customers receive water with the optimum level of fluoride as recommended by State and federal health officials (including the revised optimum levels released by the U.S. Centers for Disease Control and Prevention in 2015). Fluoride monitoring is conducted on a daily basis at each treatment plant and in samples from throughout the distribution system.

Radon

The EPA first proposed regulations to protect people from exposure to radon in 1998 (the “Radon Rule”). The framework for the latest proposed Radon Rule is set forth in the Safe Drinking Water Act Amendments of 1996, which proposes a multimedia approach to address the public health risks from radon in drinking water and radon in indoor air from all sources. The costs of compliance that limits radon in water will depend on the final Radon Rule. The Radon Rule proposed two standards: a maximum contaminant level of 300 picoCuries/liter (“pCi/L”) in water or an alternative maximum contaminant level of 4,000 pCi/L along with an approved multimedia mitigation program. The final Radon Rule was expected to be promulgated in 2002 but has been delayed indefinitely.

Ground Water Rule

The EPA’s Groundwater Rule (“GWR”), issued pursuant to the Safe Drinking Water Act Amendments of 1996, is the complement to the Federal Surface Water Treatment Rule. The GWR establishes a risk-targeted approach to identify groundwater systems susceptible to contamination, establishes disinfection treatment requirements for drinking water supply wells, and delineates vulnerable recharge areas surrounding such wells. The disinfection and monitoring requirements of the GWR depend on the vulnerability of each individual well to bacteria and viruses. The GWR grants considerable discretion to states regarding implementation. The California Department of Public Health GWR requirements became effective in December 2009. All California water purveyors must demonstrate adequate disinfection treatment for bacteria and viruses or develop a monitoring plan that must be approved by the Division of Drinking Water. The City does not use groundwater as a direct source to the treated water distribution system. Groundwater makes up less than 1% of the water treated by the City, and these groundwater sources blend with other raw water sources before treatment at one of the City’s three water treatment plants.

Drinking Water Source Assessment Program

The EPA’s Drinking Water Source Assessment Program, part of the Safe Drinking Water Act Amendments of 1996, requires utilities to conduct sanitary surveys (or update existing surveys) for surface water sources, to conduct source assessment surveys for ground water sources, and to identify and categorize potential risks of contamination to each source of supply. Groundwater assessments are used to implement wellhead protection measures to protect ground water sources from contamination. Future regulations may require additional protective measures. The City protects watersheds that feed our source water reservoirs through a comprehensive monitoring program.

Potential Issues Relating to Water Quality

The State utilizes two separate contaminant definitions; notification levels (“NL”) and response levels (“RL”), both of which address unregulated contaminants that may be of future regulatory consideration. The NL is the level above which a water agency must inform their governance of the finding of an unregulated contaminant in their source water, while the RL is the level above which the water agency must take action to reduce an unregulated contaminant’s presence in the water supply. NLs and RLs are not enforceable standards, but influence the Department’s use of some water sources.

Another challenge to the Department and to water quality is the percentage of SWP water. The composition of natural occurring contaminants and organic carbon matter in this water source varies considerably and thereby presents separate challenges to water quality compliance, especially in the area of disinfection by-products.

Future revisions to drinking water standards may impact the type and quality of treatment necessary for the continued use of the Department’s local and imported supplies. Major areas of focus with emerging contaminants are Cynotoxins, endocrine disrupting compounds (“EDCs”), pharmaceuticals and personal care products (“PPCPs”), microplastics and per- and polyfluoroalkyl substances (“PFAS”).

These groups of constituents are an evolving concern, especially in the arid Southwest regions of the United States, where water agencies are looking to augment their water supplies with non-traditional sources, including recycled wastewater. Recycling and replenishing groundwater with recycled water may require removal of EDCs, PPCPs, microplastics and PFAS.

Additionally, customer expectations of improvements in the aesthetic quality of tap water remain high. Efforts are continuing to maintain the high quality of water throughout the distribution system.

Other Regulatory Matters

The foregoing discussion is not a comprehensive list of all water and water-related regulatory matters. Drinking water that is delivered to customers is subject to numerous regulations enforced by multiple governmental entities, including the federal, state and regional entities including the EPA, SWRCB and California Regional Water Quality Control Board. The transfer, treatment, storage and discharge of water are subject to additional regulations, including under the Federal Clean Water Act through NPDES permits issued by the SWRCB and the Porter Cologne Act under the California Water Code. Additionally, various other permits and licenses are required for operation of the water treatment plants, water impounding system, water quality lab and distribution system and address issues such as surface water treatment, disinfection and disinfection byproducts rules, regulations governing groundwater to address waterborne disease and microbial contamination, and rules on the monitoring, reporting and treatment requirements of public water systems associated with lead and copper. The City believed that it is currently in substantial compliance with all federal and State regulations applicable to drinking water and operates and maintains its water treatment transmission and distribution facilities in material compliance with permit requirements.

RISK FACTORS

Investment in the 2020 Bonds involves risks that may not be appropriate for certain investors. The following is a discussion of certain risk factors that should be considered, in addition to other matters set forth herein, in evaluating the 2020 Bonds for investment. The ability to pay principal of and interest on the 2020 Bonds depends primarily upon the receipt by the Department of revenues from the Water System. Some of the events which could prevent the Department from receiving a sufficient amount of revenues to enable it to pay the principal of and interest on the 2020 Bonds are summarized below. The information set forth below does not purport to be an exhaustive listing of the risks and other considerations that may be relevant to an investment in the 2020 Bonds. In addition, the order in which the following information is presented is not intended to reflect the relative importance of any such risks.

Limited Obligations

The obligation of the City to pay the 2020 Installment Payments securing the 2020 Bonds is a limited obligation of the City and is not secured by a legal or equitable pledge or charge or lien upon any property of the City or any of its income or receipts, except the Net System Revenues payable on a basis that is on parity with the right of payment by the City of its Outstanding Senior Obligations under the Master Installment Purchase Agreement. The obligation of the City under the 2020 Supplement to make the 2020 Installment Payments does not constitute an obligation of the City to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation.

No assurance can be made that Net System Revenues, estimated or otherwise, will be realized by the City in amounts sufficient to pay the 2020 Installment Payments. Among other matters, drought, general and local economic conditions, and changes in law and government regulations (including initiatives and moratoriums on growth) could adversely affect the amount of Net System Revenues realized by the City. In addition, the realization of future Net System Revenues is subject to, among other things, the capabilities of management of the City, the ability of the City to provide water to its

customers, and the ability of the City to meet its covenant to fix, prescribe, and collect rates and charges for the Water Service in amounts sufficient to timely pay the 2020 Installment Payments, which could in turn adversely impact the Authority's ability to make payments of the principal of or interest on the 2020 Bonds. The City has covenanted in the Master Installment Purchase Agreement to fix, prescribe, and collect rates and charges for the Water Service which will be at least sufficient to yield the greater of (i) Net System Revenues sufficient to pay during each Fiscal Year all Obligations payable in such Fiscal Year, or (ii) Adjusted Net System Revenues during each Fiscal Year equal to 120% of the Adjusted Debt Service for such Fiscal Year. See "WATER SYSTEM FINANCIAL OPERATIONS – Establishment of Water Service Charges."

The 2020 Bonds are limited obligations of the Authority payable solely from and secured solely by the Revenues pledged therefor and amounts on deposit in the Bonds Payment Fund established under the Indenture. Funds for the payment of the principal of and the interest on the 2020 Bonds are derived solely from the 2020 Installment Payments. The Authority has no other source of revenues from which to pay debt service on the 2020 Bonds. The Authority has no taxing power.

Water System Expenses, Collections, and Future Rates

The maintenance, operation and capital expenditures related to the Water System are expected to increase in the next five years. See "WATER SYSTEM FINANCIAL OPERATIONS – Financial Projections and Modeling Assumptions." However, there can be no assurance that the City's projected future maintenance, operation and capital expenditures related to the Water System will actually be as projected by the Department and described in this Official Statement. In addition, demands on the Water System are expected to increase due to population growth and regulatory requirements in the future. Increases in expenses could require a significant increase in rates or charges in order to pay for maintenance, operation and capital expenditures related to the Water System, including those anticipated under the Pure Water Program, and to pay the debt service on account of any Obligation or on parity with the Installment Payments including, without limitation, the 2020 Installment Payments securing the 2020 Bonds. Also, any such rate increases could increase the likelihood of nonpayment by purchasers of water from the City and could also decrease demand from such purchasers and may impact the City's ability to make the 2020 Installment Payments, which could in turn adversely impact the Authority's ability to make payments of the principal of and interest on the 2020 Bonds as and when due.

Rates for Fiscal Year 2021 and beyond are not part of the 2016 Rate Case. Related CIP expenditures are rate dependent, including, particularly, Pure Water Program expenditures for the Water Utility Fund. The City anticipates that additional rate capacity is necessary after Fiscal Year 2021. The City expects to prepare a Cost of Service Study that will be the basis of a future rate case for any recommended rate adjustments that may be necessary for the Water Utility Fund for Fiscal Year 2021 and later Fiscal Years. Further, although the City has covenanted in the Master Installment Purchase Agreement to fix, prescribe, and collect rates and charges for the City's water service as described in this Official Statement (see "SECURITY AND SOURCES OF PAYMENT FOR THE 2020 BONDS – Rate Covenants"), there can be no assurance that (i) rate can be levied at the levels described in this Official Statement (see "WATER SYSTEM CAPITAL IMPROVEMENT PROGRAM – Description of Major Project" and "– Capital Improvement Financing Plan") or (ii) such amounts will be collected in the amounts and at the times necessary to pay the principal of and interest on the outstanding and future Obligations, including the 2020 Bonds. See also "CONSTITUTIONAL LIMITATIONS ON TAXES AND WATER RATES AND CHARGES."

Water System CIP Projects; Pure Water Program; Environmental Compliance

The Water System CIP is a large component of the costs of the Water System. The components of the Water System CIP described in this Official Statement are based upon preliminary estimates by the Department, as are projected schedules for the completion of project components, plans and designs, construction costs, and funding sources. Among other things, steel or other tariffs could adversely impact

the construction costs of several components of the Water System CIP, although any such impacts have not been experienced by the City to date. Actual results of the Water System CIP and the projects undertaken thereunder are subject to adjustment and may vary, and costs may be higher or lower than such estimates. See “WATER SYSTEM CAPITAL IMPROVEMENT PROGRAM – Description of Major Projects” and Table 11 under that heading.

The largest portion of the Water System CIP, in terms of cost and scope, is the Pure Water Program. Completion of the Pure Water Program includes certain assumptions (which the Department considers to be reasonable), and Department goals to (a) pursue all options in order to obtain regulatory certainty that the Pure Water Program will suffice to offset the approximately \$2 billion requirement to move up from chemically enhanced primary treatment to the secondary treatment standard required to be in full compliance with the Clean Water Act, and (b) continue outreach efforts to promote the Pure Water Program to all communities within the San Diego region. In the event the costs of Phase 1 of the Pure Water Program exceed the Department’s original estimates, delays or unforeseen obstacles are faced, additional capital contributions may be necessary in order to pay for the total costs of Phase 1 of the Pure Water Program. The exact amount of any such additional capital contributions will depend upon (a) the actual costs of Phase 1 of the Pure Water Program incurred to date where costs and funding are different than anticipated, (b) any unanticipated additional costs of Phase 1 of the Pure Water Program needed to complete Phase 1 of the Pure Water Program, (c) approval of a rate case to address future capital program costs in Fiscal Years 2021 and later Fiscal Years, and (d) whether any bonds, loans or grants will differ from projected to finance costs of Phase 1 of the Pure Water Program. Capital costs associated with Phase 1 of the Pure Water Program are estimated to be approximately \$1.42 billion, of which approximately \$831 million is allocated to the Water Utility Fund and approximately \$589 million is allocated to the Sewer Revenue Fund. The amounts allocated to the Water Utility Fund and the Sewer Revenue Fund are based upon engineering studies and treatment processes. As with each component of the Water System CIP, the achievement of projected results, completion, and other expectations involves known and unknown risks, uncertainties, and other factors that may hinder the Department’s ability to meet the Water System CIP schedule set forth herein. See “WATER SUPPLY – Pure Water Program” and “WATER SYSTEM CAPITAL IMPROVEMENT PROGRAM” for additional information on the Pure Water Program.

The estimated costs of and projected schedule and sources of funding for the Water System CIP are described above. These costs, schedule and sources of funding are subject to a number of uncertainties and capital project budgets and financing plans are updated and have increased materially from time to time.

The ability of the Department to complete and finance capital projects may be adversely affected by various factors including: estimating variations; design and engineering variations; changes to the scope, scheduling or phasing of the projects; delays in contract awards and/or as a result of the acts or omissions of third-parties; material and/or labor shortages; unforeseen site conditions; adverse weather conditions, earthquakes or other casualty events; contractor or other counterparty defaults; labor disputes; unanticipated levels of inflation; inability of vendors or contractors to obtain or maintain financing; environmental issues; bidding conditions through the Department’s procurement process, and litigation. No assurance can be made that the existing or future projects will not cost more than the current budget or future budgets for such projects. Schedule delays or cost increases could result in the need to issue additional Obligations and/or incur other permitted debt, the expenditure of additional Department funds and the diversion of financial and other resources to such projects. As a result, actual results could differ and have differed materially from forecasts.

In addition, certain funding sources are assumed to be available for the Department’s projects, including the Water System CIP. The Department’s financing plan for the Water System CIP contains assumptions as to the projected amount of additional Obligations, the WIFIA Loan, SRF Loans and other funding sources for the Water System CIP. The relative amount of these funding sources directly affects

the projected debt service and debt service coverage set forth in this Official Statement. No assurances can be given that such funding will, in fact, be available, or that the Department will not change its plan of finance described in this Official Statement. If such funding sources are not available or the Department changes its plan of finance, the Department may need to expend additional Department funds, eliminate or scale down projects, divert financial and other resources to such projects or incur additional indebtedness, possibly including issuing additional Obligations, to finance such projects. Such changes could result in actual results, including but not limited to debt service coverage, differing materially from the forecasts in this Official Statement.

The Department's ability to finance the Water System CIP also depends upon the orderly function of the capital markets which have in the past experienced substantial disruptions. Another market disruption may negatively impact the timing and ability of issuers of municipal debt, such as the Department, to access short or long term funding. No assurance can be given that this source of funding will actually be available in the amounts or at the times desired by the Department.

The projects contained in the Water System CIP are generally subject to CEQA. Under CEQA, a project which may have a significant effect on the environment and which is to be carried out or approved by a public agency must comply with a comprehensive environmental review process. This review process may require the preparation of an EIR, Mitigated Negative Declaration ("MND"), Negative Declaration (described below) or Notice of Exemption ("NOE") depending on the significance of project impacts on the environment. An EIR reflects not only an independent technical analysis of the project's potential impacts, but also may include comments from other agencies with some form of jurisdiction over the project and comments from interested members of the public. Contents of an EIR include a detailed statement of the project's potentially significant environmental effects; any such effects which cannot be avoided if the project is implemented; mitigation measures proposed to eliminate or minimize such effects; alternatives to the proposed project; and any significant irreversible environmental changes which would result from the project. If the City, as the lead agency, determines that the project itself will not have a significant effect on the environment, it may adopt a written statement (called a "Negative Declaration") to that effect and need not prepare an EIR. An MND is appropriate for projects that could potentially result in a significant environmental impact, but revisions or standard mitigation measures are incorporated into the project that clearly mitigate the impact. Statutory exemptions are activities that are exempt from CEQA. Water System CIP projects can also be exempted if they fit a specific "category" of activities identified by the State Legislature. Once an agency approves or determines to carry out a project, either following an EIR process or after adopting a Negative Declaration or an MND, it must file a NOD. If the NOD is filed within five days, any action or proceeding challenging the agency's determination must be brought within 30 days following the filing of such notice. If the NOD is filed after the five-day period, the statute of limitations for any challenges is 180 days.

As part of its regular planning and budgetary process, the City prepares separate environmental documents for each Water System CIP project and evaluates the project under the City's environmental impact review procedures, which were developed to comply with federal and State laws and local regulations. The City requires that all environmental documents be finalized prior to any authorization of funding for construction by the City Council or the Mayor.

The Water System CIP involves replacement, upgrading and increasing capacity of existing facilities. There are no current or anticipated environmental considerations that would adversely affect the completion of the Water System CIP within the contemplated budget or current timeline.

Water System Demand

There can be no assurance that the local demand for the services provided by the Water System will be maintained at levels described in this Official Statement. Because of changes in demographics or land use within the boundaries of the City, it is possible for the demand for water services to decline over the term of the 2020 Bonds. A significant decline in demand might create a situation in which the City

could not increase rates sufficiently to offset the decrease in subscribers or usage. This would reduce the City's ability to make the 2020 Installment Payments, which could in turn adversely impact the Authority's ability to make payments of the principal of and interest on the 2020 Bonds as and when due.

Rate-Setting Process Under Proposition 218

Proposition 218, which added Articles XIIC and XIID to the State Constitution, affects the City's ability to impose future rate increases and no assurance can be given that future rate increases will not encounter majority protest opposition or be challenged by initiative action authorized under Proposition 218. In the event that future proposed rate increases cannot be imposed as a result of majority protest or initiative, the City might thereafter be unable to generate Net System Revenues in the amounts required by the 2020 Supplement to pay the 2020 Installment Payments, which could in turn adversely impact the Authority's ability to make payments of the principal of and interest on the 2020 Bonds. See "CONSTITUTIONAL LIMITATIONS ON TAXES AND WATER RATES AND CHARGES – Article XIIC" and "—Article XIID."

Notwithstanding the foregoing, the City has covenanted to fix, prescribe, and collect rates and charges for Water Service at a level at least sufficient to meet its debt requirements for Senior Bonds, as set forth under "SECURITY AND SOURCES OF PAYMENT FOR THE 2020 BONDS – Rate Covenant," and to use its best efforts to effect Water Service rate increases in compliance with Proposition 218. The current water rates approved by the City Council have been imposed in compliance with Proposition 218. See "CONSTITUTIONAL LIMITATIONS ON TAXES AND WATER RATES AND CHARGES – Article XIIC" and "—Article XIID."

See also "LITIGATION - Ratepayer's 218 Litigation and Claims."

Statutory and Regulatory Compliance

The Water System is subject to a variety of federal and State statutory and regulatory requirements. Laws and regulations governing treatment and delivery of water are enacted and promulgated by federal, state and local government agencies. Compliance with these laws and regulations is and will continue to be costly and, as more stringent standards are developed to ensure safe drinking water standards and the provision of water for other purposes, such costs will likely increase.

The City's failure to comply with applicable laws and regulations could result in significant fines and penalties. Such claims are payable from assets of the Water System or from other legally available sources. In addition to claims by private parties, changes in the scope and standards for public agency water systems such as that operated by the Department may also lead to administrative orders issued by federal or State regulators. Future compliance with such orders can also impose substantial additional costs on the Water Utility Fund. No assurance can be given that the cost of compliance with such laws, regulations, and orders would not adversely affect the ability of the Water System to generate Net System Revenues sufficient to pay the debt service on account of any Obligation on parties with the 2020 Installment Payments including, without limitation, the 2020 Installment Payments, which could in turn adversely impact the Authority's ability to make payments of the principal of and interest on the 2020 Bonds. See "WATER SUPPLY – Water System Regulatory Requirements."

Risks Relating to the Water Supply

General. The Department's water supply and the cost thereof are affected by many factors, including but not limited to annual snowpack and rainfall, population growth, water use, groundwater basin quality and recharge trends, federal and State environmental rules and regulations, environmental restoration commitments, water quality, climate change, and area of origin issues. Sustained drought conditions or continued low water levels could adversely affect the Department's water supply, impact operational expenses of the Water System and demand for water services from the Water System. Additionally, any natural disaster or other physical calamity, including acts of terrorism, earthquake, earth

movements, floods, extreme weather or gradual climate change, may have the effect of reducing water availability, quality and/or distribution capabilities of the Department, impair the financial stability of the Department, affect infrastructure and other public improvements and private improvements and the continued habitability and enjoyment of such private improvements. Further, among other factors affecting demand, water use is affected by economic conditions. Economic recession and its associated impacts such as job losses, income losses, and housing foreclosures or vacancies affect aggregate levels of water use and the City's water sales. Among other matters, water supply and demand, general and southern California economic conditions and changes in law and government regulations could adversely affect the amount of operating revenues that the Department receives. See "WATER SUPPLY."

Drought Risks. The ability of the Water System to operate effectively can be affected by the water supply available to the City, which is situated in an arid and semi-desert environment. If the water supply decreases significantly, whether by operation of mandatory supply restrictions, prohibitively high water costs or otherwise, Water System sales will diminish and Net System Revenues available to pay the 2020 Installment Payments may be adversely affected. CWA, the primary supplier of water to the City, and MWD, a significant supplier of water to CWA, have each indicated that each has plans and manages reserve supplies to account for normal occurrences of drought conditions. See "WATER SUPPLY."

Future droughts could result in mandatorily enforced conservation measures and other mitigations that could have a material adverse impact on Department revenues available to pay the debt service on the outstanding Obligations, including the 2020 Bonds.

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

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

Water conveyance and distribution facilities maintained by the Department, DWR, MWD and CWA are all subject to the risk of earthquakes and other natural disasters which could interrupt deliveries to the Water System. Earthquakes or other natural disasters could interrupt operation of the Water System or that of its suppliers and thereby interrupt the ability of the City to realize Net System Revenues sufficient to pay the 2020 Installment Payments securing the payment of principal of and interest on the 2020 Bonds. In anticipation of such potential disasters, the City designs and constructs all facilities of the Water System to the seismic codes in effect at the time of design of the project. As described under the caption "WATER SYSTEM SERVICE AREA AND FACILITIES – Existing Water System Facilities –

Raw Water Reservoirs,” a severe earthquake, drought or other significant disaster could cut off the County’s imported water supply for up to six months.

Although the City has implemented disaster preparedness plans and made improvements to Water System facilities in connection with such natural disasters, there can be no assurance that these or any additional measures will be adequate in the event that a natural disaster occurs, nor that costs of preparedness measures will be as currently anticipated. Further, damage to components of the Water System could cause a material increase in costs for repairs or a corresponding material adverse impact on Net System Revenues. **The City is not obligated under the Master Installment Purchase Agreement to procure and maintain, or cause to be procured and maintained, earthquake insurance on the Water System.**

Specific Environmental Rules Affecting the Water System. Various federal and State rules and regulations and court decisions have affected and will continue to affect the amount of water available to the Department. See “FACTORS AFFECTING THE DEPARTMENT AND THE WATER UTILITY INDUSTRY” for a discussion of some of the rules, regulations and court decisions that limit the amount of water available to the Department. Additionally, recent federal and State court decisions and environmental regulations have severely restricted the amount of water that may be delivered by Metropolitan and thereby to CWA to the Department from the Bay-Delta. Operational constraints in the Bay-Delta likely will continue until a long-term solution to the problems in the Bay-Delta is identified and implemented. The Department cannot predict if future federal and State rules and regulations will be enacted or if future court decisions will be decided that further restrict water deliveries to the Department and what affect such reduced water deliveries may have on the operations and finances of the Water System.

Above-Normal Precipitation. Just as too little water can negatively affect the revenues of the Water System, above-normal precipitation also can negatively affect the revenues of the Water System. Historically, in years where the City receives above-normal levels of precipitation, customers purchase comparatively less water than in years with normal levels of precipitation, which can lead to reduced Water System revenues.

Security of the Water System. Military conflicts and terrorist activities may adversely impact the operations and finances of the Water System. While the Department plans and prepares for emergency situations, maintains incident response protocols to maintain the quality and service of water, has made use of and may continue to pursue additional use of Homeland Security grants to enhance security of various facilities throughout the Water System, has established the Operating Reserve, and the suppliers of Department water have indicated that they have also taken actions to increase the security of water, there can be no assurance that any existing or additional safety and security measures will prove adequate in the event that terrorist activities are directed against the Water System or that costs of security measures will not be greater than presently anticipated. Further, damage to certain components of the Water System could require the City to increase expenditures for repairs to the Water System significantly enough to adversely impact the City’s ability to make the 2020 Installment Payments, which could in turn adversely impact the Authority’s ability to make payments of the principal of and interest on the 2020 Bonds. See “WATER SYSTEM FINANCIAL OPERATIONS – Rate Stabilization Fund Reserve.”

A terrorist attack or other security breach against water facilities could materially impair the delivery of water to the Department and there can be no assurance that costs of security measures will not be greater than presently anticipated, which could adversely impact the City’s ability to pay the 2020 Installment Payments, which could in turn adversely impact the Authority’s ability to make payments of the principal of and interest on the 2020 Bonds.

Utility Costs. Power outages may cause difficulties in receiving an adequate water supply and thus increase the cost of water. No assurance can be given that any future significant reduction or loss of

power would not materially adversely affect the operations of the Water System. Also, the Department cannot guarantee that prices for electricity or gas will not increase, which could adversely affect the Water System's financial condition. Gas and electricity costs represent approximately 1.6% of budgeted Water Utility operating expenses for Fiscal Year 2020. The Department also cannot guarantee that additional increases in water rates charged by CWA, the City's wholesale provider, or other charges imposed by CWA or MWD will not be proposed or enacted. Costs for electric power required for operating the pumping systems of CWA, and MWD for CRA and the SWP, are a substantial part of their respective expenses. Such increases in water rates and such other charges as well as increases in electricity and gas costs are eligible to be "passed through" to the City's water customers as increased water rates in accordance with the City's Municipal Code. Such "pass-through" rate increases are subject to Proposition 218 notice requirements. See "CONSTITUTIONAL LIMITATIONS ON TAXES AND WATER RATES AND CHARGES – Article XIIC" and "– Article XIID."

Reliance on Water Purchased from CWA. The Department relies on water purchased from CWA to meet its current water supply requirements. According to CWA, CWA currently acquires the majority of its water from three main sources: (i) desalinated water, (ii) independent water purchases and (iii) MWD. According to MWD, MWD obtains its water from the Colorado River through the United States Bureau of Reclamation and from northern California via the SWP, through the California DWR. If the Department's reliance on water purchased from CWA and/or CWA's reliance on MWD increases, the Department's expenses with respect to purchased water increases. Additionally, any material reductions in the amount of water available to be purchased from CWA and/or by CWA from MWD could adversely affect the operations and finances of the Water System. In the near-term, the Department expects to continue to on water purchased from CWA to meet its current water supply requirements. See "WATER SUPPLY."

In 2019 two CWA member agencies – Rainbow Water District and the Fallbrook Public Utility District – have indicated intentions to leave the CWA and have filed initial reorganization applications with the Local Agency Formation Commission in March 2020. If those agencies do leave CWA, fixed prices to remaining member agencies, including the Department, may increase depending on the negotiation of an exit agreement.

Acceleration; Limitations on Remedies

The Indenture provides that, upon and during the continuance of an Event of Default thereunder, the Trustee may, subject to certain conditions, declare the principal of all Senior Bonds then Outstanding and the interest accrued thereon to be due and payable immediately.

Under the Master Installment Purchase Agreement and the Collateral Agency Agreement, the Collateral Agent (rather than the Corporation) has the right, pursuant to the Master Installment Purchase Agreement, the Collateral Agency Agreement or any other Issuing Instrument, among others, to accelerate or otherwise declare any Obligations immediately due and payable. For the Subordinated Commercial Paper Notes program, the CP Banks (as defined earlier) may accelerate unpaid outstanding principal amounts as a remedy upon an Event of Default under the Reimbursement Agreements. So long as any Senior Bonds remain outstanding under the Indenture, no Owners of Subordinated Bonds shall have the right to declare an Event of Default, to declare any Subordinated Bonds immediately due and payable or to direct the Trustee or waive any Event of Default. The foregoing notwithstanding, the remedy of acceleration is subject to the limitations on legal remedies against public entities in the State, including a limitation on enforcement obligations against funds needed to serve the public welfare and interest. Also, any remedies available to the Owners of the 2020 Bonds upon the occurrence of an Event of Default under the Indenture are in many respects dependent upon judicial actions, which are often subject to discretion and delay and could prove both expensive and time consuming to obtain.

Further, enforceability of the rights and remedies of the Owners of the 2020 Bonds, and the obligations incurred by the City, may become subject to the federal bankruptcy code and applicable

bankruptcy, insolvency, receivership, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditor's rights generally, now or hereafter in effect, equity principles that may limit the specific enforcement under State law of certain remedies, the exercise by the United States of America of the powers delegated to it by the Constitution, the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose, and the limitations on remedies against counties in the State. Bankruptcy proceedings, or the exercise of powers by the federal or State government, if initiated, could subject the Owners of the 2020 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 opinions to be delivered by Bond Counsel, concurrently with the issuance of the 2020 Bonds, that the 2020 Bonds constitute valid and binding limited obligations of the City and the Indenture constitutes a valid and binding obligation of the City will be subject to such limitations and the various other legal opinions to be delivered concurrently with the issuance of the 2020 Bonds will be similarly qualified. See "APPENDIX B – FORM OF BOND COUNSEL OPINION."

If the City fails to comply with its covenants under the 2020 Supplement to pay the 2020 Installment Payments, there can be no assurance of the availability of remedies adequate to protect the interests of the holders of Senior Bonds.

Changes in Law and Application Thereof

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

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

Additionally, from time to time, the President of the United States, the United States Congress and/or State legislatures have proposed and could propose in the future, legislation that, if enacted, could cause interest on the 2020 Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. Clarifications of the Internal Revenue Code of 1986, as amended (the "Code"), or court decisions may also cause interest on the 2020 Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation. The introduction or enactment of any such legislative proposals or any clarification of the Code or court decisions may also affect the market price for, or marketability of, the 2020 Bonds, or could limit the value of certain deductions and exclusions, including the exclusion for tax-exempt interest. Prospective purchasers of the 2020 Bonds should consult their own tax advisors regarding any such pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

Potential Impact of Climate Change

The issue of climate change has become an important factor in water resources planning in the State, and it is being considered during planning for water supplies and systems. Many studies cite

evidence that increasing concentrations of greenhouse gases have caused and will continue to cause a rise in temperatures around the world, which will result in a wide range of changes in climate patterns. Moreover, these studies cite evidence that a warming trend occurred during the latter part of the 20th century and will likely continue through the 21st century. These changes could have a direct effect on water resources in the State, and numerous studies on climate and water in the State have been conducted to determine the potential impacts. Based on these studies, global warming could result in the following types of water resources impacts in the State, including impacts on water supplies and systems:

- Sea level rise and an increase in saltwater intrusion,
- Changes in the timing, intensity, and variability of precipitation, and an increased amount of precipitation falling as rain instead of as snow,
- Reductions in the average annual snowpack due to a rise in the snowline and a shallower snowpack in the low- and medium-elevation zones, and a shift in snowmelt runoff to earlier in the year,
- Long-term changes in watershed vegetation and increased incidence of wildfires that could affect water quality,
- Increased water temperatures with accompanying adverse effects on some fisheries,
- Increases in evaporation and concomitant increased irrigation need, and
- Changes in urban and agricultural water demand.

However, other than the general trends listed above, there is no clear scientific consensus on exactly how global warming will quantitatively affect water supplies in the State, and current models of both State water systems and the City water system generally do not reflect the potential effects of global warming.

The Climate Change-Related Impacts in the San Diego Region by 2050 Report, released by California Climate Change Center in August 2009, suggested that due to global climate changes, the mean sea level (“MSL”) in the year 2050 will rise by 1.5 feet. A review of historical tide data from the National Oceanic and Atmospheric Administration (NOAA) determined that the average high tide rise for the San Diego Region was 6.55 feet. The projected elevation of the 2050 high tide will be the current high tide elevation (6.55 feet) plus the projected rise in sea level by the year 2050 (1.5 feet), which makes the projected San Diego Region 2050 high tide elevation 8.05 feet above MSL. The City performed an analysis based on this information to determine the potential impact on the City’s water and wastewater facilities. Based on the analysis, no water pump stations or treatment plants will be affected by this potential sea level change since these facilities are all situated at higher grounds. The City maintains and operates more than 3,300 miles of water lines; less than 22 miles of these water pipes may be impacted by the projected rise in sea level. The impacts on affected water pipes are expected to be limited by the fact that the Water System is under high inner pressure.

The City has completed multiple climate change vulnerability assessments to better understand the potential risks posed by climate change related hazards. In accordance with AB691, the City assessed the impact of sea level rise to its public trust lands. The *AB691 State Lands Sea Level Rise Vulnerability Assessment* 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 City also completed a citywide *Climate Change Vulnerability Assessment*, funded in part with support from a California Coastal Commission LCP Local Assistance Grant and a Caltrans Adaptation Planning Grant. The citywide *Climate Change Vulnerability Assessment* evaluates the exposure of City assets to climate change-related hazards including coastal flooding and erosion related to sea level rise, wildfires, extreme heat, and precipitation driven flooding. Vulnerability scores of asset types accounts for the exposure, sensitivity, and adaptive capacity of the asset type, as well as potential consequences were that asset to be

impacted. The assessment identifies increasing exposure of assets from now through the end of the century. The citywide *Climate Change Vulnerability Assessment* is an important step to identify which asset types may warrant further study or may be good candidates for adaptation strategy implementation to reduce vulnerability. 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.

Based on these preliminary studies and the results of literature reviews, the potential impacts of global warming on water supplies and systems are going to be limited through 2030. Water System operations may be impacted the most by the need to coordinate local surface and groundwater storage operations and developments with shifting imported water supply availability due to changes in the timing, intensity, and variability of precipitation, and an increased amount of precipitation falling as rain instead of as snow in the watersheds for imported water. City water resource specialists and engineers are involved in ongoing monitoring and research regarding climate change trends and will continue to monitor the changes and predictions, particularly as these changes relate to Water System operations and management of water supplies and systems.

In December 2015, the City Council adopted the Climate Action Plan for the City (the "Plan") which seeks to eliminate 50% of all greenhouse gas emissions in the City by 2035. The Fiscal Year 2020 General Fund budget allocates \$21.5 million to the direct costs of the Plan and future costs are considered critical strategic expenditures in the Five-Year Outlook. The Plan establishes a roadmap for the City to achieve the greenhouse gas ("GHG") emission reduction goals set by the State of California, while improving San Diego's environment, economy and communities. Annual monitoring reports are prepared to track the City's progress in meeting the goals identified in the Plan. The Fiscal Year 2019 monitoring report, for example, shows a 24% reduction in regional GHG emissions and a 15% reduction in residential energy use since 2010. Another step in the City's efforts to reduce GHG has been the recent creation of San Diego Community Power ("SDCP"), regional joint powers authority, to provide 100% clean power through community choice aggregation. Founding members of SDCP are the cities of San Diego, Chula Vista, La Mesa, Encinitas, and Imperial Beach.

The City is also developing a climate adaptation plan, *Climate Resilient SD*, which is expected to provide a framework for future action to mitigate risks and minimize exposure to climate change-related hazards. The plan will develop a suite of prioritized adaptation strategies, tailored to address the vulnerabilities identified in the citywide *Climate Change Vulnerability Assessment*. The extent to which City buildings, utilities, equipment and other properties are exposed to climate change-related risks over the next several decades is difficult to determine, as is the potential cost of mitigation and adaptation efforts, and any additional services. Over time, these costs 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.

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.

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

The City currently maintains insurance coverage with respect to certain information security and privacy liability claims. See “WATER SYSTEM FINANCIAL OPERATIONS – Insurance and Liability Claims – Cyber Liability Insurance.”

Uncertainties of Projections, Forecasts and Assumptions

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

Absence of Market for the 2020 Bonds

There can be no guarantee that there will ever be a secondary market for purchase or sale of the 2020 Bonds or, if a secondary market exists, that the 2020 Bonds can be sold for any particular price. Occasionally, because of general market conditions or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then prevailing circumstances. Such prices could be substantially different from the original purchase price.

Loss of Tax Exemption on 2020A Bonds

As discussed under the caption “TAX MATTERS,” interest on the 2020A Bonds could become included in gross income for purposes of federal income taxation, retroactive to the date the 2020A Bonds were issued, as a result of future acts or omissions of the City or the Authority in violation of their respective covenants in the Indenture and the Master Installment Purchase Agreement.

Economic, Political, Social, and Environmental Conditions

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

COVID-19-Related Matters

The outbreak of COVID-19, a respiratory disease which was first reported in China, has since spread to other countries, including the United States, and is considered a pandemic the World Health Organization. The United States State Department and the Center for Disease Control and Prevention (“CDC”), as well as other governmental authorities, have issued restrictions and warnings for the United States and a number of countries in Asia and Europe, and such restrictions and warning may be extended to other countries in the future. The outbreak has had an adverse effect on, among other things, the world economy, global supply chain (including numerous, ongoing factory closures in China), international travel and a number of travel-related industries.

[In response to the COVID-19 outbreak, in March 2020, the Mayor ordered, among other things, that all public or private gatherings (i.e., any event or convening that brings together 50 or more people in a single room or single space at the same time, such as an auditorium, stadium, arena, theater, church,

casino, large conference room, meeting hall, cafeteria, or any other indoor or outdoor space) are prohibited; subject to certain limitations, all bars and nightclubs in the City must be closed to the public and all restaurants and business establishments that serve food in the City are prohibited from serving food and beverage for consumption on premises; and the City will enact a moratorium on utility shutoffs for utilities provided by the City and the City may develop a program for payment deferrals. Similar orders restricting gathering and instructing individuals to minimize contact with each other, among other things, have been given by the Governor of California, the County of San Diego and other authorities. Additionally, the Department is proactively implementing measures intended to mitigate operational and financial impacts, including: hiring limits, except for specific critical and predesignated positions; deferring non-essential discretionary spending; limiting approvals of contracts and task orders to those that are essential to key capital projects and critical tasks; limiting overtime to those activities that are necessary for safety, critical operations, or emergency management; encouraging voluntary reduced work schedules for certain hourly employees; collaborating with CDC. Moreover, the Department anticipates continued suspension of water shutoffs and may implement an option to defer water bills for those facing economic hardships related to the COVID-19 pandemic.]

The City cannot predict (i) the duration or extent of the COVID-19 outbreak or other outbreak or pandemic; (ii) the duration or expansion of governmental restrictions; (iii) what effect any COVID-19 or other outbreak/pandemic-related restrictions or warnings may have on the economy, the City, the Department, the Water System or revenues; (iv) whether and to what extent the COVID-19 outbreak or other outbreak or pandemic may disrupt the local or global economy, manufacturing or supply chain, or whether any such disruption may adversely impact Water System-related construction or other operations; (v) the extent to which the COVID-19 outbreak or other outbreak or pandemic, may result in changes in demand for water, or may have an impact on water customers or suppliers or the water industry, generally; (vi) whether or to what extent the City may provide deferrals, forbearances, adjustment or other changes to the City's arrangements with its customers; or (vii) whether any of the foregoing may have a material adverse effect on the finances and operations of the Water System.

Economic Uncertainty

[TO BE DISCUSSED]

Income Taxation Risk Upon Defeasance of the 2020B Bonds

In the event the Department were to defease all or a portion of the 2020B Bonds, for federal income tax purposes, the 2020B Bonds that are the subject of such a defeasance may be deemed to be retired and "reissued" as a result of the defeasance. In such an event, a bondholder who owns such a 2020B Bond may recognize gain or loss on the 2020B Bonds at the time of defeasance. Holders who own 2020B Bonds should consult their own tax advisors regarding the tax consequences of a defeasance of the 2020B Bonds. See "TAX MATTERS—2020B Bonds."

CONSTITUTIONAL LIMITATIONS ON TAXES AND WATER RATES AND CHARGES

Article XIII A

Article XIII A of the State Constitution provides that the maximum *ad valorem* tax on real property cannot exceed 1% of the "full cash value," which is defined as "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," subject to exceptions for certain circumstances of transfer or reconstruction and except with respect to certain voter approved debt. The "full cash value" is subject to annual adjustment to reflect increases, not to exceed 2% per year, or decreases in the consumer price index or comparable local data, or to reflect reduction in property value caused by damage, destruction or other factors.

Article XIII A requires a vote of two-thirds of the qualified electorate to impose special taxes, while generally precluding the imposition of any additional *ad valorem*, sales or transaction tax on real property. As amended, Article XIII A exempts from the 1% tax limitation any taxes above that level required to pay debt service on certain voter-approved general obligation bonds for the acquisition or improvement of real property. In addition, Article XIII A requires the approval of two-thirds of all members of the State Legislature to change any State laws resulting in increased tax revenues.

Under California law, any fee that exceeds the reasonable cost of providing the service for which the fee is charged is a “special tax,” which under Article XIII A must be authorized by a two-thirds vote of the electorate. Under Article XIII D, fees and charges for water, sewer, and refuse collection services are subject to majority protest, but are not subject to the two-third vote requirement of Article XIII A. The reasonable cost of providing water services has been determined by the State Controller to include depreciation and allowance for the cost of capital improvements. In addition, the California courts have determined to date that fees such as capacity fees will not be special taxes if they approximate the reasonable cost of constructing the water or wastewater capital improvements contemplated by the local agency imposing the fee. See “WATER SYSTEM FINANCIAL OPERATIONS – Revenues.”

Article XIII B

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

To the extent that assessments, fees, and charges collected by the City are used to pay the costs of maintaining and operating the Water System and payments due on the Senior Bonds and the Subordinated Bonds, and including the funding of the Reserve Fund established for the Senior Bonds to the applicable Reserve Fund Requirement, should it exist pursuant to such Supplemental Indenture, and the Common Subordinated Bonds Reserve Fund with respect to the 2012A Bonds to the Common Subordinated Bonds Reserve Requirement, and the funding of the debt service reserve fund established for certain SRF Loans to their required levels, the City believes as of the date hereof that such moneys should not be subject to the annual appropriations limit of Article XIII B.

Article XIII C

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

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

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

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

“Fees” and “charges” are not expressly defined in Article XIIC or in SB 919, 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”). Such terms are, however, defined in Article XIID, discussed below. On July 24, 2006, the California Supreme Court ruled in *Bighorn-Desert View Water Agency v. Virgil (Kelley)* (the “*Bighorn Decision*”) that charges for ongoing water delivery are property-related fees and charges within the meaning of Article XIID and are also fees or charges within the meaning of Section 3 of Article XIIC. The California Supreme Court held that such water service charges may, therefore, be reduced or repealed through a local voter initiative pursuant to Section 3 of Article XIIC.

In the *Bighorn Decision*, the Supreme Court 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 that 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 November 5, 1996 (the date of adoption of Proposition 218), assumes the risk of, or in any way consents to, any action by initiative measure that constitutes an impairment of contractual rights” protected by the United States Constitution. No assurance can be given that the voters of the City will not, in the future, approve initiatives that repeal, reduce or prohibit the future imposition or increase of assessments, fees or charges, including the City’s Water Service fees and charges, which are the source of Net System Revenues to make Installment Payments, including the 2020 Installment Payments and, in turn, payments of the principal of and interest on the 2020 Bonds, and other Outstanding Obligations.

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

Article XIID

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

The City's water service charges have two components, a base fee based on meter size and a commodity charge based on the volume of water consumed. The City has ratified prior increases in its water rates and charges, and believes it has complied with the applicable and material notice and protest procedures of Article XIID for its current water rates and charges. As of the date of this Official Statement, except as described in this Official Statement, there has not been and there is no pending litigation challenging any of the City's water fees and charges approved since the effective date of Proposition 218. See "LITIGATION – Ratepayer's 218 Litigation and Claims." While the City Attorney currently believes, based upon the judicial precedent in place during the period of these prior rate increases, that a reviewing court could reasonably uphold the validity of those increases, neither the City nor the City Attorney can provide any assurances as to the outcome of a challenge to the prior increases in the City's water rates and charges that were not approved in accordance with the notice and hearing requirements of Article XIID if one were brought.

In addition, Article XIID also includes a number of limitations applicable to existing, new, or increased 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.

Article XIID establishes procedural requirements for the imposition of assessments, which are defined as any charge upon real property for a special benefit conferred upon the real property. Standby charges are classified as assessments. Procedural requirements for assessments under Article XIID include conducting a public hearing and mailed protest procedure, with notice to the record owner of each parcel subject to the assessment. The assessment may not be imposed if a majority of the ballots returned oppose the assessment, with each ballot weighted according to the proportional financial obligation of the affected parcel. To provide guidance to City staff regarding the conduct of Proposition 218 "property-related fee" protest proceedings, the City Council adopted Resolution R-2007-655 in January 2007 establishing additional procedures for submitting protests against proposed increases to water rates, including the provision of notice of a proposed change in water fees to all owners of record on each identified parcel and all water customers of the City as reflected in the billing records of the City at the time the notice is given, and additional procedures for the tabulation of protests against proposed increases to water rates, including guidelines for determining when a valid protest has been submitted.

The City and the City Attorney believe that as of the date of this Official Statement that current water fees and charges that are subject to Proposition 218 materially comply with the provisions thereof. Should it become necessary to increase the water fees and charges above current levels, the City would be required to comply with the requirements of Article XIID in connection with such proposed increase. Until recently, the City had not had a substantive legal challenge to water rate increases implemented by the City pursuant to Proposition 218 or otherwise. A complaint alleging charges in excess of costs of service, among other things, was filed against the City and other local agencies in December 2015. As of the date of this Official Statement and under existing standards as of such date, the City and the City Attorney believe that rates and charges may be established at levels that are expected to permit deposits to a Rate Stabilization Fund Reserve or maintenance of uncommitted cash reserves. See "WATER SYSTEM FINANCIAL OPERATIONS – Financial Projections and Modeling Assumptions." The City and the City Attorney believe that current water capacity fees are not subject to Proposition 218.

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.

Proposition 26

Proposition 26, a State ballot initiative aimed at restricting regulatory fees and charges, was approved by the California voters on November 2, 2010. Proposition 26 broadens the definition of “tax” in Article XIII C of the California Constitution to include levies, charges and exactions imposed by local governments, except for charges imposed for benefits or privileges or for services or products granted to the payor (and not provided to those not charged) that do not exceed their reasonable cost; regulatory fees that do not exceed the cost of regulation; fees for the use of local governmental property; fines and penalties imposed for violations of law; real property development fees; and assessments and property-related fees imposed under Article XIII D of the California Constitution. California local taxes are subject to approval by two-thirds of the voters voting on the ballot measure for authorization. Proposition 26 applies to charges imposed or increased by local governments after the date of its approval. The City believes that Proposition 26 does not apply to its water rates and charges because such fees and charges are within various exceptions to Proposition 26.

Initiative, Referendum and Charter Amendments

Under the State Constitution, the voters of the State have the ability to initiate legislation and require a public vote on legislation passed by the State Legislature through the powers of initiative and referendum, respectively. For example, Article XIII A, Article XIII B and Articles XIII C and XIII D and Proposition 26 were adopted pursuant to the State’s constitutional initiative process. Under the City Charter, the voters of the City can restrict or revise the powers of the City through the approval of a charter amendment. From time to time, other initiative measures could be adopted or legislative measures could be approved by the Legislature, which may place limitations on the ability of the City to increase revenues or to increase appropriations. Such measures may further affect the City’s ability to collect taxes, assessments or fees and charges, which could have an effect on the Department’s revenues. The City is unable to predict whether any such initiatives or charter amendments might be submitted to or approved by the voters, the nature of such initiatives or charter amendments, or their potential impact on the City or the Water Utility Fund. See “CONSTITUTIONAL LIMITATIONS ON TAXES AND WATER RATES AND CHARGES – Initiative, Referendum and Charter Amendments.”

ERISA CONSIDERATIONS

The Employee Retirement Income Security Act of 1974, as amended (“ERISA”), imposes certain requirements on “employee benefit plans” (as defined in Section 3(3) of ERISA) subject to ERISA, including entities such as collective investment funds and separate accounts whose underlying assets include the assets of such plans (collectively, “ERISA Plans”) and on those persons who are fiduciaries with respect to ERISA Plans. Investments by ERISA Plans are subject to ERISA’s general fiduciary requirements, including the requirement of investment prudence and diversification and the requirement that an ERISA Plan’s investments be made in accordance with the documents governing the ERISA Plan. The prudence of any investment by an ERISA Plan in the 2020B Bonds must be determined by the responsible fiduciary of the ERISA Plan by taking into account the ERISA Plan’s particular circumstances and all of the facts and circumstances of the investment. Government and non-electing church plans are generally not subject to ERISA. However, such plans may be subject to similar or other restrictions under state or local law.

In addition, ERISA and the Code generally prohibit certain transactions between an ERISA Plan or a qualified employee benefit plan under the Code and persons who, with respect to that plan, are fiduciaries or other “parties in interest” within the meaning of ERISA or “disqualified persons” within the meaning of the Code. In the absence of an applicable statutory, class or administrative exemption, transactions between an ERISA Plan and a party in interest with respect to an ERISA Plan, including the

acquisition by one from the other of the 2020B Bonds could be viewed as violating those prohibitions. In addition, Section 4975 of the Code prohibits transactions between certain tax-favored vehicles such as Individual Retirement Accounts and disqualified persons. Section 503 of the Code includes similar restrictions with respect to governmental and church plans. In this regard, the Department or any dealer of the 2020B Bonds might be considered or might become a “party in interest” within the meaning of ERISA or a “disqualified person” within the meaning of the Code, with respect to an ERISA Plan or a plan or arrangement subject to Sections 4975 or 503 of the Code. Prohibited transactions within the meaning of ERISA and the Code may arise if the 2020B Bonds are acquired by such plans or arrangements with respect to which the Department or any dealer is a party in interest or disqualified person.

In all events, fiduciaries of ERISA Plans and plans or arrangements subject to the above sections of the Code, in consultation with their advisors, should carefully consider the impact of ERISA and the Code on an investment in the 2020B Bonds. The sale of the 2020B Bonds to a plan is in no respect a representation by the Department that such an investment meets the relevant legal requirements with respect to benefit plans generally or any particular plan. Any plan proposing to invest in the 2020B Bonds should consult with its counsel to confirm that such investment is permitted under the plan documents and will not result in a non-exempt prohibited transaction and will satisfy the other requirements of ERISA, the Code and other applicable law.

TAX MATTERS

2020A BONDS

Opinion of Bond Counsel

In the opinion of Polsinelli LLP, Bond Counsel to the Authority, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, interest on the 2020A Bonds (i) is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”) and (ii) is not treated as a preference item in calculating the alternative minimum tax under the Code. In rendering its opinion, Bond Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Authority in connection with the 2020A Bonds, and Bond Counsel has assumed compliance by the Authority with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the 2020A Bonds from gross income under Section 103 of the Code.

In addition, in the opinion of Bond Counsel to the Authority, under existing statutes, interest on the 2020A Bonds is exempt from State of California personal income.

Bond Counsel expresses no opinion as to any other federal, state or local tax consequences arising with respect to the 2020A Bonds, or the ownership or disposition thereof, except as stated above. Bond Counsel renders its opinion under existing statutes and court decisions as of the issue date, and assumes no obligation to update, revise or supplement its opinion to reflect any action thereafter taken or not taken, any fact or circumstance that may thereafter come to its attention, any change in law or interpretation thereof that may thereafter occur, or for any other reason. Bond Counsel expresses no opinion as to the consequence of any of the events described in the preceding sentence or the likelihood of their occurrence. In addition, Bond Counsel expresses no opinion on the effect of any action taken or not taken in reliance upon an opinion of other counsel regarding federal, state or local tax matters, including, without limitation, exclusion from gross income for federal income tax purposes of interest on the 2020A Bonds.

Certain Ongoing Federal Tax Requirements and Covenants

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the 2020A Bonds in order that interest on the 2020A Bonds be and remain excluded from

gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the 2020A Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the federal government. Noncompliance with such requirements may cause interest on the 2020A Bonds to become included in gross income for federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The Authority has covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest on the 2020A Bonds from gross income under Section 103 of the Code.

Certain Collateral Federal Tax Consequences

The following is a brief discussion of certain collateral federal income tax matters with respect to the 2020A Bonds. It does not purport to address all aspects of federal taxation that may be relevant to a particular owner of a 2020A Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the federal tax consequences of owning and disposing of the 2020A Bonds.

Prospective owners of the 2020A Bonds should be aware that the ownership of such obligations may result in collateral federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is excluded from gross income for federal income tax purposes. Interest on the 2020A Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

Original Issue Discount

“Original issue discount” (“OID”) is the excess of the sum of all amounts payable at the stated maturity of a Bond (excluding certain “qualified stated interest” that is unconditionally payable at least annually at prescribed rates) over the issue price of that maturity. In general, the “issue price” of a maturity (a bond with the same maturity date, interest rate, and credit terms) means the first price at which at least 10% of such maturity was sold to the public, *i.e.*, a purchaser who is not, directly or indirectly, a signatory to a written contract to participate in the initial sale of the 2020A Bonds. In general, the issue price for each maturity of Bonds is expected to be the initial public offering price set forth on the cover page of the Official Statement. Bond Counsel further is of the opinion that, for any Bonds having OID (a “2020A Discount Bond”), OID that has accrued and is properly allocable to the owners of the 2020A Discount Bonds under Section 1288 of the Code is excludable from gross income for federal income tax purposes to the same extent as other interest on the 2020 Bonds.

In general, under Section 1288 of the Code, OID on a 2020A Discount Bond accrues under a constant yield method, based on periodic compounding of interest over prescribed accrual periods using a compounding rate determined by reference to the yield on that 2020A Discount Bond. An owner’s adjusted basis in a 2020A Discount Bond is increased by accrued OID for purposes of determining gain or loss on sale, exchange, or other disposition of such Bond. Accrued OID may be taken into account as an increase in the amount of tax-exempt income received or deemed to have been received for purposes of determining various other tax consequences of owning a 2020A Discount Bond even though there will not be a corresponding cash payment.

Owners of 2020A Discount Bonds should consult their own tax advisors with respect to the treatment of original issue discount for federal income tax purposes, including various special rules relating thereto, and the state and local tax consequences of acquiring, holding, and disposing of 2020A Discount Bonds.

Bond Premium

In general, if an owner acquires a 2020A Bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the 2020A Bond after the acquisition date (excluding certain “qualified stated interest” that is unconditionally payable at least annually at prescribed rates), that premium constitutes “bond premium” on that bond (a “2020A Premium Bond”). In general, under Section 171 of the Code, an owner of a 2020A Premium Bond must amortize the 2020A Bond premium over the remaining term of the 2020A Premium Bond, based on the owner’s yield over the remaining term of the 2020A Premium Bond determined based on constant yield principles (in certain cases involving a 2020A Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such bond). An owner of a 2020A Premium Bond must amortize the 2020A Bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner’s regular method of accounting against the 2020A Bond premium allocable to that period. If the 2020A Bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a 2020A Premium Bond may realize a taxable gain upon disposition of the 2020A Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner’s original acquisition cost. Owners of any 2020A Premium Bonds should consult their own tax advisors regarding the treatment of bond premium for federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange, or other disposition of 2020A Premium Bonds.

Information Reporting and Backup Withholding

Information reporting requirements apply to interest paid on tax-exempt obligations, including the 2020A Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W-9, “Request for Taxpayer Identification Number and Certification,” or if the recipient is one of a limited class of exempt recipients. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to “backup withholding,” which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a “payor” generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing a Bond through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the 2020 Bonds from gross income for federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner’s federal income tax once the required information is furnished to the Internal Revenue Service.

Miscellaneous

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the federal or state level, may adversely affect the tax-exempt status of interest on the 2020A Bonds under federal or state law or otherwise prevent beneficial owners of the 2020A Bonds from realizing the full current benefit of the tax status of such interest. In addition, such legislation or actions (whether currently proposed, proposed in the future, or enacted) and such decisions could affect the market price or marketability of the 2020A Bonds.

Prospective purchasers of the 2020A Bonds should consult their own tax advisors regarding the foregoing matters.

2020B Bonds

In the opinion of Bond Counsel, interest on the 2020B Bonds is exempt from State of California personal income taxes. Bond Counsel expresses no opinion regarding any other tax consequences relating to the ownership or disposition of, or the amount, accrual, or receipt of interest on, the Bonds.

The following discussion summarizes certain U.S. federal tax considerations generally applicable to holders of the 2020B Bonds that acquire their 2020B Bonds in the initial offering. The discussion below is based upon laws, regulations, rulings, and decisions in effect and available on the date hereof, all of which are subject to change, possibly with retroactive effect. Prospective investors should note that no rulings have been or are expected to be sought from the IRS with respect to any of the U.S. federal tax consequences discussed below, and no assurance can be given that the IRS will not take contrary positions. Further, the following discussion does not deal with U.S. tax consequences applicable to any given investor, nor does it address the U.S. tax considerations applicable to all categories of investors, some of which may be subject to special taxing rules (regardless of whether or not such investors constitute U.S. Holders (as defined herein)), such as certain U.S. expatriates, banks, REITs, RICs, insurance companies, tax-exempt organizations, dealers or traders in securities or currencies, partnerships, S corporations, estates and trusts, investors that hold their 2020B Bonds as part of a hedge, straddle or an integrated or conversion transaction, or investors whose “functional currency” is not the U.S. dollar. Furthermore, it does not address (i) alternative minimum tax consequences, (ii) the net investment income tax imposed under Section 1411 of the Code, or (iii) the indirect effects on persons who hold equity interests in a holder. This summary also does not consider the taxation of the 2020B Bonds under state, local or non-U.S. tax laws. In addition, this summary generally is limited to U.S. tax considerations applicable to investors that acquire their 2020B Bonds pursuant to this offering for the issue price that is applicable to such 2020B Bonds (i.e., the price at which a substantial amount of the 2020B Bonds are sold to the public) and who will hold their 2020B Bonds as “capital assets” within the meaning of Section 1221 of the Code.

As used herein, “U.S. Holder” means a beneficial owner of a 2020B Bond that for U.S. federal income tax purposes is an individual citizen or resident of the United States, a corporation or other entity taxable as a corporation created or organized in or under the laws of the United States or any state thereof (including the District of Columbia), an estate the income of which is subject to U.S. federal income taxation regardless of its source or a trust where a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons (as defined in the Code) have the authority to control all substantial decisions of the trust (or a trust that has made a valid election under U.S. Treasury Regulations to be treated as a domestic trust). As used herein, “Non-U.S. Holder” generally means a beneficial owner of a 2020B Bond (other than a partnership) that is not a U.S. Holder. If a partnership holds 2020B Bonds, the tax treatment of such partnership or a partner in such partnership generally will depend upon the status of the partner and upon the activities of the partnership. Partnerships holding 2020B Bonds, and partners in such partnerships, should consult their own tax advisors regarding the tax consequences of an investment in the 2020B Bonds (including their status as U.S. Holders or Non-U.S. Holders).

Notwithstanding the rules described below, it should be noted that certain taxpayers that are required to prepare certified financial statements or file financial statements with certain regulatory or governmental agencies may be required to recognize income, gain, and loss with respect to the Bonds at the time that such income, gain, or loss is recognized on such financial statements instead of under the rules described below (in the case of original issue discount, such requirements are only effective for tax years beginning after December 31, 2018).

Prospective investors should consult their own tax advisors in determining the U.S. federal, state, local or non-U.S. tax consequences to them from the purchase, ownership and disposition of the 2020B Bonds in light of their particular circumstances.

U.S. Holders

Interest. Interest on the 2020B Bonds generally will be taxable to a U.S. Holder as ordinary interest income at the time such amounts are accrued or received, in accordance with the U.S. Holder's method of accounting for U.S. federal income tax purposes.

To the extent that the issue price of any maturity of the 2020B Bonds is less than the amount to be paid at maturity of such 2020B Bonds (excluding amounts stated to be interest and payable at least annually over the term of such 2020B Bonds), the difference may constitute original issue discount ("OID"). U.S. Holders of 2020B Bonds will be required to include OID in income for U.S. federal income tax purposes as it accrues, in accordance with a constant yield method based on a compounding of interest (which may be before the receipt of cash payments attributable to such income). Under this method, U.S. Holders generally will be required to include in income increasingly greater amounts of OID in successive accrual periods.

2020B Bonds purchased for an amount in excess of the principal amount payable at maturity (or, in some cases, at their earlier call date) will be treated as issued at a premium. A U.S. Holder of a 2020B Bond issued at a premium may make an election, applicable to all debt securities purchased at a premium by such U.S. Holder, to amortize such premium, using a constant yield method over the term of such 2020B Bond.

Sale or Other Taxable Disposition of the 2020B Bonds. Unless a nonrecognition provision of the Code applies, the sale, exchange, redemption, retirement (including pursuant to an offer by the District) or other disposition of a 2020B Bond will be a taxable event for U.S. federal income tax purposes. In such event, in general, a U.S. Holder of a 2020B Bond will recognize gain or loss equal to the difference between (i) the amount of cash plus the fair market value of property received (except to the extent attributable to accrued but unpaid interest on the 2020B Bond, which will be taxed in the manner described above) and (ii) the U.S. Holder's adjusted U.S. federal income tax basis in the 2020B Bond (generally, the purchase price paid by the U.S. Holder for the 2020B Bond, decreased by any amortized premium, and increased by the amount of any OID previously included in income by such U.S. Holder with respect to such 2020B Bond). Any such gain or loss generally will be capital gain or loss. In the case of a non-corporate U.S. Holder of the 2020B Bonds, the maximum marginal U.S. federal income tax rate applicable to any such gain will be lower than the maximum marginal U.S. federal income tax rate applicable to ordinary income if such U.S. holder's holding period for the 2020B Bonds exceeds one year. The deductibility of capital losses is subject to limitations.

Information Reporting and Backup Withholding. Payments on the 2020B Bonds generally will be subject to U.S. information reporting and possibly to "backup withholding." Under Section 3406 of the Code and applicable U.S. Treasury Regulations issued thereunder, a non-corporate U.S. Holder of the 2020B Bonds may be subject to backup withholding at the current rate of 28% with respect to "reportable payments," which include interest paid on the 2020B Bonds and the gross proceeds of a sale, exchange, redemption, retirement or other disposition of the 2020B Bonds. The payor will be required to deduct and withhold the prescribed amounts if (i) the payee fails to furnish a U.S. taxpayer identification number ("TIN") to the payor in the manner required, (ii) the IRS notifies the payor that the TIN furnished by the payee is incorrect, (iii) there has been a "notified payee underreporting" described in Section 3406(c) of the Code or (iv) the payee fails to certify under penalty of perjury that the payee is not subject to withholding under Section 3406(a)(1)(C) of the Code. Amounts withheld under the backup withholding rules may be refunded or credited against the U.S. Holder's federal income tax liability, if any, provided that the required information is timely furnished to the IRS. Certain U.S. holders (including among others, corporations and certain tax-exempt organizations) are not subject to backup withholding. A holder's failure to comply with the backup withholding rules may result in the imposition of penalties by the IRS.

Non-U.S. Holders

Interest. Subject to the discussions below under the headings “Information Reporting and Backup Withholding” and “FATCA,” payments of principal of, and interest on, any 2020B Bond to a Non-U.S. Holder, other than (1) a controlled foreign corporation, a such term is defined in the Code, which is related to the District through stock ownership and (2) a bank which acquires such 2020B Bond in consideration of an extension of credit made pursuant to a loan agreement entered into in the ordinary course of business, will not be subject to any U.S. federal withholding tax provided that the beneficial owner of the 2020B Bond provides a certification completed in compliance with applicable statutory and regulatory requirements, which requirements are discussed below under the heading “Information Reporting and Backup Withholding,” or an exemption is otherwise established.

Disposition of the 2020B Bonds. Subject to the discussions below under the headings “Information Reporting and Backup Withholding” and “FATCA,” any gain realized by a Non-U.S. Holder upon the sale, exchange, redemption, retirement (including pursuant to an offer by the District) or other disposition of a 2020B Bond generally will not be subject to U.S. federal income tax, unless (i) such gain is effectively connected with the conduct by such Non-U.S. Holder of a trade or business within the United States; or (ii) in the case of any gain realized by an individual Non-U.S. Holder, such holder is present in the United States for 183 days or more in the taxable year of such sale, exchange, redemption, retirement (including pursuant to an offer by the District) or other disposition and certain other conditions are met.

U.S. Federal Estate Tax. A 2020B Bond that is held by an individual who at the time of death is not a citizen or resident of the United States will not be subject to U.S. federal estate tax as a result of such individual’s death, provided that, at the time of such individual’s death, payments of interest with respect to such 2020B Bond would not have been effectively connected with the conduct by such individual of a trade or business within the United States.

Information Reporting and Backup Withholding. Subject to the discussion below under the heading “FATCA,” under current U.S. Treasury Regulations, payments of principal and interest on 2020B Bonds to a holder that is not a United States person will not be subject to any backup withholding tax requirements if the beneficial owner of the 2020B Bond or a financial institution holding the 2020B Bond on behalf of the beneficial owner in the ordinary course of its trade or business provides an appropriate certification to the payor and the payor does not have actual knowledge that the certification is false. If a beneficial owner provides the certification, the certification must give the name and address of such owner, state that such owner is not a United States person, or, in the case of an individual, that such owner is neither a citizen nor a resident of the United States, and the owner must sign the certificate under penalties of perjury. The current backup withholding tax rate is 28%.

Foreign Account Tax Compliance Act (“FATCA”)—U.S. Holders and Non-U.S. Holders

Sections 1471 through 1474 of the Code, impose a 30% withholding tax on certain types of payments made to foreign financial institutions, unless the foreign financial institution enters into an agreement with the U.S. Treasury to, among other things, undertake to identify accounts held by certain U.S. persons or U.S.-owned entities, annually report certain information about such accounts, and withhold 30% on payments to account holders whose actions prevent it from complying with these and other reporting requirements, or unless the foreign financial institution is otherwise exempt from those requirements. In addition, FATCA imposes a 30% withholding tax on the same types of payments to a non-financial foreign entity unless the entity certifies that it does not have any substantial U.S. owners or the entity furnishes identifying information regarding each substantial U.S. owner. Failure to comply with the additional certification, information reporting and other specified requirements imposed under FATCA could result in the 30% withholding tax being imposed on payments of interest and principal under 2020B Bonds and sales proceeds of 2020B Bonds held by or through a foreign entity. In general, withholding under FATCA currently applies to payments of U.S. source interest (including OID) and will

apply to (i) gross proceeds from the sale, exchange or retirement of debt obligations paid after December 31, 2016 and (iii) certain “pass-thru” payments no earlier than January 1, 2017. Prospective investors should consult their own tax advisors regarding FATCA and its effect on them.

The foregoing summary is included herein for general information only and does not discuss all aspects of U.S. federal taxation that may be relevant to a particular holder of 2020B Bonds in light of the holder’s particular circumstances and income tax situation. Prospective investors are urged to consult their own tax advisors as to any tax consequences to them from the purchase, ownership and disposition of 2020B Bonds, including the application and effect of state, local, non-U.S., and other tax laws.

CONTINUING DISCLOSURE

2020 Bonds. Pursuant to the Continuing Disclosure Certificates of the City (the “Disclosure Certificate”), the City has agreed to provide, or cause to be provided, to the Municipal Securities Rulemaking Board in the manner prescribed by the Securities and Exchange Commission certain annual financial information and operating data and notice of certain Notice Events (as described in the Continuing Disclosure Certificate). The forms of the Disclosure Certificates are attached hereto as “APPENDIX C – FORMS OF CONTINUING DISCLOSURE CERTIFICATES.” The annual report to be filed by the City is to be filed not later than April 10 after the end of the City’s Fiscal Year (which currently ends June 30), commencing with the report for the fiscal year ending June 30, 2020, and is to include audited financial statements of the City. The City’s covenants in the Continuing Disclosure Certificates have been made in order to assist the Initial Purchasers in complying with Rule 15c2-12(b)(5) adopted by the SEC under the Securities Exchange Act of 1934 (the “Rule”). A failure by the City to comply with any of the covenants therein is not an event of default under the Indenture or the Master Installment Purchase Agreement.

The City has established an issuer’s page on the MSRB’s Electronic Municipal Market Access System (“EMMA”) with respect to the Water Revenue Bonds and Water Utility Bank Loans which includes disclosure of direct borrowings for the Water System. The City’s home page can be accessed at the following Internet address:

<http://emma.msrb.org/IssuerHomePage/Issuer?id=0DE785B24DBD675DE053151E0A0AE7C0&type=M>

Neither the home page nor any information on the 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 2020 Bonds.

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

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

LITIGATION

As of the date of this Official Statement, there is no litigation pending against the City, the Corporation or the Authority or, to the knowledge of its respective executive officers, threatened, seeking to restrain or enjoin the issuance, sale, execution, or delivery of the 2020 Bonds or in any way contesting or affecting the validity of the 2020 Bonds or the authorizations or any proceedings of the City, the Corporation 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 2020 Bonds or the use of the proceeds of the 2020 Bonds.

There are no pending lawsuits that, in the opinion of the City Attorney, challenge the validity of the 2020 Bonds, the corporate existence of the City, the Corporation or the Authority, or the title of the executive officers thereof to their respective offices. In connection with this review, attention has been given to not only litigation pending against the City, but also litigation pending against the Department. At any given time, including the present, there are certain other claims and lawsuits against the City and the Department that arise in the normal course of operations of the Water System. Such matters could, if determined adversely to the City, affect expenditures by the City, and in some cases, the Water Utility Fund. In the view of the City's management and the Office of the City Attorney, there is no litigation, present or pending, which will individually or in the aggregate materially impair the Authority's ability to service its indebtedness or which will have a material adverse effect on the operations of the Water System, subject to the possible exception of the matters described below.

UCCF Litigation. [SUBJECT TO UPDATE] On May 9, 2018, the University City Community Foundation ("UCCF") filed a Complaint for Declaratory Relief and Injunctive Relief and Petition for Mandate under CEQA (the "UCCF Petition"). The UCCF Petition challenges the City's approval of the North City Pure Water Program (Phase 1) and certification of the EIR. See "WATER SUPPLY – Pure Water Program." The UCCF Petition does not provide any specific CEQA claims but makes a generic claim that the project and EIR were illegally approved. While there are no specific CEQA claims in the UCCF Petition, based upon the comments by UCCF's counsel during the administrative process, the UCCF may argue that the City failed to consider a reasonable range of project alternatives and that the City specifically failed to consider alternate pipeline alignments through the University City Community. The City expects that this argument will be unpersuasive because the City did, in fact, study a number of alternatives. However, the UCCF is not confined to this claim and could argue any claim raised in the administrative process. While the City Attorney's Office believes the City would have strong defenses against any such other theories, the City can give no assurance that it will prevail in this action.

In the event that UCCF prevails on an argument regarding the pipeline alignment, the City could experience delays to Phase 1 Pure Water Program projects of up to 2.5 years, increasing costs thereto by an estimated \$130 million. This estimated cost increase would be composed mostly of escalation, but also includes the cost of additional environmental analyses and further engineering and design costs. In calculating this estimate, it was assumed that all of the Phase 1 Pure Water Program projects would be delayed based on the requirement that all of the projects must be constructed and proceed through individual functional testing before the full system may be commissioned.

UCCF recently sought to vacate the Writ hearing which was scheduled for January 31, 2020 and schedule a Motion for Leave to Amend (to include a currently unknown claim) and a Motion to Augment Administrative Record. Hearings on these motions are scheduled for January 31, 2020. If the Motion for Leave to Amend is granted, a new briefing schedule and Writ hearing date will be set for later in 2020.

San Diego Gas and Electric (SDG&E) Reservation of Rights Agreement (Agreement). In June 2018, SDG&E informed the City that it was stopping all design work on utility relocations for Phase 1 of the Pure Water Program, pending advance payment for such work from the City. See "WATER SUPPLY – Pure Water Program." SDG&E argued that it was not responsible for the costs of relocating any of its facilities under its electric or natural gas franchise agreements with the City, on the basis that such work

was proprietary and not governmental. The City Attorney's Office responded to SDG&E, expressing the City's strong disagreement with SDG&E's position based on the plain language in those franchise agreements, which the City believes requires SDG&E to relocate its facilities located in the public right-of-way at its own expense when necessary to accommodate City water projects, including the Pure Water Program.

In January 2019, to avoid project delays, the City and SDG&E entered into an Agreement in which the Department made an advance payment of approximately \$35.6 million to SDG&E for facilities relocation. SDG&E calculated an overall, preliminary cost estimate of approximately \$94.7 million, as of August 2018, of which the City has not performed an independent confirmation. The parties acknowledge the cost estimate may increase or decrease depending on project design changes or other factors, including a mandated Internal Revenue Code Cost in Aide in Construction Tax of approximately 24% that would increase the preliminary cost estimate. SDG&E relocation work will be billed on an actual cost basis. The City maintains its position that SDG&E should bear the costs of its facilities relocations from the public right-of-way for all City water projects and reserves the right to seek reimbursement from SDG&E through all legal means available. All payments made by the City for work performed are made under protest.

The City filed a lawsuit against SDG&E on January 15, 2020 seeking a court declaration that SDG&E is responsible for the cost to relocate SDG&E facilities that conflict with pipeline alignments, and the lawsuit also seeks reimbursement of the \$35.6 million that the City paid to SDG&E.

AGC Litigation. [SUBJECT TO UPDATE] On May 23, 2019, the San Diego Chapter of the Association of General Contractors ("AGC") filed a Complaint for Declaratory Relief and Injunctive Relief and Petition for Mandate under San Diego Municipal Code section 22.4407 and California Code of Civil Procedure section 526a (the "AGC Petition"). See "WATER SUPPLY – Pure Water Program." The AGC Petition challenges the City's bid specifications for the North City Pure Water Facility, a component of Phase 1 of the Pure Water Program with an estimated construction contract of approximately \$400 million. Specifically, AGC alleges that a City requirement that apprentices on the project be enrolled in a joint labor management apprenticeship program ("JLMAP") violates City Proposition A, which prohibits the City from requiring a project labor agreement except as required as a condition of state funding.

On June 24, 2019, the Court granted AGC's request for a preliminary injunction enjoining the City from opening bids or awarding a contract for the North City Pure Water Facility if the bid specifications require apprentices be enrolled in a JLMAP. Although the City believed that its bid specifications are lawful, the City canceled the bid solicitation for the North City Pure Water Facility pending the outcome of the case. The City also elected to cancel bid solicitations for pipelines and other facilities that would connect to the North City Pure Water Facility.

This litigation has caused delays to the Pure Water Program Phase 1, which delays are estimated by the City to have increased the cost of Phase 1 by approximately \$4 million for each month of delay due to cost escalation.

On November 5, 2019, via Resolution No. R-312736, the City Council authorized the award of construction contracts for Phase 1 of Pure Water without a requirement that apprentices be registered in JLMAPs. Further, on October 11, 2019, California State Assembly Bill No. 1290 was enacted, requiring the City to utilize project labor agreements for all construction contracts related to Pure Water awarded on or after January 1, 2020 and that are funded with SRF Loan proceeds.

The City has prevailed in this litigation on demurrer, however, AGC has been given leave by the Court to amend its pleadings. A trial date has not yet been scheduled. The current cost estimate for Phase 1 of the Pure Water Program is \$1.42 billion, with the Water Utility share of the total cost at 58%.

Ratepayer's 218 Litigation and Claims. In July 2015, the City was named in a putative class action alleging that the City's tiered water rates for single-family residential water service customers violate Article XIID of the California Constitution (Proposition 218). *Patz v. City of San Diego* (formerly *Coziahr v. Otoy Water District*). See "CONSTITUTIONAL LIMITATIONS ON TAXES AND WATER RATES AND CHARGES – Article XIID." The plaintiffs amended the complaint several times, and the action now includes a request for a writ of mandate and a claim for declaratory and injunctive relief. The court certified the case as a class action on August 16, 2019. The class consists of all single-family residential customers of the City who received water service at any time after August 21, 2014. The plaintiffs generally allege that the City charges single-family residential customers tiered water rates for water service that do not reflect the actual cost to provide the water service to each parcel in violation of Proposition 218. The City contends that its water rates are strictly based on COS principles and compliant with Proposition 218.

On December 6, 2019, the Superior Court defined the class period and prescribed the method of class notice, which is to be by first class mail and email. Trial is scheduled for September 4, 2020, with a deadline to commence the trial on or before October 12, 2020.

The City cannot estimate its potential liability should it lose this lawsuit because the plaintiffs neither allege what amount the City's tiered water rates should be nor make a specific monetary demand of the City.

CERTAIN LEGAL MATTERS

The validity of the 2020 Bonds and certain other legal matters are subject to the approving opinion of Polsinelli LLP, Bond Counsel to the Authority. A complete copy of the proposed form of Bond Counsel opinion is contained in APPENDIX B hereto. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Polsinelli LLP, as Disclosure Counsel, will provide certain other legal services for the Authority. Certain legal matters will be passed upon for the Authority and the City by Mara W. Elliott, City Attorney.

VERIFICATION

Causey Demgen & Moore P.C. will deliver its report verifying the accuracy of the mathematical computation concerning the adequacy of the maturing principal amounts of and interest earned on the investments, if any, together with other available moneys, to be placed in the Escrow Fund to pay when due, pursuant to a call for redemption, the principal of and interest on the 2012A Subordinated Bonds.

RATINGS

Fitch Ratings ("Fitch"), Moody's Investors Service ("Moody's"), and Kroll Bond Rating Agency ("Kroll") have assigned their ratings of "[A]," "[B]," and "[C]," respectively, to the 2020 Bonds. Such ratings reflect only the views of such organizations and any desired explanation of the significance of such ratings 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; Moody's Investors Service, Inc., 7 World Trade Center, 250 Greenwich Street, New York, New York 10007; and Kroll Ratings, 805 Third Avenue, 29th Floor, New York, New York 10022. 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 such ratings will not be revised downward or withdrawn entirely by the rating agencies, if in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the 2020 Bonds. Neither the City nor the Authority undertakes any obligation to oppose any downward revision, suspension or withdrawal.

PURCHASE AND REOFFERING

The 2020A Bonds and the 2020B Bonds are scheduled to be sold at competitive bid on ____, 2020, as provided in two separate Official Notices of Sale, each dated ____, 2020 (each, an “Official Notice of Sale”). Each Official Notice of Sale provides that all 2020A Bonds or 2020B Bonds, as applicable, would be purchased if any were purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in each Official Notice of Sale, the approval of certain legal matters by counsel and certain other conditions. The Purchaser or Purchasers will represent to the City that their related 2020 Bonds have been reoffered to the public at the prices or yields to be stated on the inside cover page hereof.

MUNICIPAL ADVISOR

KNN Public Finance, LLC, has acted as Municipal Advisor to the City in conjunction with the issuance of the 2020 Bonds. The Municipal Advisor has assisted the City in preparation of this Official Statement and advised in other matters related to the planning, structuring, pricing, issuance and delivery of the 2020 Bonds. The Municipal Advisor will receive compensation contingent upon the sale and delivery of the 2020 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.

FINANCIAL STATEMENTS

The City prepares audited financial statements annually in conformity with generally accepted accounting principles for governmental entities. The City’s most recent financial statements, for the Fiscal Year ended June 30, 2019, were audited by Macias Gini & O’Connell LLP (the “Independent Auditor”), independent certified public accountant, as stated in its report. The City’s basic financial statements contained in the City’s CAFR include the financial statements of the Water Utility Fund.

The City’s CAFR for Fiscal Year 2019, which includes the City’s audited basic financial statements as of and for the fiscal year ended June 30, 2019, is available through EMMA at <https://emma.msrb.org/ES1443969.pdf>, the contents of which are incorporated by reference in this Official Statement and shall be deemed to be a part hereof.

The Independent Auditor has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. The Independent Auditor also has not performed any procedures relating to this official statement or memorandum. The City did not request the consent of the Independent Auditor to append the City’s financial statements to this Official Statement.

MISCELLANEOUS

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

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

This Official Statement is not to be construed as a contract or agreement between the Authority or the City and the purchasers or holders of any of the 2020 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, the Authority, or the Corporation since the date hereof.

PUBLIC FACILITIES FINANCING
AUTHORITY OF THE CITY OF SAN DIEGO

By: _____
Chair, Board of Commissioners

THE CITY OF SAN DIEGO

By: _____
Chief Financial Officer

APPENDIX A

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

[TO COME]

APPENDIX B

FORM OF APPROVING OPINION OF BOND COUNSEL

Upon the issuance of the 2020 Bonds, Polsinelli LLP, Bond Counsel to the Authority, is expected to render its final approving opinion with respect to the 2020 Bonds in substantially the following form:

[SUBJECT TO UPDATE]

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

The City of San Diego
San Diego, California

Ladies and Gentlemen:

We have acted as Bond Counsel to the Public Facilities Financing Authority of the City of San Diego (the “Authority”) in connection with the issuance of \$[] aggregate principal amount of the Authority’s Senior Water Revenue Bonds, Series 2020A (the “2020A Bonds”) and \$[] aggregate principal amount of the Authority’s Senior Water Revenue Refunding Bonds, Series 2020B (the “2020B Bonds” and, together with the 2020A Bonds, the “2020 Bonds”) pursuant to the Government Code of the State of California (the “Government Code”), the Indenture, dated as of January 1, 2009 (the “Original Indenture”), as amended and supplemented, including as supplemented by the Seventh Supplemental Indenture, dated as of - [] 1, 2020 (the “Seventh Supplemental Indenture” and together with the Original Indenture and all other amendments and supplements thereto, the “Indenture”), each by and between the Authority and U.S. Bank National Association, as successor trustee (the “Trustee”), and Resolution No. FA-2020-1 of the Board of Commissioners of the Authority. The Bonds are payable from 2020 Installment Payments payable by the City of San Diego, California (the “City”) to the San Diego Facilities Equipment Leasing Corporation (the “Corporation”) pursuant to the Amended and Restated Master Installment Purchase Agreement, dated as of January 1, 2009 (the “Original Master Installment Purchase Agreement”), as amended and supplemented, including as supplemented by the 2020 Supplement to Amended and Restated Master Installment Purchase Agreement, dated as of [] 1, 2020 (the “2020 Supplement” and, together with the Original Master Installment Purchase Agreement and all other amendments and supplements thereto, the “Master Installment Purchase Agreement”), each by and between the City and the Corporation, and other assets pledged therefor under the Indenture.

The Corporation has assigned its rights under the 2020 Supplement to the Authority pursuant to the Assignment Agreement, dated as of [] 1, 2020 (the “Assignment Agreement”), by and between the Corporation and the Authority. Capitalized terms not otherwise defined herein shall have the meanings set forth in the Indenture and the Master Installment Purchase Agreement.

In such connection, we have reviewed the Indenture, the Master Installment Purchase Agreement, the Assignment Agreement, the Tax Certificate, dated the date hereof (the “Tax Certificate”), executed by the Authority and the City, certificates of the Authority, the City, the Corporation, the Trustee and others, opinions of the City Attorney, General Counsel to the Authority, counsel to the Corporation and others,

and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

Certain agreements, requirements and procedures contained or referred to in the Indenture, the Master Installment Purchase Agreement, the Assignment Agreement, the Tax Certificate and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the 2020 Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. No opinion is expressed herein as to any Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than ourselves.

We are of the opinion that:

1. The 2020 Bonds constitute the valid and binding limited obligations of the Authority, enforceable in accordance with their terms and the terms of the Indenture.

2. The Seventh Supplemental Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Authority. The Indenture creates a valid pledge, to secure the payment of the principal of and interest on the 2020 Bonds, of the Revenues and any other amounts (including proceeds of the sale of the Bonds) held by the Trustee in any fund or account established pursuant to the Indenture, except the Rebate Fund, subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein.

3. The 2020 Supplement has been duly executed and delivered by, and constitutes the valid and binding obligation of, the City, enforceable against the City in accordance with its terms. The Master Installment Purchase Agreement, including as supplemented by the 2020 Supplement, creates a valid pledge of Net System Revenues to secure the payment of 2020 Installment Payments to the Authority, on the terms and conditions set forth therein.

4. Under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described below (a) interest on the 2020A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code") and (b) interest on the 2020A Bonds is not treated as a preference item in calculating the alternative minimum tax under the Code.

The Code establishes certain requirements that must be met subsequent to the issuance and delivery of the 2020A Bonds in order that, for federal income tax purposes, interest on the 2020A Bonds be not included in gross income pursuant to Section 103 of the Code. These requirements include, but are not limited to, requirements relating to the use and expenditure of proceeds of the 2020A Bonds, restrictions on the investment of proceeds of the 2020A Bonds prior to expenditure and the requirement that certain earnings be rebated to the federal government. Noncompliance with such requirements may cause interest on the 2020A Bonds to become subject to federal income taxation retroactive to their date of issue, irrespective of the date on which such noncompliance occurs or is ascertained.

On the date of delivery of the 2020A Bonds, the Authority and the City will execute a Tax Certificate containing provisions and procedures pursuant to which such requirements can be satisfied. In executing the Tax Certificate, the Authority and the City covenant that Authority and the City will comply with the provisions and procedures set forth therein and that the Authority and the City will do and perform all acts and things necessary or desirable to assure that interest paid on the 2020A Bonds will, for federal income tax purposes, be excluded from gross income.

In rendering the opinion in paragraph 4 hereof, we have relied upon and assumed (a) the material accuracy of the representations, statements of intention and reasonable expectation, and certifications of fact contained in the Tax Certificate with respect to matters affecting the status of interest paid on the 2020A Bonds, and (b) compliance by the Authority and the City with the procedures and covenants set forth in the Tax Certificate as to such tax matters.

5. Under existing statutes, interest on the Bonds is exempt from State of California personal income taxes.

We express no opinion as to any other federal, state or local tax consequences arising with respect to the Bonds or the ownership or disposition thereof, except as stated in paragraphs 4 and 5 above. We render our opinion under existing statutes and court decisions as of the date hereof, and assume no obligation to update, revise or supplement our opinion to reflect any action hereafter taken or not taken, any fact or circumstance that may hereafter come to our attention, any change in law or interpretation thereof that may hereafter occur, or for any other reason. We express no opinion as to the consequence of any of the events described in the preceding sentence or the likelihood of their occurrence. In addition, we express no opinion on the effect of any action taken or not taken in reliance upon an opinion of other counsel regarding federal, state or local tax matters, including, without limitation, exclusion from gross income for federal income tax purposes of interest on the Bonds.

We undertake no responsibility for the accuracy, completeness or fairness of any official statement or other offering materials relating to the Bonds and express herein no opinion relating thereto.

The foregoing opinions are qualified to the extent that the enforceability of the 2020 Bonds, the Indenture, the Master Installment Purchase Agreement and the Tax Certificate may be limited by bankruptcy, moratorium, insolvency or other laws affecting creditors' rights or remedies and are subject to general principles of equity (regardless of whether such enforceability is considered in equity or at law), to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against public entities in the State of California. In addition, the imposition of certain fees and charges by the City relating to the Water System is subject to the provisions of Articles XIIC and XIID of the California Constitution.

This opinion is issued as of the date hereof, and we assume no obligation to update, revise or supplement this opinion to reflect any action hereafter taken or not taken, or any facts or circumstances, or any changes in law or in interpretations thereof, that may hereafter arise or occur, or for any other reason.

Very truly yours,

APPENDIX C

FORMS OF CONTINUING DISCLOSURE CERTIFICATES

2020A BONDS

This Continuing Disclosure Certificate, dated as of _____, 2020 (the “Disclosure Certificate”), is executed and delivered by the City of San Diego (the “City”) in connection with the issuance by the Public Facilities Financing Authority of the City of San Diego (the “Authority”) of Senior Water Revenue Bonds, Series 2020A (Payable Solely From Installment Payments Secured by Net System Revenues of the Water Utility Fund) (the “2020A Bonds”). The 2020A Bonds are being issued pursuant to the Indenture (as defined herein). In connection therewith, the City, as an “obligated person” with respect to the 2020A Bonds (within the meaning of the Rule, as defined herein), covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City on behalf of the Authority for the benefit of the Holders and Beneficial Owners of the 2020A Bonds and in order to assist the Participating Underwriters in complying with the Rule.

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

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

“Beneficial Owner” shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or dispose of ownership of, any 2020A Bonds (including persons holding 2020A Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any 2020A Bonds for federal income tax purposes.

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

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

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

“Indenture” shall mean the Indenture, dated as of January 1, 2009, as amended and supplemented by a First Supplemental Indenture, dated as of June 1, 2009, a Second Supplemental Indenture, dated as of June 1, 2010, a Third Supplemental Indenture, dated as of April 1, 2012, a Fourth Supplemental Indenture, dated as of June 1, 2016, a Fifth Supplemental Indenture dated as of January 1, 2017, a Sixth Supplemental Indenture dated as of December 1, 2018, and a Seventh Supplemental Indenture dated as of _____, 2020 each by and between the Authority and U.S. Bank National Association, as successor trustee.

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

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

“Official Statement” shall mean the Official Statement, dated _____, 2020, prepared and distributed in connection with the initial sale of the 2020A Bonds.

“Participating Underwriters” shall mean any of the original purchasers of the 2020A Bonds required to comply with the Rule in connection with offering of the 2020A Bonds.

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

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

Section 3. Provision of Annual Reports.

(a) The City shall, or upon written direction, shall cause the Dissemination Agent (if other than the City) to, not later than April 10 after the end of the City’s Fiscal Year (which currently ends June 30), or the next succeeding business day if that day is not a business day, commencing with the report for the fiscal year ending June 30, 2020 (each, a “Filing Date”), provide to the MSRB an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. As of the date of this Disclosure Certificate, the format prescribed by the MSRB is the Electronic Municipal Market Access (“EMMA”) system.

The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report, and later than the Filing Date for the filing of the Annual Report if not available by such Filing Date. If the City’s Fiscal Year changes, it shall give notice of such change in the same manner as for a Notice Event under Section 5(c) hereof.

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

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

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

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

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

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

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

(i) An update of the information substantially in the form contained in Table 2 (entitled "Water Deliveries") for the most recently completed Fiscal Year;

(ii) An update of the information substantially in the form contained in Table 3 (entitled "Historical Number of Retail Metered Connections to Water System") for the most recently completed Fiscal Year;

(iii) An update of the information substantially in the form contained in Table 4 (entitled "Major Retail Customers") for the most recently completed Fiscal Year;

(iv) An update of the information substantially in the form contained in Table 5 (entitled "Raw Water Reservoirs") for the most recently completed Fiscal Year;

(v) An update of the information substantially in the form contained in Table 6 (entitled "Capacity and Demand of Water System Water Treatment Plants") for the most recently completed Fiscal Year;

(vi) An update of the information substantially in the form contained in Table 7 (entitled "Water Supplies Used For Delivery Of Potable Water") for the most recently completed Fiscal Year;

(vii) An update of the information substantially in the form contained in Table 12 (entitled "Water Utility Fund Historical Capacity Charge Revenues") for the most recently completed Fiscal Year;

(viii) An update of the information substantially in the form contained in Table 13 (entitled "Water Customer Accounts Receivable and Shutoffs by Fiscal Year") for the most recently completed Fiscal Year;

(ix) An update of the information substantially in the form contained in Table 14 (entitled "Five-Year Water Service Charge History for Single Family Residential, Multi-Family Residential, Non-Residential, Irrigation, and Temporary Construction") for the most recently completed Fiscal Year;

(x) An update of the information substantially in the form contained in Table 15 (entitled "Historical Sources of Water Sales Revenues") for the most recently completed Fiscal Year;

(xi) An update of the information substantially in the form contained in Table 16 (entitled "Statements of Revenues, Expenses, and Changes in Fund Net Position for the Water Utility Fund") for the most recently completed Fiscal Year;

(xii) An update of the information substantially in the form contained in Table 17 (entitled "Reserves and Total Cash and Cash Equivalents In Water Utility Fund") for the most recently completed Fiscal Year;

(xiii) An update of the information substantially in the form contained in Table 18 (entitled "Calculation of Historic Debt Service Coverage") for the most recently completed Fiscal Year (will be available in the City's comprehensive annual financial report for the most recently completed fiscal year or updated information will be presented in tabular format comparable to referenced table);

(xiv) An update of the information substantially in the form contained in Table 20 (entitled “Outstanding Debt”) for the most recently completed Fiscal Year;

(xv) An update of the information substantially in the form contained in Table 21 (entitled “Water Utility Fund Liability claims Budget and Expenditures”) for the most recently completed Fiscal Year;

(xvi) An update of the information substantially in the form contained in Table 24 (entitled “City of San Diego Schedule of Funding Progress”) for the most recently completed Fiscal Year;

(xvii) An update of the information substantially in the form contained in Table 25 (entitled “City of San Diego and Water Utility Fund Pension Contribution”) for the most recently completed Fiscal Year;

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which have been submitted to the MSRB. The City shall clearly identify each such other document so included by reference.

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

Section 5. Reporting of Significant Events.

(a) The City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the 2020A Bonds, in a timely manner not later than ten (10) business days after the occurrence of such Notice Event to the MSRB through EMMA:

- (i) Principal and interest payment delinquencies;
- (ii) Unscheduled draws on debt service reserves reflecting financial difficulties;³
- (iii) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (iv) Substitution of credit or liquidity providers, or their failure to perform;⁴
- (v) Adverse tax opinions or issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB);
- (vi) Tender offers;
- (vii) Defeasances;
- (viii) Rating changes;⁵

³ Without limiting its reporting obligation, the City advises that it has not established a debt service reserve fund for the 2020A Bonds.

⁴ Without limiting its reporting obligation, the City advises that it has not obtained or provided any credit enhancement or credit or liquidity providers for the 2020A Bonds.

(ix) Bankruptcy, insolvency, receivership or similar event of the City (such event being considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the City in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City); or

(x) Default, event of acceleration, termination event, modification of terms or other similar events under a Financial Obligation of the City's Water System, if any such event reflects financial difficulties.

(b) The City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the 2020A Bonds, if material, not later than ten (10) business days after the occurrence of the such Notice Event to the MSRB through EMMA:

(i) Unless described in paragraph 5(a)(5), other notices or determinations with respect to the tax status of the 2020A Bonds or other events affecting the tax status of the 2020A Bonds;

(ii) Modifications to rights of holders of the 2020A Bonds;

(iii) Bond calls;⁶

(iv) Release, substitution, or sale of property securing repayment of the 2020A Bonds;

(v) Non-payment related defaults;

(vi) The consummation of a merger, consolidation, or acquisition the City or the sale of all or substantially all of the assets thereof, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms;

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

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

(c) If the City learns of the occurrence of a Notice Event described in Section 5(a), or determines that knowledge of a Listed Event described in Section 5(b) would be material under applicable federal securities laws, the City shall promptly file, or cause to be filed, a notice of such event with the MSRB through EMMA. Notwithstanding the foregoing, notice of the Notice Events described in

⁵ Does not include rating changes related to credit enhancement added by a Holder. In addition, the City's obligation to provide notice of any rating change shall be deemed to be satisfied if (i) the applicable rating agency files such change with EMMA pursuant to the "automated data feeds" that have been established by the MSRB and (ii) the City verifies that such filing was made in a timely fashion.

⁶ Any scheduled redemption of 2020A Bonds pursuant to mandatory sinking fund redemption requirements does not constitute a Notice Event within the meaning of the Rule.

subsections (a)(vii) or (b)(iii) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected 2020A Bonds pursuant to the Indenture.

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

Section 6. Termination of Reporting Obligation. The City’s obligations under this Disclosure Certificate with respect to any series of 2020A Bonds shall terminate upon the legal defeasance, prior redemption, or payment in full of all such series of bonds. If such termination occurs prior to the final maturity of the 2020A Bonds, the City shall give notice of such in the same manner as for a Notice Event under Section 5(c).

Section 7. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be the City. The Dissemination Agent, if other than the City, shall not be responsible in any manner for the content of any notice or report prepared by the City pursuant to this Disclosure Certificate.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) if the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the 2020A Bonds, or the type of business conducted;

(b) the undertakings herein, as proposed to be amended or taking in account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the 2020A Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver (i) is approved by the Holders majority of outstanding principal amount of the 2020A Bonds, in the same manner as provided in the Indenture for amendments to the Indenture with the consent of the Holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the 2020A Bonds.

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

Section 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Notice Event, in addition to that which is required by this

Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice of occurrence of a Notice Event in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of the occurrence of a Notice Event.

Section 10. Default. In the event of a failure of the City to comply with any provision of this Disclosure Certificate, any Holder or Beneficial Owner of the 2020A Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate; provided that any Beneficial Owner seeking to require the City to comply with this Certificate shall first provide at least 30 days' prior written notice to the City of the City's failure, giving reasonable detail of such failure, following which notice the City shall have 30 days to comply. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance, and no person or entity shall be entitled to recover monetary damages under this Certificate.

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

Section 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, and Holders and Beneficial Owners from time to time of the 2020A Bonds, and shall create no rights in any other person or entity.

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

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

THE CITY OF SAN DIEGO

By: _____
Chief Financial Officer

2020B BONDS

This Continuing Disclosure Certificate, dated as of _____, 2020 (the “Disclosure Certificate”), is executed and delivered by the City of San Diego (the “City”) in connection with the issuance by the Public Facilities Financing Authority of the City of San Diego (the “Authority”) of Senior Water Revenue Refunding Bonds, Series 2020B (Payable Solely From Installment Payments Secured by Net System Revenues of the Water Utility Fund) (the “2020B Bonds”). The 2020B Bonds are being issued pursuant to the Indenture (as defined herein). In connection therewith, the City, as an “obligated person” with respect to the 2020B Bonds (within the meaning of the Rule, as defined herein), covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City on behalf of the Authority for the benefit of the Holders and Beneficial Owners of the 2020B Bonds and in order to assist the Participating Underwriters in complying with the Rule.

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

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

“Beneficial Owner” shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or dispose of ownership of, any 2020B Bonds (including persons holding 2020B Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any 2020B Bonds for federal income tax purposes.

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

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

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

“Indenture” shall mean the Indenture, dated as of January 1, 2009, as amended and supplemented by a First Supplemental Indenture, dated as of June 1, 2009, a Second Supplemental Indenture, dated as of June 1, 2010, a Third Supplemental Indenture, dated as of April 1, 2012, a Fourth Supplemental Indenture, dated as of June 1, 2016, a Fifth Supplemental Indenture dated as of January 1, 2017, a Sixth Supplemental Indenture dated as of December 1, 2018, and a Seventh Supplemental Indenture dated as of _____, 2020 each by and between the Authority and U.S. Bank National Association, as successor trustee.

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

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

“Official Statement” shall mean the Official Statement, dated _____, 2020, prepared and distributed in connection with the initial sale of the 2020B Bonds.

“Participating Underwriters” shall mean any of the original purchasers of the 2020B Bonds required to comply with the Rule in connection with offering of the 2020B Bonds.

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

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

Section 3. Provision of Annual Reports.

(a) The City shall, or upon written direction, shall cause the Dissemination Agent (if other than the City) to, not later than April 10 after the end of the City’s Fiscal Year (which currently ends June 30), or the next succeeding business day if that day is not a business day, commencing with the report for the fiscal year ending June 30, 2020 (each, a “Filing Date”), provide to the MSRB an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. As of the date of this Disclosure Certificate, the format prescribed by the MSRB is the Electronic Municipal Market Access (“EMMA”) system.

The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report, and later than the Filing Date for the filing of the Annual Report if not available by such Filing Date. If the City’s Fiscal Year changes, it shall give notice of such change in the same manner as for a Notice Event under Section 5(c) hereof.

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

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

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

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

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

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

(b) Financial information and operating data with respect to the City, as such information and data related to the City’s Public Utilities Department and the Water Utility Fund, for the

most recently completed Fiscal Year of the type included in the Official Statement, in the following categories (to the extent not included in the City's audited financial statements):

- (i) An update of the information substantially in the form contained in Table 2 (entitled "Water Deliveries") for the most recently completed Fiscal Year;
- (ii) An update of the information substantially in the form contained in Table 3 (entitled "Historical Number of Retail Metered Connections to Water System") for the most recently completed Fiscal Year;
- (iii) An update of the information substantially in the form contained in Table 4 (entitled "Major Retail Customers") for the most recently completed Fiscal Year;
- (iv) An update of the information substantially in the form contained in Table 5 (entitled "Raw Water Reservoirs") for the most recently completed Fiscal Year;
- (v) An update of the information substantially in the form contained in Table 6 (entitled "Capacity and Demand of Water System Water Treatment Plants") for the most recently completed Fiscal Year;
- (vi) An update of the information substantially in the form contained in Table 7 (entitled "Water Supplies Used For Delivery Of Potable Water") for the most recently completed Fiscal Year;
- (vii) An update of the information substantially in the form contained in Table 12 (entitled "Water Utility Fund Historical Capacity Charge Revenues") for the most recently completed Fiscal Year;
- (viii) An update of the information substantially in the form contained in Table 13 (entitled "Water Customer Accounts Receivable and Shutoffs by Fiscal Year") for the most recently completed Fiscal Year;
- (ix) An update of the information substantially in the form contained in Table 14 (entitled "Five-Year Water Service Charge History for Single Family Residential, Multi-Family Residential, Non-Residential, Irrigation, and Temporary Construction") for the most recently completed Fiscal Year;
- (x) An update of the information substantially in the form contained in Table 15 (entitled "Historical Sources of Water Sales Revenues") for the most recently completed Fiscal Year;
- (xi) An update of the information substantially in the form contained in Table 16 (entitled "Statements of Revenues, Expenses, and Changes in Fund Net Position for the Water Utility Fund") for the most recently completed Fiscal Year;
- (xii) An update of the information substantially in the form contained in Table 17 (entitled "Reserves and Total Cash and Cash Equivalents In Water Utility Fund") for the most recently completed Fiscal Year;
- (xiii) An update of the information substantially in the form contained in Table 18 (entitled "Calculation of Historic Debt Service Coverage") for the most recently completed Fiscal Year (will be available in the City's comprehensive annual financial report for the most recently completed fiscal year or updated information will be presented in tabular format comparable to referenced table);
- (xiv) An update of the information substantially in the form contained in Table 20 (entitled "Outstanding Debt") for the most recently completed Fiscal Year;

(xv) An update of the information substantially in the form contained in Table 21 (entitled “Water Utility Fund Liability claims Budget and Expenditures”) for the most recently completed Fiscal Year;

(xvi) An update of the information substantially in the form contained in Table 24 (entitled “City of San Diego Schedule of Funding Progress”) for the most recently completed Fiscal Year;

(xvii) An update of the information substantially in the form contained in Table 25 (entitled “City of San Diego and Water Utility Fund Pension Contribution”) for the most recently completed Fiscal Year;

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which have been submitted to the MSRB. The City shall clearly identify each such other document so included by reference.

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

Section 5. Reporting of Significant Events.

(a) The City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the 2020B Bonds, in a timely manner not later than ten (10) business days after the occurrence of such Notice Event to the MSRB through EMMA:

- (i) Principal and interest payment delinquencies;
- (ii) Unscheduled draws on debt service reserves reflecting financial difficulties;⁷
- (iii) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (iv) Substitution of credit or liquidity providers, or their failure to perform;⁸
- (v) Adverse tax opinions or issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB);
- (vi) Tender offers;
- (vii) Defeasances;
- (viii) Rating changes;⁹

⁷ Without limiting its reporting obligation, the City advises that it has not established a debt service reserve fund for the 2020B Bonds.

⁸ Without limiting its reporting obligation, the City advises that it has not obtained or provided any credit enhancement or credit or liquidity providers for the 2020B Bonds.

⁹ Does not include rating changes related to credit enhancement added by a Holder. In addition, the City’s obligation to provide notice of any rating change shall be deemed to be satisfied if (i) the applicable rating

(ix) Bankruptcy, insolvency, receivership or similar event of the City (such event being considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the City in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City); or

(x) Default, event of acceleration, termination event, modification of terms or other similar events under a Financial Obligation of the City's Water System, if any such event reflects financial difficulties.

(b) The City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the 2020B Bonds, if material, not later than ten (10) business days after the occurrence of the such Notice Event to the MSRB through EMMA:

(i) Unless described in paragraph 5(a)(5), other notices or determinations with respect to the tax status of the 2020B Bonds or other events affecting the tax status of the 2020B Bonds;

(ii) Modifications to rights of holders of the 2020B Bonds;

(iii) Bond calls;¹⁰

(iv) Release, substitution, or sale of property securing repayment of the 2020B Bonds;

(v) Non-payment related defaults;

(vi) The consummation of a merger, consolidation, or acquisition the City or the sale of all or substantially all of the assets thereof, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms;

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

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

(c) If the City learns of the occurrence of a Notice Event described in Section 5(a), or determines that knowledge of a Listed Event described in Section 5(b) would be material under applicable federal securities laws, the City shall promptly file, or cause to be filed, a notice of such event with the MSRB through EMMA. Notwithstanding the foregoing, notice of the Notice Events described in subsections (a)(vii) or (b)(iii) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected 2020B Bonds pursuant to the Indenture.

agency files such change with EMMA pursuant to the "automated data feeds" that have been established by the MSRB and (ii) the City verifies that such filing was made in a timely fashion.

¹⁰ Any scheduled redemption of 2020B Bonds pursuant to mandatory sinking fund redemption requirements does not constitute a Notice Event within the meaning of the Rule.

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

Section 6. Termination of Reporting Obligation. The City’s obligations under this Disclosure Certificate with respect to any series of 2020B Bonds shall terminate upon the legal defeasance, prior redemption, or payment in full of all such series of bonds. If such termination occurs prior to the final maturity of the 2020B Bonds, the City shall give notice of such in the same manner as for a Notice Event under Section 5(c).

Section 7. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be the City. The Dissemination Agent, if other than the City, shall not be responsible in any manner for the content of any notice or report prepared by the City pursuant to this Disclosure Certificate.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) if the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the 2020B Bonds, or the type of business conducted;

(b) the undertakings herein, as proposed to be amended or taking in account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the 2020B Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver (i) is approved by the Holders majority of outstanding principal amount of the 2020B Bonds, in the same manner as provided in the Indenture for amendments to the Indenture with the consent of the Holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the 2020B Bonds.

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

Section 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Notice Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice of occurrence of a Notice Event in addition to that which is specifically required by this Disclosure

Certificate, the City shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of the occurrence of a Notice Event.

Section 10. Default. In the event of a failure of the City to comply with any provision of this Disclosure Certificate, any Holder or Beneficial Owner of the 2020B Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate; provided that any Beneficial Owner seeking to require the City to comply with this Certificate shall first provide at least 30 days' prior written notice to the City of the City's failure, giving reasonable detail of such failure, following which notice the City shall have 30 days to comply. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance, and no person or entity shall be entitled to recover monetary damages under this Certificate.

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

Section 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, and Holders and Beneficial Owners from time to time of the 2020B Bonds, and shall create no rights in any other person or entity.

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

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

THE CITY OF SAN DIEGO

By: _____

Chief Financial Officer

APPENDIX D

INFORMATION REGARDING THE BOOK-ENTRY ONLY SYSTEM

The following description of DTC and its book-entry system has been provided by DTC and has not been verified for accuracy or completeness by the City or the Authority, and neither the City nor the Authority shall have any liability with respect thereto. Neither the City nor the Authority shall have any responsibility or liability for any aspects of the records maintained by DTC relating to or payments made on account of beneficial ownership, or for maintaining, supervising, or reviewing any records maintained by DTC relating to beneficial ownership, of interests in the 2020 Bonds.

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the 2020 Bonds. The 2020 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 will be issued for each issue of the 2020 Bonds, in the aggregate principal amount of such issue, 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 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com, provided that nothing contained in such website is incorporated into this Official Statement.

Purchases of 2020 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2020 Bonds on DTC’s records. The ownership interest of each actual purchaser of each 2020 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 2020 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 2020 Bonds, except in the event that use of the book-entry system for the 2020 Bonds is discontinued.

To facilitate subsequent transfers, all 2020 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 2020 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 2020 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2020 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 2020 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2020 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Indenture and the Master Installment Purchase Agreement. For example, Beneficial Owners of 2020 Bonds may wish to ascertain that the nominee holding the 2020 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 2020 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 2020 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts 2020 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the 2020 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee, on payable dates 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 Authority, 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 Authority 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 2020 Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, bonds are required to be printed and delivered. The Authority may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, bonds will be printed and delivered to DTC.

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

FORM OF BOND PURCHASE AGREEMENT

**[\$[Principal Amount]
Public Facilities Financing Authority of the City of San Diego
Water Revenue Bonds, Series [SERIES DESIGNATION]
(Payable Solely from Installment Payments
Secured by Net System Revenues of the Water Utility Fund)**

[__, 20__]

Public Facilities Financing Authority of the City of San Diego
202 C Street
San Diego, California 92101

City of San Diego
202 C Street
San Diego, California 92101

Ladies and Gentlemen:

[REPRESENTATIVE] on behalf of itself and as representative (the “Representative”) of the other underwriters set forth on the signature page hereof (collectively, with the Representative, the “Underwriters”), hereby offers to enter into this Bond Purchase Agreement (this “Bond Purchase Agreement”) with the Public Facilities Financing Authority of the City of San Diego (the “Authority”), a joint exercise of powers authority duly organized and validly existing under and pursuant to the laws of the State of California (the “State”), and The City of San Diego (the “City”), a municipal corporation organized and existing under its Charter and the Constitution and laws of the State, which upon written acceptance of this offer will be binding upon the Authority, the City and the Underwriters. This offer is made subject to the Authority’s and the City’s written acceptance hereof on or before 11:59 p.m., California time, on the date hereof, and, if not so accepted, will be subject to withdrawal by the Underwriters upon written notice delivered to the Authority and the City by the Representative at any time prior to the acceptance hereof by the Authority and the City.

Capitalized terms used and not defined herein shall have the same meanings as set forth in the Indenture (as hereinafter defined).

Section 1. Purchase and Sale of the Bonds; Establishment of Issue Price.

(a) Subject to the terms and conditions and in reliance upon the representations, warranties and agreements set forth herein, the Underwriters hereby agree to purchase from the Authority, and the Authority hereby agrees to sell and deliver to the Underwriters, all (but not less than all) of the \$_____ aggregate principal amount of the Public Facilities Financing Authority of the City of San Diego Water Revenue Bonds, Series [SERIES DESIGNATION] (Payable Solely from Installment Payments Secured by Net System Revenues of the Water Utility Fund)

(the “Bonds”). The Bonds will bear interest at the rates and will mature on the dates and in the principal amounts set forth in Schedule I attached hereto. The purchase price for the Bonds shall be \$_____, being the principal amount of the Bonds, plus a [net] original issue [premium/discount] of \$_____ and less an Underwriters’ discount of \$_____.

(b) The Representative represents and warrants that: (i) it has been duly authorized by and on behalf of the Underwriters to execute this Bond Purchase Agreement; and (ii) it has been duly authorized by the Underwriters to act hereunder and, as the representative of the Underwriters, to take all actions, and waive any condition or requirement, required or permitted to be taken or waived hereunder by the Underwriters. The Underwriters shall not designate any other representative except upon the approval of the City (which approval shall not be unreasonably withheld). The Underwriters agree to comply with all applicable Securities and Exchange Commission rules and rules of the Municipal Securities Rulemaking Board (the “MSRB”).

(c) The Authority and the City acknowledge and agree that: (i) the Underwriters are not acting as a municipal advisor within the meaning of Section 15B of the Securities Exchange Act, as amended; (ii) the primary role of the Underwriters, as underwriters, is to purchase securities, for resale to investors, in an arm’s length commercial transaction among the Authority, the City and the Underwriters and the Underwriters have financial and other interests that differ from those of the Authority and/or the City; (iii) the Underwriters are acting solely as principals and are not acting as municipal advisors, financial advisors or fiduciaries to the Authority or the City and have not assumed any advisory or fiduciary responsibility to the Authority or the City with respect to the transaction contemplated hereby and the discussions, undertakings and procedures leading thereto (irrespective of whether the Underwriters have provided other services or are currently providing other services to the Authority or the City on other matters); (iv) other than as imposed by law, the only obligations the Underwriters have to the Authority and/or the City with respect to the transaction contemplated hereby expressly are set forth in this Purchase Agreement; and (v) each of the Authority and the City has consulted its own financial and/or municipal, legal, accounting and other advisors, as applicable, to the extent it has deemed appropriate.

(d) The Underwriters agree to make a bona fide public offering of the Bonds at a price not in excess of the initial offering price or prices or yields not less than the yields set forth in the Official Statement, which prices may be changed from time to time by the Underwriters after such initial offering. A “bona fide public offering” shall include an offering to institutional investors or registered investment companies, regardless of the number of such investors to which the Bonds are sold. The Underwriters also reserve the right to (i) over allot or effect transactions which stabilize or maintain the market prices of the Bonds at levels above those which might otherwise prevail in the open market and (ii) discontinue such stabilizing, if commenced, at any time. The Representative, on behalf of the Underwriters, agrees to assist the Authority in establishing the issue price of the Bonds and shall execute and deliver to the Authority and the City on the Closing Date (as defined herein) an “issue price” or similar certificate, together with the supporting pricing wires or equivalent communications, substantially in the form attached hereto as Appendix D, with such modifications as may be appropriate or necessary, in the reasonable judgment of the Representative, the Authority and Bond Counsel (as defined herein),

to accurately reflect, as applicable, the sales price or prices or the initial offering price or prices to the public of the Bonds.

(e) [Except for the Hold-the-Price Maturities described in subsection (c) below and Appendix D attached hereto,] the Authority will treat the first price at which 10% of each maturity of the Bonds (the “10% test”) is sold to the public as the issue price of that maturity (if different interest rates apply within a maturity, each separate CUSIP number within that maturity will be subject to the 10% test). Appendix D attached hereto sets forth the maturities of the Bonds for which the 10% test has been satisfied as of the date of this Agreement (the “10% Test Maturities”) and the prices at which the Underwriters have sold such 10% Test Maturities to the public.

(f) [With respect to the maturities of the Bonds that are not 10% Test Maturities, as described in Appendix D attached hereto (the “Hold-the-Price Maturities”), the Representative confirms that the Underwriters have offered such maturities of the Bonds to the public on or before the date of this Agreement at the offering price or prices (the “initial offering price”), or at the corresponding yield or yields, set forth in Appendix D attached hereto. The Authority and the Representative, on behalf of the Underwriters, agree that the (i) the Representative must retain the unsold bonds of each Hold-the-Price Maturity and may not allocate any such bonds to any other Underwriter and (ii) the restrictions set forth in the next sentence apply to the Hold-the-Price Maturities, which will allow the Authority to treat the initial offering price to the public of each such maturity as of the sale date as the issue price of that maturity (the “hold-the-offering-price rule”). So long as the hold-the-offering-price rule remains applicable to any maturity of the Hold-the-Price Maturities, the Representative will neither offer nor sell unsold bonds of such maturity of the Hold-the-Price Maturities to any person at a price that is higher than the initial offering price to the public during the period starting on the sale date and ending on the earlier of the following:

- (i) the close of the fifth (5th) business day after the sale date; or
- (ii) the date on which the Underwriters have sold at least 10% of such Hold-the-Price Maturities to the public at a price that is no higher than the initial offering price to the public.]

The Representative shall advise the Authority promptly after the close of the fifth (5th) business day after the sale date whether it has sold 10% of that maturity of the Hold-the-Price Maturities to the public at a price that is no higher than the initial offering price to the public.

(g) The Representative confirms that:

(i) any agreement among underwriters, any selling group agreement and each third-party distribution agreement (to which the Representative is a party) relating to the initial sale of the Bonds to the public, together with the related pricing wires, contains or will contain language obligating each underwriter, each dealer who is a member of the selling group and each broker-dealer that is a party to such third-party distribution agreement, as applicable:

(A)(i) to report the prices at which it sells to the public the unsold Bonds of each maturity allocated to it, whether or not the Closing Date has occurred, until either all Bonds of that maturity allocated to it have been sold or it is notified by the Representative that the 10% test has been satisfied as to the Bonds of that maturity, provided that, the reporting obligation after the Closing Date may be at reasonable periodic intervals or otherwise upon request of the Representative, and (ii) to comply with the hold-the-offering-price rule, if applicable, if and for so long as directed by the Representative and as set forth in the related pricing wires,

(B) to promptly notify the Representative of any sales of Bonds that, to its knowledge, are made to a purchaser who is a related party to an underwriter participating in the initial sale of the Bonds to the public (each such term being used as defined below),

(C) to acknowledge that, unless otherwise advised by the underwriter, dealer or broker-dealer, the Representative shall assume that each order submitted by the underwriter, dealer or broker-dealer is a sale to the public.

(ii) any agreement among underwriters or selling group agreement relating to the initial sale of the Bonds to the public, together with the related pricing wires, contains or will contain language obligating each underwriter or dealer that is a party to a third-party distribution agreement to be employed in connection with the initial sale of the Bonds to the public to require each broker-dealer that is a party to such third-party distribution agreement to (A) report the prices at which it sells to the public the unsold Bonds of each maturity allocated to it, whether or not the Closing Date has occurred, until either all Bonds of that maturity allocated to it have been sold or it is notified by the Representative or such underwriter or dealer that the 10% test has been satisfied as to the Bonds of that maturity, provided that, the reporting obligation after the Closing Date may be at reasonable periodic intervals or otherwise upon request of the Representative or such underwriter or dealer, and (B) comply with the hold-the-offering-price rule, if applicable, if and for so long as directed by the Representative or the underwriter or the dealer and as set forth in the related pricing wires.

(h) The Authority acknowledges that, in making the representations set forth in this subsection, the Representative will rely on (i) the agreement of each underwriter to comply with the requirements for establishing the issue price of the Bonds, including, but not limited to, its agreement to comply with the hold-the-offering-price rule, if applicable to the Bonds, as set forth in an agreement among underwriters and the related pricing wires, (ii) in the event a selling group has been created in connection with the initial sale of the Bonds to the public, the agreement of each dealer who is a member of the selling group to comply with the requirements for establishing issue price of the Bonds, including, but not limited to, its agreement to comply with the hold-the-offering-price rule, if applicable to the Bonds, as set forth in a selling group agreement and the related pricing wires, and (iii) in the event that an underwriter or dealer who is a member of the selling group is a party to a third-party distribution agreement that was employed in connection with the initial sale of the Bonds to the public, the agreement of each broker-dealer that is a party to such agreement to comply with the requirements for establishing the issue price of the Bonds, including, but not limited to, its agreement to comply with the hold-the-offering-price rule, if applicable to the Bonds, as set forth in the third-party distribution agreement and the related

pricing wires. The Authority further acknowledges that each underwriter shall be solely liable for its failure to comply with its agreement to adhere to the requirements for establishing issue price of the Bonds, including, but not limited to, its agreement to comply with the hold-the-offering-price rule, if applicable to the Bonds, and that no underwriter shall be liable for the failure of any other underwriter, or of any dealer who is a member of a selling group, or of any broker-dealer that is a party to a third-party distribution agreement, to comply with its corresponding agreement to comply with the requirements for establishing the issue price of the Bonds, including, but not limited to, its agreement to comply with the hold-the-offering-price rule, if applicable to the Bonds.

(i) The Underwriters acknowledge that sales of any Bonds to any person that is a related party to an underwriter participating in the initial sale of the Bonds to the public (each such term being used as defined below) shall not constitute sales to the public for purposes of this section. Further, for purposes of this section:

(i) “public” means any person other than an underwriter or a related party,

(ii) “underwriter” means (A) any person that agrees pursuant to a written contract with the Authority (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the public and (B) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (A) to participate in the initial sale of the Bonds to the public (including a member of a selling group or a party to a third-party distribution agreement participating in the initial sale of the Bonds to the public),

(iii) a purchaser of any of the Bonds is a “related party” to an underwriter if the underwriter and the purchaser are subject, directly or indirectly, to (A) more than 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (B) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (C) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other), and

(iv) “sale date” means the date of execution of this Agreement by all parties.

Section 2. Description and Purpose of the Bonds. The Bonds are limited obligations of the Authority payable from and secured by a pledge of the Revenues (as defined in the Indenture) comprised primarily of Installment Payments to be made by the City pursuant to the Amended and Restated Master Installment Purchase Agreement, dated as of January 1, 2009 (the “Original Master Installment Purchase Agreement”), by and between the City and the Corporation, as amended and supplemented, including as amended by the First Amendment to Amended and Restated Master Installment Purchase Agreement, dated as of November 15, 2018, by and between the City and the Corporation, as supplemented by the Collateral Agency, Account and Assignment

Agreement, dated as of November 15, 2018 (the “Collateral Agency Agreement”), by and among the City, the Corporation, the Authority, the United States Environmental Protection Agency (the “EPA”), acting by and through the Administrator of the Environmental Protection Agency, and U.S. Bank National Association as collateral agent under the Collateral Agency Agreement and as Trustee under the Indenture, as supplemented by among other things the 20__ Supplement to Amended and Restated Master Installment Purchase Agreement, dated as of [TBD] (the “20__ Supplement”), [DESCRIBE ANY ADDITIONAL SUPPLEMENTS] by and between the City and the Corporation (the Amended and Restated Master Installment Purchase Agreement, together with all supplements thereto, including the 2020 Supplement, are collectively referred to as the “Agreement”).

Certain rights of the Corporation under the Agreement with respect to the Bonds, including the right to receive the Installment Payments for the Bonds, will be assigned to the Authority under an Assignment Agreement, dated as of [TBD] by and between the Corporation and the Authority (the “20__ Assignment Agreement”).

The Bonds are to be payable as set forth in the Indenture, dated as of January 1, 2009 (the “Original Indenture”), as supplemented and amended by the First Supplemental Indenture, dated as of June 1, 2009, the Second Supplemental Indenture, dated as of June 1, 2010, the Third Supplemental Indenture, dated as of April 1, 2012, the Fourth Supplemental Indenture, dated as of June 1, 2016, the Fifth Supplemental Indenture, dated as of January 1, 2017 and the Sixth Supplemental Indenture (the “Sixth Supplemental Indenture”), dated as of December 1, 2018, [DESCRIBE ANY ADDITIONAL SUPPLEMENTS] (together with the Original Indenture as heretofore amended and supplemented, the “Indenture”), each by and between the Authority and U.S. Bank National Association.

The net proceeds of the Bonds will be used to [DESCRIBE].

Section 3. Public Offering. The Underwriters agree to make a *bona fide* public offering of all the Bonds initially at prices not in excess of the public offering prices (or yields not less than the yields) set forth on Schedule I attached hereto and incorporated herein by reference. Subsequent to the initial public offering, the Underwriters, subject to Section 1 of this Bond Purchase Agreement and the certifications of the Representative contained in the Issue Price Certificate, a form which is attached hereto as Appendix D, reserve the right to change the public offering prices (or yields) as they deem necessary in connection with the marketing of the Bonds, provided that the Underwriters shall not change the interest rates set forth on Schedule I. The Bonds may be offered and sold to certain dealers, unit investment trusts and money market funds, certain of which may be sponsored or managed by one or more of the Underwriters, at prices lower than such initial public offering prices. In connection with the sale and delivery of the Bonds, the Representative will deliver an Issue Price Certificate substantially in the form attached hereto as Appendix D.

Section 4. Delivery of Official Statement; Continuing Disclosure.

(a) Preliminary Official Statement. The Authority and the City have delivered or caused to be delivered to the Underwriters prior to the execution of this Bond Purchase Agreement, copies, which may be an electronic copy, of the Preliminary Official Statement

dated[TBD]. Such Preliminary Official Statement is the official statement deemed final by the Authority and the City for purposes of Rule 15c2-12 under the Securities Exchange Act of 1934, as amended (the “Rule”) and approved for distribution by the Underwriters by resolutions of the governing boards of the Authority and of the City. The Authority and the City hereby ratify and confirm their authorization of the use by the Underwriters prior to the date hereof of the Preliminary Official Statement.

(b) Final Official Statement. Within seven (7) business days from the date hereof, and in any event not later than two (2) business days prior to the Closing Date (hereinafter defined), the Authority and the City shall deliver to the Underwriters a final Official Statement, which may be in electronic form, executed on behalf of the Authority and the City by authorized representatives of such entities, which shall include information permitted to be omitted from the Preliminary Official Statement in accordance with paragraph (b)(1) of the Rule and with such other amendments or supplements as shall have been approved by the Authority, the City and the Representative including the cover pages, the appendices thereto and all information incorporated therein by reference (the “Official Statement”), and such additional conformed copies thereof, which may be electronic copies, as the Underwriters may reasonably request in sufficient quantities to comply with the Rule and rules of the MSRB and to meet potential customer requests for copies of the Official Statement. The Authority and the City hereby agree to deliver to the Underwriters an electronic copy of the Official Statement in a form that permits the Underwriters to satisfy their obligations under the rules and regulations of the MSRB and the SEC. Electronic copies of the Official Statement shall be filed and posted by the Representative on the MSRB’s Electronic Municipal Market Access System (“EMMA”) in connection with the offer and sale of the Bonds as provided herein, which may be in lieu of hard copies of the Official Statement (an “EMMA Filing”). The City and the Authority hereby authorize the Underwriters to use the Official Statement and the information contained therein in connection with the offering and sale of the Bonds.

(c) Continuing Disclosure Certificate. In order to enable the Underwriters to comply with the Rule, the City will execute a Continuing Disclosure Certificate, pursuant to which the City will provide annual financial information and notices of the occurrence of specified events, concurrently with issuance of the Bonds substantially in the form attached as Appendix C to the Preliminary Official Statement and the Official Statement (the “Continuing Disclosure Certificate”).

Section 5. Closing. At 8:30 a.m., California time, on[TBD], or such other time as shall be agreed upon by the Representative and the Authority (the “Closing Date”) the Authority will deliver or cause to be delivered to the Underwriters at the offices of Polsinelli LLP (“Bond Counsel”) in Los Angeles, California (or such other location as may be designated by the Representative and approved by the Authority) the closing documents hereinafter mentioned and, in New York City, New York through the F.A.S.T. facilities of The Depository Trust Company (or such other location as may be designated by the Representative and approved by the Authority), the Bonds in the form of registered book-entry bonds evidenced by one certificate for each maturity and interest rate of Bonds (which may be typewritten) in denominations of \$5,000 or any multiple thereof, duly executed by the Authority and authenticated by the Trustee, and subject to the terms and conditions hereof, the Underwriters will accept delivery of the Bonds in book-entry form and

will pay the purchase price of the Bonds set forth in Section 1 hereof by Federal Funds wire on the Closing Date.

Section 6. Representations, Warranties and Agreements of the Authority. For purposes of this Section 6, “to the best of the Authority’s knowledge” means to the best knowledge of the officers thereof.

The Authority represents, warrants and covenants with the Underwriters that:

(a) the Authority is a joint exercise of powers authority duly organized and validly existing under and pursuant to the laws of the State, with full legal right, power and authority to issue, sell and deliver the Bonds to the Underwriters pursuant to the Indenture, and execute, deliver and perform its obligations, as the case may be, under this Bond Purchase Agreement, the Bonds, the Indenture, the 20__ Assignment Agreement, and the Tax Certificate to be executed by the Authority and the City in connection with the Bonds (the “Tax Certificate”) (collectively with this Bond Purchase Agreement, the Bonds, and the Indenture, the “Authority’s Legal Documents”), and to carry out and consummate all transactions on its part contemplated by each of the aforesaid documents and the Preliminary Official Statement and the Official Statement, and compliance with the provisions of the Authority’s Legal Documents will not materially conflict with or constitute a breach of or default under any applicable constitutional provision, law, administrative regulation, court order or consent decree or any applicable judgment or decree or any loan agreement, note, resolution, indenture, agreement or other instrument to which the Authority is a party or may be otherwise subject;

(b) the Resolution No. FA 2020-1 adopted by the Authority on January 13, 2020 approving and authorizing the issuance of the Bonds and the execution and delivery of the Indenture, the 20__ Assignment Agreement and the resolution adopted by the Authority on [TBD] approving the execution and delivery by the Authority of this Bond Purchase Agreement approving the form and authorizing the distribution of the Preliminary Official Statement and authorizing the execution, delivery, and distribution of the Official Statement (the “Authority Resolutions”) were duly adopted at regularly scheduled meetings of the Authority called and held pursuant to law and with all public notice required by law and at which a quorum was present and acting throughout, and are in full force and effect and have not been amended or repealed;

(c) when delivered by the Authority and paid for by the Underwriters in accordance with the provisions of this Bond Purchase Agreement, the Bonds will have been duly authorized, executed and delivered by and will constitute the valid and binding limited obligations of the Authority in conformity with, and entitled to the benefit and security of, the Indenture;

(d) the Authority has duly authorized and approved the execution and delivery of the Authority’s Legal Documents and as of the Closing Date, the Authority’s Legal Documents, assuming due authorization, execution and delivery by the other respective parties thereto, will constitute the legally valid and binding obligations of the Authority enforceable in accordance with their respective terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws or equitable principles relating to or affecting creditors’ rights generally;

(e) at the date hereof and as of the Closing Date, except as otherwise disclosed in the Preliminary Official Statement and the Official Statement, the Authority will be in compliance with the covenants and agreements contained in the Authority's Legal Documents, and no event of default and no event has occurred and is continuing which, with the passage of time or giving of notice, or both, would, to the knowledge of the Authority, constitute an event of default thereunder;

(f) all approvals, consents and orders of any governmental authority or agency having jurisdiction in the matter which would constitute a condition precedent to the due performance by the Authority of its obligations under the Authority's Legal Documents have been duly obtained or made, and are, and will be as of the Closing Date, in full force and effect;

(g) any certificate signed by any officer of the Authority and delivered to the Underwriters pursuant to the Authority's Legal Documents or any document contemplated hereby or thereby shall be deemed a representation and warranty by the Authority to the Underwriters as to the statements made therein and that such officer shall have been duly authorized to execute the same;

(h) to the best knowledge of the Authority, as of the date hereof there is not a public vote or referendum pending or proposed, the results of which could materially adversely affect the transactions contemplated by the Authority's Legal Documents, the Preliminary Official Statement or the Official Statement or the validity or enforceability of the Bonds;

(i) the Indenture creates a valid pledge of and grant of a first priority security interest in the Revenues purported to be pledged thereby, subject to no prior pledges or security interests other than as identified in the Indenture;

(j) the information under the headings "INTRODUCTION – The Authority" and "LITIGATION" (as it relates to the Authority) in the Preliminary Official Statement, as of the date of the Preliminary Official Statement and as of the date hereof, was true and correct in all material respects, and did not and does not contain a misstatement of any material fact or omit to state a material fact necessary to make the statements contained therein, in the light of the circumstances in which such statements were made, not misleading;

(k) the information under the headings "INTRODUCTION – The Authority" and "LITIGATION" (as it relates to the Authority) in the Official Statement is, and at all times subsequent to the date of the Official Statement up to and including the Closing Date will be, true and correct in all material respects, and such information in the Official Statement contains, and up to and including the Closing Date will contain, no misstatement of any material fact and does not, and up to and including the Closing Date will not, omit any statement necessary to make the statements contained therein, in the light of the circumstances in which such statements were made, not misleading;

(l) as of the time of acceptance hereof and as of the time of the Closing Date, except as otherwise disclosed in the Preliminary Official Statement and the Official Statement, the Authority is not and will not be in breach of or in default under any applicable constitutional provision, law or administrative rule or regulation of the State or the United States, or any

applicable judgment or decree or any trust agreement, loan agreement, bond, note, resolution, ordinance, agreement or other instrument to which the Authority is a party or is otherwise subject, and no event has occurred and is continuing which, with the passage of time or the giving of notice, or both, would constitute a default or event of default under any such instrument which breach or default would materially adversely affect the security of the Bonds or the Authority's performance under the Authority's Legal Documents; and, as of such times, except as disclosed in the Preliminary Official Statement and the Official Statement, the authorization, execution and delivery of the Authority's Legal Documents and compliance by the Authority with the provisions of each of the Authority's Legal Documents do not and will not conflict with or constitute a breach of or default under any applicable constitutional provision, law or administrative rule or regulation of the State or the United States or any applicable judgment, decree, license, permit, trust agreement, loan agreement, bond, note, resolution, ordinance agreement or other instrument to which the Authority (or any of its officers in their respective capacities as such) is subject, or by which it or any of its properties is bound; nor will any such authorization, execution, delivery or compliance result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of its assets or properties or under the terms of any such law, regulation or instrument, except as may be provided by the Authority's Legal Documents;

(m) as of the time of acceptance hereof and as of the time of the Closing Date, except as disclosed in the Preliminary Official Statement and the Official Statement, no action, suit, proceeding, inquiry or investigation, at law or in equity, notice of which has been given to the Authority, before or by any court, government agency, public board or body, is, or will be, pending, or to the best of the Authority's knowledge after reasonable investigation, threatened (i) in any way questioning the corporate existence of the Authority or the titles of the Commissioners, Chair, Vice-Chair or Secretary and Treasurer of the Authority to their respective offices; (ii) affecting, contesting or seeking to prohibit, restrain or enjoin the issuance, sale or delivery of any of the Bonds, or the payment or collection of any amounts pledged or to be pledged to pay the principal of and interest on the Bonds, or in any way contesting or affecting the validity of any of the Authority's Legal Documents or the consummation of the transactions contemplated thereby or hereby, or contesting the exclusion of the interest on the Bonds from gross income for federal income tax purposes or contesting the powers of the Authority or its authority to issue the Bonds; (iii) which may result in any material adverse change relating to the Authority; or (iv) contesting the completeness or accuracy of the Preliminary Official Statement or the Official Statement or any supplement or amendment thereto or asserting that the Preliminary Official Statement or the Official Statement contained any untrue statement of a material fact or omitted to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, nor, to the best knowledge of the Authority is there any basis for any action, suit, proceeding, inquiry or investigation of the nature described in clauses (i) through (iv) of this clause (m); and

(n) for purposes of the Rule, the Authority has heretofore deemed final the Preliminary Official Statement prior to its use and distribution by the Underwriters, except for the information specifically permitted to be omitted by paragraph (b)(1) of the Rule.

All representations, warranties and agreements of the Authority shall remain operative and in full force and effect, regardless of any investigations made by or on the Underwriters' behalf, and shall survive the delivery of the Bonds.

Section 7. Representations, Warranties, and Agreements of the City. For purposes of this Section 7, "to the best knowledge of the City" and "to the best of the City's knowledge" means to the best knowledge of the Mayor, the Chief Financial Officer, the City Attorney and the City's Department heads.

The City represents, warrants and covenants with the Underwriters that:

(a) the City is a municipal corporation organized and existing under a charter duly adopted pursuant to the provisions of the Constitution of the State, with full legal right, power, and authority to execute, deliver and perform its obligations, as the case may be, under this Bond Purchase Agreement, the Continuing Disclosure Certificate, the Agreement and the Tax Certificate (collectively, the "City's Legal Documents") and to carry out and consummate all transactions on its part contemplated by each of the City's Legal Documents, and compliance by the City with the provisions of the City's Legal Documents will not materially conflict with or constitute a breach of or default under any applicable constitutional provision, law, charter provision, administrative regulation, court order or consent decree or any applicable judgment or decree or any loan agreement, note, resolution, indenture, agreement or other instrument to which the City is a party or may be otherwise subject;

(b) Ordinance No. O-21166 of the City with a date of final passage of December 17, 2019 and effective as of January 8, 2020 approving and authorizing, among other things, the issuance of the Bonds and the execution and delivery by the City or the Authority, as applicable, the Indenture, the Continuing Disclosure Certificate and the 2020 Supplement, Resolution No. [] of the City adopted on [TBD] and approving the preparation and distribution of the Preliminary Official Statement and the Official Statement (collectively, the "City Action") were duly adopted at meetings of the City Council called and held pursuant to law and with all public notice required by law and at which a quorum was present and acting throughout, and are in full force and effect and have not been amended or repealed;

(c) as of the time of acceptance hereof and as of the time of the Closing Date, except as otherwise disclosed in the Preliminary Official Statement and the Official Statement, no action, suit, proceeding, inquiry or investigation at law or in equity, notice of which has been given to the City, or by or before any court, governmental agency, public board or body is, or will be, pending or, to the best knowledge of the City, after reasonable investigation, threatened against or affecting the City (i) which in any way contests the existence, organization or powers of the City or the title of the officers of the City to their respective offices, or (ii) affecting, contesting or seeking to prohibit, restrain or enjoin the issuance, sale or delivery of the Bonds, or the payment or collection of Net System Revenues pledged or to be pledged to pay the obligations of the Authority under the Agreement, or the pledge thereof, or (iii) in any way contesting or affecting the validity or enforceability of the City's Legal Documents, or (iv) contesting the power of the City or its authority with respect to the City's Legal Documents, or (v) contesting the exclusion of interest on the Bonds from gross income for federal income tax purposes, or (vi) contesting the completeness or accuracy of the Preliminary Official Statement or the Official Statement or any

supplement or amendment thereto or asserting that the Preliminary Official Statement or the Official Statement contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; nor, to the best knowledge of the City, is there any basis for any action, suit, proceeding, inquiry or investigation of the nature described in clauses (i) through (vi) of this clause (c);

(d) the execution and delivery of the City's Legal Documents, the adoption of the City Action and compliance by the City with the provisions of the City's Legal Documents and the City Action, under the circumstances contemplated thereby, do not and will not in any material respect conflict with or constitute on the part of the City a breach or default under any agreement or other instrument to which the City is a party or by which it is bound or any existing law, regulation, court order or consent decree to which the City is subject;

(e) the City has duly authorized the preparation and distribution of the Preliminary Official Statement and the Official Statement and the execution and delivery of the City's Legal Documents as of the Closing Date, the City's Legal Documents, assuming due authorization, execution and delivery by the other respective parties thereto, will constitute the legally valid and binding obligations of the City enforceable in accordance with their respective terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws or equitable principles relating to or affecting creditors' rights generally;

(f) except as otherwise disclosed in the Preliminary Official Statement and the Official Statement, the City is not in any material respect in violation or breach of or default under any applicable law or administrative regulation of the State or the United States of America, or any agency or instrumentality of either of them, or any applicable judgment or decree, or any loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the City is a party or is otherwise subject, and no event has occurred and is continuing which, with the passage of time or the giving of notice or both, would constitute such a violation or a breach of or a default under any such instrument, which violation, breach or default would materially adversely affect the security of the Bonds or the City's performance under the City's Legal Documents; and, except as disclosed in the Preliminary Official Statement and the Official Statement, the authorization, execution and delivery by the City of the City's Legal Documents and compliance by the City with the provisions of the City's Legal Documents do not and will not conflict in any material respect with or constitute a material breach of or material default under any applicable constitutional provision, law or administrative rule or regulation of the State or the United States, or any applicable judgment, decree, license, permit, trust agreement, loan agreement, bond, note, resolution, ordinance, agreement or other instrument to which the City (or any of its officers in their respective capacities as such) is subject, or by which it or any of its properties is bound; which conflict, breach or default would materially adversely affect the security of the Bonds or the City's performance under the City's Legal Documents; nor will any such authorization, execution, delivery or compliance result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of its assets or properties or under the terms of any such law, regulation or instrument, except as may be provided by the City's Legal Documents;

(g) as of the date hereof, the City is, and as of the time of the Closing Date will be, except as otherwise disclosed in the Preliminary Official Statement and the Official Statement, in compliance with the covenants and agreements contained in the City's Legal Documents, and no event has occurred and is continuing which, with the passage of time or giving of notice, or both, would to the knowledge of the City, constitute an event of default thereunder;

(h) all approvals, consents and orders of any governmental authority or agency having jurisdiction in the matter which would constitute a condition precedent to the preparation and distribution of the Preliminary Official Statement and the Official Statement or the due performance by the City of its obligations under the City's Legal Documents have been duly obtained or made and are in full force and effect;

(i) any certificate signed by any officer of the City and delivered to the Underwriters pursuant to the City's Legal Documents or any document contemplated thereby shall be deemed a representation and warranty by the City to the Underwriters as to the statements made therein and that such officer shall have been duly authorized to execute the same;

(j) to the best knowledge of the City, as of the date hereof there is not a public vote or referendum pending or proposed, the results of which could materially adversely affect the transactions contemplated by the City's Legal Documents, the Preliminary Official Statement or the Official Statement or the validity or enforceability of the Bonds;

(k) the information in the Preliminary Official Statement, as of its date and as of the date hereof, was and is true and correct in all material respects, and contained and contains no misstatement of any material fact, and did not and does not omit to state a material fact necessary to make the statements contained therein, in the light of the circumstances in which such statements were made, not misleading, provided, however, (i) the City makes no representation or warranty with respect to the information concerning The Depository Trust Company and its book-entry system, CUSIP numbers, and any statements or omissions made in reliance upon and in conformity with information relating to any Underwriter furnished to the City in writing by such Underwriter expressly for use in the Preliminary Official Statement and any amendment or supplement thereto (the "Excluded Information"), and (ii) the City acknowledges that the only information relating to the Underwriters furnished to the City in writing by the Underwriters expressly for use in the Preliminary Official Statement and any amendment or supplement thereto is the information under the heading "UNDERWRITING" in the Preliminary Official Statement;

(l) the information in the Official Statement is, and at all times subsequent to the date of the Official Statement up to and including the Closing Date will be, true and correct in all material respects, and the information in the Official Statement contains, and up to and including the Closing Date will contain, no misstatement of any material fact and does not, and up to and including the Closing Date will not, omit to state a material fact necessary to make the statements contained therein, in the light of the circumstances in which such statements were made, not misleading, provided, however, (i) the City makes no representation or warranty with respect to the Excluded Information, and (ii) the City acknowledges that the only information relating to the Underwriters furnished to the City in writing by the Underwriters expressly for use in the Official Statement and any amendment or supplement thereto is the identity of the Underwriters on the bottom of the cover page of the Final Official Statement and the information under the

heading “UNDERWRITING” in the Official Statement and the pricing information appearing on the inside front cover of the Official Statement;

(m) for purposes of the Rule, the City has heretofore deemed final the Preliminary Official Statement prior to its use and distribution by the Underwriters, except for the information specifically permitted to be omitted by paragraph (b)(1) of the Rule;

(n) the financial statements of the City incorporated by reference in the Preliminary Official Statement and the Official Statement fairly present the financial position of the City and results of operations thereof as of the dates and for the periods therein set forth, and have been prepared in accordance with generally accepted accounting principles consistently applied; and

(o) except as otherwise disclosed in the Preliminary Official Statement and the Official Statement, the City has not within the last five years failed to comply in any material respect with any continuing disclosure obligation undertaken pursuant to the Rule.

All representations, warranties and agreements of the City shall remain operative and in full force and effect, regardless of any investigations made by or on the Underwriters’ behalf, and shall survive the delivery of the Bonds.

Section 8. Conditions to the Obligations of the Underwriters. The Underwriters hereby enter into this Bond Purchase Agreement in reliance upon the representations and warranties of the Authority and the City contained herein and the representations and warranties to be contained in the documents and instruments to be delivered by the Closing Date and upon the performance by the Authority, the City, the Corporation and the Trustee of their respective obligations both on and as of the date hereof and on and as of the Closing Date. Accordingly, the Underwriters’ obligations under this Bond Purchase Agreement to purchase, to accept delivery of and to pay for the Bonds on the Closing Date shall be subject, at the option of the Underwriters, to the accuracy in all material respects of the representations and warranties of the Authority and the City contained herein as of the date hereof and as of the Closing Date, to the accuracy in all material respects of the statements of the officers and other officials of the Authority, the City and the Trustee made in any certificate or document furnished pursuant to the provisions hereof, to the performance by the Authority, the City, the Corporation and the Trustee of their respective obligations to be performed hereunder and under the Bonds, the Authority’s Legal Documents, the 20__ Supplement and the 20__ Assignment Agreement (the “Corporation Legal Documents”) and the City’s Legal Documents at or prior to the date hereof and at or prior to the Closing Date, and also shall be subject to the following additional conditions:

(a) on the Closing Date, the Authority’s Legal Documents and the City’s Legal Documents shall have been duly authorized, executed and delivered by the Authority and by the City where each is a party, all in substantially the forms heretofore submitted to the Representative, with only such changes as shall have been reasonably agreed to in writing by the Representative or accepted by the Representative as evidenced by its acceptance of delivery of the Bonds, and shall be in full force and effect; and there shall be in full force and effect such resolutions and ordinances of the Board of Commissioners of the Authority and the City Council as, in the opinion

of Bond Counsel, shall be necessary or appropriate in connection with the transactions contemplated hereby;

(b) on the Closing Date, all necessary action of the Authority and the City relating to the issuance and sale of the Bonds will have been taken and will be in full force and effect and will not have been amended, modified or supplemented;

(c) on or prior to the time of the Closing Date, the Underwriters shall have received the following documents, in each case reasonably satisfactory in form and substance to the Underwriters:

(i) one copy of each of the Authority's Legal Documents, the Corporation Legal Documents and the City's Legal Documents, each duly executed and delivered by the respective parties thereto;

(ii) the approving opinion, dated the Closing Date and addressed to the Authority and the City, of Bond Counsel in substantially the form in Appendix [D] to the Official Statement, and a letter of such counsel, dated the Closing Date, and addressed to the Representative to the effect that such opinions may be relied upon by the Representative to the same extent as if such opinion were addressed to them;

(iii) a supplemental opinion or opinions of Bond Counsel addressed to the Representative, in substantially the form attached hereto as Appendix A;

(iv) a letter of Polsinelli LLP ("Disclosure Counsel"), dated the date of the Closing Date, addressed to the Authority and the City, with a reliance letter addressed to the Representative, substantially in the form attached hereto as Appendix B;

(v) an opinion of [], counsel to the Underwriters, dated the Closing Date, and addressed to the Underwriters, substantially to the effect that: (a) based upon such firm's participation, and information disclosed to such firm in the course of its representation of the Underwriters as counsel to the Underwriters, no facts came to the attention of the attorneys of such firm rendering legal services in connection with this matter that caused the attorney of such firm to believe that the Preliminary Official Statement, as of its date, and the Official Statement, as of the date of the Official Statement and as of the date of the Closing Date (except for CUSIP numbers; financial statements and the Comprehensive Annual Financial Report of the City for the fiscal year ended June 30, 2019 financial, accounting, demographic, statistical and economic data and projections; assumptions or expressions of opinion; and information relating to the book-entry-only system, including information in APPENDIX E — "INFORMATION REGARDING THE BOOK-ENTRY ONLY SYSTEM," which are not addressed in the letter), contained or contains any untrue statement of a material fact or omitted or omits to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; (b) the Bonds are not subject to the registration requirements of the Securities Act of 1933, as amended, and the Indenture is exempt from qualification pursuant to the Trust Indenture Act of 1939, as amended, and (c) the Continuing Disclosure Certificate satisfies the requirements contained in the Rule for an undertaking for the benefit of the holders of the Bonds to provide the information at the times and in the manner required by the Rule;

(vi) the opinion of the General Counsel to the Authority dated the Closing Date and addressed to the Representative and the Authority, substantially in the form attached hereto as Appendix C-1;

(vii) the opinion of Polsinelli LLP, as special counsel to the Corporation, dated the Closing Date and addressed to the Representative, substantially in the form attached hereto as Appendix C-2;

(viii) the opinion of the City Attorney, dated the Closing Date and addressed to the Authority and the Representative, substantially in the form attached hereto as Appendix C-3;

(ix) a certificate of a duly authorized official of the Authority, dated the Closing Date, in form and substance reasonably satisfactory to the Representative, to the effect that (A) the Authority's representations and warranties contained in the Authority's Legal Documents are true and correct on and as of the Closing Date with the same effect as if made on the Closing Date; and (B) there is no misstatement of any material fact under the headings "INTRODUCTION – The Authority" and "LITIGATION" (as it relates to the Authority) in the Official Statement and such statements or information in the Official Statement do not omit to state a material fact necessary to make the statements contained therein, in the light of the circumstances in which such statements were made, not misleading;

(x) a certificate of a duly authorized official of the City, dated the Closing Date, in form and substance reasonably satisfactory to the Representative, to the effect that (A) the City's representations and warranties contained in the City's Legal Documents are true and correct on and as of the Closing Date with the same effect as if made on the Closing Date; and (B) there is no misstatement of any material fact in the Official Statement and such statements or information contained in the Official Statement do not omit to state a material fact necessary to make the statements contained therein, in the light of the circumstances in which such statements were made, not misleading; provided, however, the City makes no representation or warranty with respect to the Excluded Information;

(xi) a certificate of a duly authorized official of the Trustee, dated the Closing Date, to the effect that: (A) the Trustee is a national banking association organized and existing under and by virtue of the laws of the United States, having the full power and being qualified to enter into and perform its duties under the Indenture and to authenticate and deliver the Bonds to the Underwriters; (B) the Trustee is duly authorized to enter into the Indenture and to authenticate and deliver the Bonds to the Underwriters pursuant to the Indenture; (C) when delivered to and paid for by the Underwriters at the Closing Date, the Bonds will have been duly authenticated and delivered by the Trustee; (D) the execution and delivery of the Indenture and compliance with the provisions on the Trustee's part contained in the Indenture, will not conflict with or constitute a breach of or default under any law, administrative regulation, judgment, decree, loan agreement, indenture, note, resolution, agreement or other instrument to which the Trustee is a party or is otherwise subject (except that no representation, warranty or agreement is made with respect to any federal or state securities or blue sky laws or regulations), which conflict, breach or default would materially impair the ability of the Trustee to perform its obligations under the Indenture, nor will any such execution, delivery, adoption or compliance result in the creation or

imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of the properties or assets held by the Trustee pursuant to the lien created by the Indenture under the terms of any such law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement or other instrument, except as provided by the Indenture; and (E) to the best of the knowledge of the Trustee, it has not been served with any action, suit, proceeding, inquiry or investigation in law or in equity, before or by any court, governmental agency, public board or body, nor is any such action or other proceeding threatened against the Trustee, affecting the existence of the Trustee, or the titles of its officers to their respective offices or seeking to prohibit, restrain, or enjoining the execution and delivery of the Bonds or the Indenture or the collection of Revenues to be applied to pay the principal of and interest on the Bonds, or the pledge thereof, or in any way contesting or affecting the validity or enforceability of the Bonds or the Indenture, or contesting the powers of the Trustee or its authority to enter into, adopt or perform its obligations under any of the foregoing to which it is a party, wherein an unfavorable decision, ruling or funding would materially adversely affect the validity or enforceability of the Bonds or the Indenture or the power and authority of the Trustee to enter into and perform its duties under the Indenture and to authenticate and deliver the Bonds to or upon the order of the Underwriters;

(xii) the opinion of counsel to the Trustee, dated the Closing Date and addressed to the Underwriters, the Authority and the City, to the effect that: (A) the Trustee has been duly incorporated as a national banking association under the laws of the United States, duly qualified to do business and to exercise trust powers therein, having full power and authority to enter into and to perform its duties as Trustee under the Indenture; (B) the Trustee has duly authorized, executed and delivered the Indenture, and by all proper corporate action has authorized the acceptance of the trusts of the Indenture; (C) the Indenture constitutes the legally valid and binding agreement of the Trustee, enforceable against the Trustee in accordance with its terms, and (D) the Bonds have been validly authenticated and delivered by the Trustee;

(xiii) one certified copy of the general resolution of the Trustee authorizing the execution and delivery of the Indenture;

(xiv) one certified copy of each of the Authority Resolution and the Corporation Resolution;

(xv) one certified copy of the City Action;

(xvi) the certification required under Section 5.03 of the Agreement in connection with the 2020 Supplement;

(xvii) a Tax Certificate and Agreement of the Authority and the City in form and substance reasonably acceptable to Bond Counsel;

(xviii) evidence that the federal tax information form 8038-G has been prepared for filing;

(xix) a copy of the Notice of Proposed Sale and Report of Final Sale required to be delivered to the California Debt and Investment Advisory Commission pursuant to Section 8855(g) of the California Government Code;

(xx) evidence of a debt policy of the City that complies with Senate Bill 1029;

(xxi) evidence that the Bonds have been rated “[]” by Moody’s Ratings (“Moody’s”), “[]” by Fitch Ratings (“Fitch”), and “[]” by Kroll ratings (Kroll) ;

(xxii) a copy of the statement of the Authority and the opinion of Bond Counsel required under Section 3.05 of the Indenture in connection with the issuance of the Bonds;

(xxiii) a certified copy of the joint exercise of powers agreement pursuant to which the Authority was created;

(xxiv) a Certificate of Status of Domestic Corporation (which may be a facsimile) from the California Secretary of State with respect to the Corporation;

(xxv) a certified copy of the joint exercise of powers agreement pursuant to which the Authority was created;

(xxvi) a Notice of Joint Exercise of Powers Agreement from the Secretary of State certifying that the joint exercise of powers agreement pursuant to which the Authority exists was duly filed;

(xxvii) [TBD]

(xxviii) such additional legal opinions, certificates, instruments or evidences thereof and other documents as the counsel to the Underwriters or Bond Counsel may reasonably request to evidence the due authorization, execution and delivery of the Bonds and the conformity of the Bonds, the Authority’s Legal Documents and the City’s Legal Documents with the terms of the Bonds and the descriptions thereof in the Official Statement; and

(d) the Underwriters shall have the right to terminate this Bond Purchase Agreement, without liability therefor, by notification to the Authority and the City if at any time between the date hereof and the Closing Date:

(i) any event shall occur or facts are discovered which causes any statement contained in the Official Statement to be materially misleading or results in a failure of the Official Statement to state a material fact necessary in order to make the statements in the Official Statement, in the light of the circumstances under which they were made, not misleading, provided, however, the Underwriters shall not terminate this Bond Purchase Agreement if prior to the Closing Date and prior to the distribution of the Official Statement to any public investor the City and the Representative agree to and shall have amended or supplemented the Official Statement so that the Official Statement as so amended or supplemented will not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made in the light of the circumstances in which they were made, not misleading, and, in the sole

judgment of the Representative, such amendment or supplement would not have an adverse effect on the market price of the Bonds on the terms and conditions contemplated by this Bond Purchase Agreement or the ability of the Underwriters to enforce contracts with investors for the sale of the Bonds (collectively, an “Adverse Effect”); or

(ii) any of an amendment to the Constitution of the United States or any legislation in or by the Congress of the United States or the State, or the amendment of legislation pending as of the date of this Bond Purchase Agreement in the Congress of the United States, or the recommendation to Congress or endorsement for passage (by press release, other form of notice or otherwise) of legislation by the President of the United States, the Treasury Department of the United States, the Internal Revenue Service or the Chairman or ranking minority member of the Committee on Finance of the United States Senate or the Committee on Ways and Means of the United States House of Representatives, or the proposal for consideration of legislation by either such Committee or by any member thereof, or the presentment of legislation for consideration as an option by either such Committee, or by the staff of the Joint Committee on Taxation of the Congress of the United States, or the favorable reporting for passage of legislation to either House of the Congress of the United States by a Committee of such House to which such legislation has been referred for consideration, or any decision of any federal or State court or any ruling or regulation (final, temporary or proposed) or official statement on behalf of the United States Treasury Department, the Internal Revenue Service or other federal or State authority, which in any case has a materially adverse effect on the federal or State tax status of the City or the Authority, or the interest on bonds or notes or obligations of the general character of the Bonds shall have occurred and would, in the reasonable opinion of the Representative, have an Adverse Effect; or

(iii) any legislation, ordinance, rule or regulation shall be introduced in, or be enacted by any governmental body, department or agency of the State, or a decision by any court of competent jurisdiction within the State or any court of the United States shall be rendered which, in the reasonable opinion of the Representative, would have an Adverse Effect; or

(iv) legislation shall be enacted by the Congress of the United States, or a decision by a court of the United States shall be rendered, or a stop order, ruling, regulation or official statement by, or on behalf of, the Securities and Exchange Commission or any other governmental agency having jurisdiction of the subject matter of the Bonds shall be issued or made to the effect that the issuance, offering or sale of obligations of the general character of the Bonds, or the issuance, offering or sale of the Bonds, including all underlying obligations, as contemplated hereby or by the Official Statement, is in violation or would be in violation of, or that obligations of the general character of the Bonds, or the Bonds, are not exempt from registration under, any provision of the federal securities laws, including the Securities Act of 1933, as amended and as then in effect, or that the Indenture needs to be qualified under the Trust Indenture Act of 1939, as amended and as then in effect; or

(v) there shall have occurred any outbreak or escalation of hostilities or terrorist activities or other local, national or international calamity or crisis, or a default with respect to the debt obligations of, or the institution of proceedings under the federal bankruptcy laws by or against, any state of the United States or agency thereof, or any city in the United States

having a population of over one million, in any case the effect of which, in the Representative's reasonable judgment, would have an Adverse Effect; or

(vi) any rating of the Bonds or other debt securities of the Authority that are secured by a pledge of Net System Revenues shall have been downgraded, suspended or withdrawn by Moody's or Fitch which, in the Representative's reasonable opinion, would have an Adverse Effect; or

(vii) the commencement of any action, suit or proceeding described in Sections 6(m) or 7(c) hereof which, in the reasonable judgment of the Representative, would have an Adverse Effect; or

(viii) the declaration of a general banking moratorium by federal, New York or California authorities, the general suspension of trading on any national securities exchange or a material disruption in securities settlement, payment or clearance services, which event, in the reasonable judgment of the Representative, would have an Adverse Effect; or

(ix) the imposition by the New York Stock Exchange or other national securities exchange, or any governmental authority, of any material restrictions not now in force with respect to obligations of the general character of the Bonds or securities generally, or the material increase of any such restrictions now in force, including those relating to the extension of credit by, or the charge to net capital requirements of, the Underwriters, which, in the reasonable judgment of the Representative, would have an Adverse Effect; or

(x) there shall have been any materially adverse change in the affairs of the Authority or the City which (A) requires an amendment to the Official Statement under Section 10(a) or (b) hereof and (B) in the Representative's reasonable judgment would have an Adverse Effect.

If the City or the Authority shall be unable to satisfy the conditions contained in this Bond Purchase Agreement, or if the obligations of the Underwriters shall be terminated for any reason permitted by this Bond Purchase Agreement, this Bond Purchase Agreement shall terminate and neither the Underwriters, the City nor the Authority shall be under further obligation hereunder, except as further set forth in Section 9 hereof.

Section 9. Expenses. The Underwriters shall be under no obligation to pay, and the Authority shall pay or cause to be paid the expenses incident to the performance of the obligations of the Authority hereunder including but not limited to (a) the costs of the preparation and printing, or other reproduction (for distribution on or prior to the date hereof) of the Authority's Legal Documents, the City's Legal Documents and the Corporation Legal Documents and the cost of preparing, printing, issuing and delivering the definitive Bonds, (b) the fees and disbursements of any counsel, financial advisors, accountants, verification agents or other experts or consultants retained by the Authority or the City, (c) the fees and disbursements of Bond Counsel, (d) the fees and disbursements of Disclosure Counsel, (e) the fees and disbursements of the Trustee, (f) the cost of preparation (including preparation in electronic form), and printing and distribution of the Preliminary Official Statement and any supplements and amendments thereto and the cost of preparation (including preparation in electronic form), printing and distribution of the Official Statement and any supplements and amendments thereto, including the requisite number of copies

thereof for distribution by the Underwriters, and (g) charges of rating agencies for the rating of the Bonds. The Authority, the City and the Underwriters intend that the Authority will pay all expenses of the Authority and City's officers and employees that are incidental to implementing this Bond Purchase Agreement, including, but not limited to, meals, transportation, and lodging, of those employees, and the Authority shall reimburse the Underwriters if the Underwriters pay for any of such expenses on behalf of the Authority or City.

All out-of-pocket expenses of the Underwriters incident to the performance of the Underwriters' obligations hereunder, including the California Debt and Investment Advisory Commission fee, fees of Underwriters' counsel, [the fees of Digital Assurance Certification, L.L.C.] for a continuing disclosure compliance review and other expenses (except as provided above), shall be paid by the Underwriters from the Underwriters' discount set forth in Section 1 hereof; provided, however, certain such expenses may be included in the expense component of the Underwriters' discount. Notwithstanding that the California Debt and Investment Advisory Commission fee is solely the legal obligation of the Underwriters, the Authority agree to reimburse the Underwriters for such fee.

Section 10. Covenants of Authority and City. The Authority and the City covenant with the Underwriters that:

(a) until the earlier of (i) the date which is twenty-five (25) days after the Authority delivers the Bonds to the Representative, or (ii) the date the Underwriters do not retain, directly or as a member of an underwriting syndicate, any unsold balance of the Bonds for sale to the public (the "End of the Underwriting Period"), if any event shall occur of which the Authority or the City is aware, as a result of which it may be necessary to supplement the Official Statement in order to ensure the Official Statement will not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make such information therein, in light of the circumstances under which it was made, not misleading, each of the Authority and the City shall forthwith notify the Representative of any such event of which it has knowledge and shall cooperate fully in furnishing any information available to it for any supplement to the Official Statement necessary or desirable, in the Representative's or City's opinion, so that the statements therein as so supplemented will not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make such information therein, in light of the circumstances under which it was made, not misleading, and the Authority or the City shall promptly furnish to the Underwriters electronic copies of such supplement; provided that unless the Representative delivers written notice to the City in accordance with this provision at or prior to the Closing Date specifying a date (if other than the Closing Date) to be deemed the "End of the Underwriting Period," the Closing Date shall be the "End of the Underwriting Period." If such notice is delivered, then the Representative agrees to notify the City in writing of the date on which no Underwriter retains, directly or as a member of an underwriting syndicate, any unsold balance of the Bonds for sale to the public;

(b) if the information contained in the Official Statement is amended or supplemented pursuant to subparagraph (a) of this Section 10, at the time of such supplement or amendment thereto and (unless subsequently again supplemented or amended pursuant to such subparagraph) at all times subsequent thereto up to and including the End of the Underwriting Period, the portions of the Official Statement so supplemented or amended (including any financial

and statistical data contained therein), excluding the Excluded Information, will not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make such information therein, in the light of the circumstances under which it was made, not misleading;

(c) the Authority and the City will advise the Representative immediately of receipt by the Authority or the City of any notification with respect to the suspension of the qualification of the Bonds for sale in any jurisdiction or the initiation or threat of any proceeding for that purpose;

(d) the Authority and the City will apply, or cause the application of, the proceeds of the Bonds in accordance with the Indenture and as described in the Official Statement;

(e) the Authority and the City will comply with the requirements of the Tax Certificate;

(f) each of the Authority and the City will advise the Representative promptly of any proposal to amend or supplement the Official Statement and will not effect or consent to any such amendment or supplement without the consent of the Representative, which consent will not be unreasonably withheld;

(g) the Authority will advise the Representative promptly of the institution of any proceedings known to it by any court, governmental agency, public board or body, prohibiting or otherwise affecting the use of the Preliminary Official Statement or the Official Statement in connection with the offering, sale or distribution of the Bonds;

(h) the Authority and the City will furnish such information, execute such instruments and take such other action in cooperation with the Underwriters as the Underwriters may reasonably request to qualify the Bonds for offer and sale under the Blue Sky or other securities laws and regulations of such states and other jurisdictions of the United States as the Underwriters may designate; provided, however, that the Authority and the City shall not be required to register as a dealer or broker or foreign corporation in any such state or jurisdiction or consent to service of process therein; and

(i) the Authority and the City will perform all actions as may be requested by the Representative (including delivery of an appropriate certificate with respect to the Preliminary Official Statement) in order for the Underwriters to comply with the applicable provisions of the Rule.

Section 11. Notices. Any notice or other communication to be given to the Authority or the City under this Bond Purchase Agreement may be given by delivering the same in writing at the Authority's and the City's addresses, respectively, set forth above and any such notice or other communication to be given to the Underwriters shall be delivered to the following address:

[]

Section 12. Parties in Interest. This Bond Purchase Agreement is made solely for the benefit of the Authority, the City and the Underwriters and no other person shall acquire or have any right hereunder or by virtue hereof. Except as otherwise provided herein, all the representations

and warranties of the parties hereto contained in this Bond Purchase Agreement shall remain operative and in full force and effect regardless of any investigation made by or on behalf of the Underwriters, the City or the Authority until the earlier of (a) delivery of and payment for the Bonds hereunder, and (b) any termination of this Bond Purchase Agreement.

Section 13. Counterparts. This Bond Purchase Agreement may be executed in any number of counterparts, each of which shall be an original, and all of which shall constitute but one and the same instrument.

Section 14. Effectiveness. This Bond Purchase Agreement shall become effective and binding upon the respective parties hereto upon the execution of the acceptance hereof by the duly authorized officers of the Authority and the City and shall be valid and enforceable as of the time of such acceptance.

Section 15. Choice of Law. The validity, interpretation and performance of this Bond Purchase Agreement shall be governed by the laws of the State, without regard to conflicts of law.

Section 16. Severability. In the event any provision of this Bond Purchase Agreement shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof.

Section 17. Entire Agreement. The Bond Purchase Agreement, when accepted by the Authority and the City in writing as heretofore specified, shall constitute the entire agreement among the Authority, the City and the Underwriters with respect to the subject matter hereof.

Section 18. Headings. The headings of the sections of this Bond Purchase Agreement are inserted for convenience only and shall not be deemed to be part hereof.

Section 19. No Assignment. The rights and obligations created by this Bond Purchase Agreement shall not be subject to assignment by the Underwriters, the City or the Authority without the prior written consent of the other parties hereto and any purported assignment without such consent shall be null and void.

[Remainder of page intentionally left blank.]

IN WITNESS WHEREOF, the parties hereto, by their officers thereunto duly authorized, have executed and delivered this Bond Purchase Agreement, effective as of the day and year first above written.

[]

By: _____
Managing Director

Accepted as of the date hereof:

PUBLIC FACILITIES FINANCING
AUTHORITY OF THE CITY OF
SAN DIEGO

By: _____
Name: []
Title: Chair

CITY OF SAN DIEGO

By: _____
Name: Rolando Charvel
Title: Chief Financial Officer

APPROVED AS TO FORM:

Mara W. Elliott, City Attorney

By: _____
Deputy City Attorney

[Signature Page to Series 2020 Bond Purchase Agreement]

SCHEDULE I

MATURITY SCHEDULE AND REDEMPTION PROVISIONS

\$ _____

Public Facilities Financing Authority of the City of San Diego
Water Revenue Bonds, Series 2020A
(Payable Solely from Installment Payments
Secured by Net System Revenues of the Water Utility Fund)

Maturity Schedule

Maturity Date (August 1)	Principal Amount	Interest Rate	Yield	Price	[10% Test Used]
-------------------------------------	-----------------------------	--------------------------	--------------	--------------	----------------------------

Redemption Provisions

[TBD]

APPENDIX A
BOND COUNSEL SUPPLEMENTAL OPINION
[[TBD]]

APPENDIX B
DISCLOSURE COUNSEL LETTER

[TBD]

APPENDIX C-1
OPINION OF COUNSEL TO THE AUTHORITY

[TBD]

APPENDIX C-2

OPINION OF COUNSEL TO THE CORPORATION

[TBD]

APPENDIX C-3
CITY ATTORNEY OPINION
[TBD]

APPENDIX D

FORM OF ISSUE PRICE CERTIFICATE OF THE REPRESENTATIVE

The undersigned, on behalf of [] (the “Representative”), on behalf of themselves, and [] (together, the “Underwriting Group”), is making these certifications in connection with the above-captioned bonds described in Schedule A attached hereto (the “Bonds”) and hereby certifies and represents the following, based upon the information available to it; provided, however, that (i) the Representative expresses no view regarding the legal sufficiency or the correctness of any legal interpretation made by Bond Counsel, (ii) nothing herein represents the interpretation of the Representative of any laws, and, in particular, regulations under the Internal Revenue Code of 1986, as amended (the “Code”), and (iii) the Representative expresses no view regarding the legal sufficiency of any representations made herein:

A. [1. *Sale of the 10% Test Maturities.* As of the date of this certificate, for each Maturity of the 10% Test Maturities (as defined below) the first price at which at least 10% of such Maturity was sold to the Public as of the Sale Date is the respective price listed in Schedule A hereto.

2. *Initial Offering Price of the Hold-the-Offering-Price Maturities.*

(a) The Purchaser offered the Hold-the-Offering-Price Maturities (as defined below) to the Public for purchase at the respective initial offering prices listed in Schedule A (the “Initial Offering Prices”) on or before the Sale Date. A copy of the pricing wire or equivalent communication for the Bonds is attached to this certificate as Schedule B.

(b) As set forth in the Notice of Sale, by submission of its bid the Purchaser has agreed in writing that, (i) for each Maturity of the Hold-the-Offering-Price Maturities, it would neither offer nor sell any of the Bonds of such Maturity to any person at a price that is higher than the Initial Offering Price for such Maturity during the Holding Period for such Maturity (the “hold-the-offering-price rule”), and (ii) any selling group agreement shall contain the agreement of each dealer who is a member of the selling group, and any third-party distribution agreement shall contain the agreement of each broker-dealer who is a party to the third-party distribution agreement, to comply with the hold-the-offering-price rule. Pursuant to such agreement, no Underwriter (as defined below) has offered or sold any Maturity of the Hold-the-Offering-Price Maturities at a price that is higher than the respective Initial Offering Price for that Maturity of the Bonds during the Holding Period.]

B. *Defined Terms.*

(a) *10% Test Maturities* means those Maturities of the Bonds where issue price was established under Treasury Regulations Section 1.148li-1(f)(2)(i) as shown in Schedule A hereto as the “10% Test Maturities.” [if Paragraph A1 is used.]

(b) *Hold-the-Offering-Price Maturities* means those Maturities of the Bonds where issue price was established under Treasury Regulations Section 1.148-1(f)(2)(ii) as shown in Schedule A hereto as the “Hold-the-Offering-Price Maturities.” [if Paragraph A2 is used]

(c) *Holding Period* means, with respect to a Hold-the-Offering-Price Maturity, the period starting on the Sale Date and ending on the earlier of (i) the close of the fifth business day after the Sale Date, or (ii) the date on which the Underwriter sold at least 10% of such Hold-the-Offering-Price Maturity to the Public at prices that are no higher than the Initial Offering Price for such Hold-the-Offering-Price Maturity. [if Paragraph A2 is used]

(d) *Maturity* means Bonds with the same credit and payment terms. Bonds with different maturity dates, or Bonds with the same maturity date but different stated interest rates or CUSIP identification numbers, are treated both as separate maturities and as one maturity for purposes of determining compliance.

(e) *Public* means any person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter or a related party to an Underwriter.

(f) *Related Party* means any entity if an underwriter and the entity are subject, directly or indirectly, to (i) more than 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (ii) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (iii) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other).

(g) *Sale Date* means the first day on which there is a binding contract in writing for the sale of a Maturity of the Bonds. The Sale Date of the Bonds is _____.

(h) *Underwriter* means (i) the Purchaser, (ii) any person that agrees pursuant to a written contract with the Purchaser to participate in the initial sale of the Bonds to the Public, and (iii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (ii) of this paragraph to participate in the initial sale of the Bonds to the Public (including a member of a selling group or a party to a third-party distribution agreement participating in the initial sale of the Bonds to the Public).

We understand that the representations contained herein may be relied upon by the Authority in making certain of the representations contained in its federal tax certificate relating to the Bonds, and we further understand that Polsinelli LLP, as Bond Counsel to the Authority, may rely upon this certificate, among other things, in providing an opinion with respect to the exclusion from gross income of interest on the Bonds pursuant to Section 103 of the Code. The undersigned is certifying only as to facts in existence on the date hereof. Nothing herein represents

our interpretation of any laws or regulations under the Code or the application of any laws to these facts. The undersigned is certifying only as to facts in existence on the date hereof.

Dated: _____, 2019 _____

Authorized Representative By: _____

SCHEDULE A
SALE PRICES OF THE GENERAL RULE MATURITIES AND INITIAL OFFERING
PRICES OF THE HOLD-THE-OFFERING-PRICE MATURITIES

(Attached)

MATURITY SCHEDULE

Maturity Date <u>[(August 1)]</u>	<u>Principal Amount</u> \$	<u>Interest Rate</u> %	<u>Yield</u> %	<u>Price]</u>
--	--------------------------------------	----------------------------------	--------------------------	----------------------

[* General Rule Maturities

** Hold-the-Offering-Price Maturities]

SCHEDULE B TO ISSUE PRICE CERTIFICATE

[ATTACH PRICING WIRE OR EQUIVALENT COMMUNICATION]



The City of San Diego
Item Approvals

Item Subject: Approval of the forms of Preliminary Official Statement, Official Statement, Bond Purchase Agreement and certain other agreements and actions in connection

with the issuance of the Public Facilities Financing Authority of the City of San Diego Water Revenue Bonds.

Approving Authority	Approver	Approval Date
OFFICE OF THE CITY ATTORNEY DEPARTMENT APPROVER	SINGER, SANNA	03/23/2020