CITY of ESCONDIDO

COUNCIL MEETING AGENDA

WEDNESDAY, OCTOBER 27, 2021

4:30 PM - Closed Session
5:00 PM - Regular Session
Escondido City Council Chambers, 201 North Broadway, Escondido, CA 92025

WELCOME TO YOUR CITY COUNCIL MEETING

We welcome your interest and involvement in the legislative process of Escondido. This agenda includes information about topics coming before the City Council and the action recommended by City staff.

MAYOR

Paul McNamara

DEPUTY MAYOR

Michael Morasco (District 4)

COUNCILMEMBERS

Consuelo Martinez (District 1)
Tina Inscoe (District 2)
Joe Garcia (District 3)

CITY MANAGER

Sean McGlynn

CITY ATTORNEY

Michael McGuinness

CITY CLERK

Zack Beck

HOW TO WATCH

The City of Escondido provides three ways to watch a City Council meeting:

In Person	On TV	Online
201 N. Broadway	Cox Cable Channel 19 and U-verse Channel 99	www.escondido.org

CITY *of* ESCONDIDO

COUNCIL MEETING AGENDA

WEDNESDAY, OCTOBER 27, 2021

HOW TO PARTICIPATE

The City of Escondido provides two ways to communicate with the City Council during a meeting:

In Person

Fill out Speaker Slip and Submit to City Clerk

In Writing

https://www.escondido.org/agenda-position.aspx

ASSISTANCE PROVIDED

If you need special assistance to participate in this meeting, please contact our ADA Coordinator at 760-839-4643. Notification 48 hours prior to the meeting will enable to city to make reasonable arrangements to ensure accessibility. Listening devices are available for the hearing impaired – please see the City Clerk.

CITY *of* ESCONDIDO

COUNCIL MEETING AGENDA

WEDNESDAY, OCTOBER 27, 2021

CLOSED SESSION
4:30 PM

CALL TO ORDER

1. Roll Call: Garcia, Inscoe, Martinez, Morasco, McNamara

ORAL COMMUNICATIONS

In addition to speaking during particular agenda items, the public may address the Council on any item which is not on the agenda provided the item is within the subject matter jurisdiction of the City Council. State law prohibits the Council from discussing or taking action on such items, but the matter may be referred to the City Manager/staff or scheduled on a subsequent agenda. Speakers are limited to only one opportunity to address the Council under Oral Communications.

CLOSED SESSION

1. **Conference with legal counsel-anticipated litigation (Government Code §54956(d)(2))**

    a. Claim of Jamie Zeller

ADJOURNMENT

CITY *of* ESCONDIDO

COUNCIL MEETING AGENDA

WEDNESDAY, OCTOBER 27, 2021

REGULAR SESSION

5:00 PM Regular Session

MOMENT OF REFLECTION

City Council agendas allow an opportunity for a moment of silence and reflection at the beginning of the evening meeting. The City does not participate in the selection of speakers for this portion of the agenda, and does not endorse or sanction any remarks made by individuals during this time. If you wish to be recognized during this portion of the agenda, please notify the City Clerk in advance.

FLAG SALUTE

The City Council conducts the Pledge of Allegiance at the beginning of every City Council meeting.

CALL TO ORDER

Roll Call: Garcia, Inscoe, Martinez, Morasco, McNamara

PRESENTATIONS

Helen Putnam Award

MMA Achievement Award - Lariah Gill

CLOSED SESSION REPORT

ORAL COMMUNICATIONS

In addition to speaking during particular agenda items, the public may address the Council on any item which is not on the agenda provided the item is within the subject matter jurisdiction of the City Council. State law prohibits the Council from discussing or taking action on such items, but the matter may be referred to the City Manager/staff or scheduled on a subsequent agenda. Speakers are limited to only one opportunity to address the Council under Oral Communications.

CONSENT CALENDAR

Items on the Consent Calendar are not discussed individually and are approved in a single motion. However, Council members always have the option to have an item considered separately, either on their own request or at the request of staff or a member of the public.

1. **AFFIDAVITS OF PUBLICATION, MAILING AND POSTING (COUNCIL/RRB)**

2. **APPROVAL OF WARRANT REGISTER (COUNCIL)**
a. 357059 - 357246 dated October 6, 2021

b. 357247 - 357452 dated October 13, 2021

3. **APPROVAL OF MINUTES:** October 13, 2021

4. **AMENDMENT NO. 1 TO THE ESCONDIDO JOINT POWERS FINANCING AUTHORITY AGREEMENT -**
Request the City Council approve Amendment No. 1 to the Joint Exercise of Powers Agreement of the Escondido Joint Powers Financing Authority.

Staff Recommendation: Approval (Finance Department: Christina Holmes)

a. Resolution No. 2021-164

b. Resolution No. 2021-165

c. Resolution No. 2021-166

5. **AUTHORIZATION TO ORDER TELECOMMUNICATIONS SERVICES UNDER THE CALNET CONTRACT -**
Request the City Council approve authorizing the Director of Information Systems to execute signature-required documents documents and agreements to procure and maintain telecommunication and network services provided under the CALNET Next Generation Data Networks and Communications Services pricing.

Staff Recommendation: Approval (Information System's Department: Rob Van De Hey)

a. Resolution No. 2021-170

CONSENT RESOLUTIONS AND ORDINANCES (COUNCIL/RRB)

The following Resolutions and Ordinances were heard and acted upon by the City Council/RRB at a previous City Council/Mobilehome Rent Review meeting. (The title of Ordinances listed on the Consent Calendar are deemed to have been read and further reading waived.)

6. **AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF ESCONDIDO, CALIFORNIA, APPROVING THE 2021 OMNIBUS THAT AMENDS VARIOUS ARTICLES OF THE ESCONDIDO ZONING CODE -**
Approved on October 13, 2021 with a vote of 5/0.

a. Ordinance No. 2021-10 (Second Reading and Adoption)

7. **AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF ESCONDIDO, CALIFORNIA, APPROVING AN AMENDMENT TO TABLE 4.1 IN THE EAST VALLEY PARKWAY SPECIFIC PLAN** - Approved on October 13, 2021 with a vote of 5/0.

   a. Ordinance No. 2021-11 (Second Reading and Adoption)

CURRENT BUSINESS

8. **FINANCING PLAN AND LEGAL DOCUMENTS FOR THE ISSUANCE OF THE 2021 WASTEWATER SYSTEM REVENUE REFUNDING BONDS** -
   Request the City Council approve authorizing the issuance and sale of the 2021 Wastewater System Revenue Refunding Bonds to refund the Wastewater Revenue Bonds, Series 2012.

   Staff Recommendation: Approval (Finance Department: Christina Holmes)

   a. Resolution No. 2021-128

   b. Resolution No. EJPFA 2021-01

9. **FINANCIAL STATUS REPORT AND BUDGET ADJUSTMENT REQUEST FOR FISCAL YEAR 2020 - 2021** -
   Request the City Council receive and file the year-end financial report for the fiscal year 2020 - 2021 and adopt a Budget Adjustment.

   Staff Recommendation: Receive and File (Finance Department: Christina Holmes)

10. **CITY OF ESCONDIDO'S MEMBERSHIP IN THE CLEAN ENERGY ALLIANCE, A COMMUNITY CHOICE ENERGY PROGRAM** -
    Request the City Council approve authorizing the Mayor to execute a Joint Powers Agreement for the City’s membership in Clean Energy Alliance, a Community Choice Energy Program that now includes the Cities of Del Mar, Solana Beach, and Carlsbad.

    Staff Recommendation: Approval (City Manager's Office: Christopher McKinney)

    a. Resolution No. 2021-169

    b. Ordinance No. 2021-12 (First Reading and Introduction)

11. **MIDDLE INCOME HOUSING PROJECT PROPOSALS -**
Request the City Council approve up to three unique Middle Income Housing Project Proposals to convert market rate housing to 30-year deed-restricted middle income housing. Each project would provide income and rent-restricted rental housing for households earning between 80% to 120% of the area median income.

Staff Recommendation: Approval (Community Development Department: Adam Finestone)

a. Resolution No. 2021-151

b. Resolution No. 2021-152

c. Resolution No. 2021-153

FUTURE AGENDA

12. **FUTURE AGENDA -**
The purpose of this item is to identify issues presently known to staff or which members of the City Council wish to place on an upcoming City Council agenda. Council comment on these future agenda items is limited by California Government Code Section 54954.2 to clarifying questions, brief announcements, or requests for factual information in connection with an item when it is discussed.

Staff Recommendation: None (City Clerk's Office: Zack Beck)

COUNCILMEMBERS SUBCOMMITTEE REPORTS AND OTHER REPORTS

CITY MANAGER'S WEEKLY ACTIVITY REPORT

The most current information from the City Manager regarding Economic Development, Capital Improvement Projects, Public Safety, and Community Development. This report is also available on the City's website, ***www.escondido.org***.

ORAL COMMUNICATIONS

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ADJOURNMENT

UPCOMING MEETING SCHEDULE

Wednesday, November 03, 2021	4:00 & 5:00 PM	Regular Meeting, *Council Chambers*
Wednesday, November 17, 2021	4:00 & 5:00 PM	Regular Meeting, *Council Chambers*

Members of the Escondido City Council also sit as the Successor Agency to the Community Development Commission, Escondido Joint Powers Financing Authority, and the Mobilehome Rent Review Board.

ESCONDIDO
City of Choice

Consent Item No. 1 October 27, 2021

A F F I D A V I T S

OF

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P O S T I N G

ESCONDIDO
City of Choice

CITY COUNCIL STAFF REPORT

Consent Item No. 2 **October 27, 2021** **File No. 0400-40**

SUBJECT: Approval of Warrants

DEPARTMENT: Finance Department

RECOMMENDATION:

Request approval for City Council and Housing Successor Agency warrant numbers:

357059 – 357246 dated October 6, 2021
357247 – 357452 dated October 13, 2021

FISCAL ANALYSIS:

The total amount of the warrants for the following periods are as follows:

September 30 – October 6, 2021, is $ 1,890,364.85
October 7 – October 13, 2021, is $ 1,481,590.99

BACKGROUND:

The Escondido Municipal Code Section 10-49 states that warrants or checks may be issued and paid prior to audit by the City Council, provided the warrants or checks are certified and approved by the Director of Finance as conforming to the current budget. These warrants or checks must then be ratified and approved by the City Council at the next regular Council meeting.

October 13, 2021
4:30 p.m. Meeting
Parkview Conference Room
Escondido City Council

CALL TO ORDER

The Regular Meeting of the Escondido City Council was called to order at 4:30 p.m. on October 13, 2021 in the Parkview Room at City Hall with Mayor McNamara presiding.

ATTENDANCE

The following members were present: Councilmember Joe Garcia, Councilmember Tina Inscoe, Councilmember Consuelo Martinez, Deputy Mayor Michael Morasco, and Mayor Paul McNamara. Quorum present.

ORAL COMMUNICATIONS

None.

CLOSED SESSION: (COUNCIL/RRB)

CONFERENCE WITH LEGAL COUNSEL-- EXISTING LITIGATION (Government Code 54956.9(d)(1))

a. **Case Name:** Building Industry Association of San Diego County v. City of Escondido
Case No: San Diego Superior Court Case No. 37-2021-00008423-CU-MC-NC

ADJOURNMENT

Mayor McNamara adjourned the meeting at 4:43 p.m.

MAYOR

CITY CLERK

October 13, 2021
5:00 P.M. Meeting

Escondido City Council

CALL TO ORDER

The Regular Meeting of the Escondido City Council was called to order at 5:00 p.m. October 13, 2021 in the City Council Chambers with Mayor McNamara presiding.

MOMENT OF REFLECTION
Zack Beck, City Clerk led the Moment of Reflection

FLAG SALUTE
Michael McGuinness, City Attorney, led the Flag Salute

ATTENDANCE
The following members were present: Councilmember Joe Garcia, Councilmember Tina Inscoe, Councilmember Consuelo Martinez, Deputy Mayor Michael Morasco, and Mayor Paul McNamara. Quorum present.

Also present were: Sean McGlynn, City Manager; Michael McGuinness, City Attorney; and Zack Beck, City Clerk.

PROCLAMATIONS: National Women's Small Business Month, October 2021
Code Compliance Officer Appreciation Week, October 2021
2021-2022 Teacher of the Year, Laura Reyes

CLOSED SESSION REPORT

Case Name: Building Industry Association of San Diego County v. City of Escondido
Case No: San Diego Superior Court Case No. 37-2021-00008423-CU-MC-NC

COUNCIL ACTION: Voted 5-0 to approve the execution of a stipulation to stay the proceedings.

ORAL COMMUNICATIONS

Alan Marks - Requested additional bike lanes in Escondido.

Phyllis Gottshall - Requested that the City Council create more parks and open spaces.

Verna Sundquist - Requested that the City Council create more parks and open spaces.

Next Velasquez - Requested that the City Council create more parks and open spaces.

Lance Cottington - Expressed concern over traffic safety issues in Escondido.

Ryan Johnson - Expressed concern over traffic safety issues in Escondido

Yusef Miller - Expressed concern over the recent oil spill and requested that the City Council divest from fossil fuels.
Nadeem Miller - Expressed concern over the the recent oil spill and that the City stop using pesticides in parks throughout Escondido.

Ben Zuill Smith - Expressed concern over traffic safety issues at North Rose and Midway.

CONSENT CALENDAR

MOTION: Moved by Councilmember Martinez and seconded by Councilmember Garcia to approve all consent calendar items, except item 7 and 10. Approved unanimously.

1. AFFIDAVITS OF PUBLICATION, MAILING AND POSTING (COUNCIL/RRB)

2. APPROVAL OF WARRANT REGISTER (Council)
Request the City Council approve the City Council and Housing Successor Agency warrant numbers:

- 356674 - 356818 dated September 22, 2021
- 356819 - 357058 dated September 29, 2021

Staff Recommendation: **Approval (Finance Department: Christina Holmes)**

3. APPROVAL OF MINUTES: Regular Meeting of September 29, 2021

4. NOTICE OF COMPLETION FOR THE WASHINGTON PARK SKATE SPOT PROJECT -
Request the City Council approve and accept the public improvements and authorize staff to file a Notice of Completion for the Washington Park Skate Spot Project. (File No. 0600-95)

Staff Recommendation: **Approval (Engineering Services Department: Julie Procopio)**

RESOLUTION NO. 2021-157

5. $25,000 PUBLIC RISK INNOVATION, SOLUTIONS, AND MANAGEMENT (“PRISM”) PROPERTY GRANT MOU AND BUDGET ADJUSTMENT -
Request the City Council approve authorizing the Director of Public Works to execute an MOU and Budget Adjustment to receive $25,000 in funding from the Public Risk Innovation, Solutions, and Management "(PRISM)" Property Grant Program for the installation of a new fire alarm system at the Park Avenue Community Center. (File No. 0480-70)

Staff Recommendation: **Approval (Public Works Department: Joseph Goulart)**

RESOLUTION NO. 2021-155

6. FISCAL YEAR 2021-22 STATE OF CALIFORNIA OFFICE OF TRAFFIC SAFETY PEDESTRIAN AND BICYCLE SAFETY PROGRAM GRANT -
Request the City Council approve authorizing the Escondido Police Department to accept a Fiscal Year 2020-21 California Office of Traffic Safety (OTS) Pedestrian and Bicycle Safety Program Grant in the amount of $25,000; authorize the Chief of Police or his designee to execute grant documents on behalf of the City; and approve budget adjustments needed to spend grant funds. The Police Department will use grant funds to pay for police officer overtime for educational programs related to bicycle and pedestrian safety, and to provide bicycle helmets, educations materials and safety supplies to community members. (File No. 0480-70)

Staff Recommendation: **Approval (Police Department: Edward Varso)**

7. FISCAL YEAR 2021-22 STATE OF CALIFORNIA OFFICE OF TRAFFIC SAFETY SELECTIVE TRAFFIC ENFORCEMENT PROGRAM "(STEP)" GRANT -

Request the City Council approve authorizing the Escondido Police Department to accept a FY 2021-22 California Office of Traffic Safety (OTS) Selective Traffic Enforcement Program (STEP) Grant in the amount of $520,000; authorize the Chief of Police or his designee to execute grant documents on behalf of the City; and approve budget adjustments needed to spend grant funds. The Police Department will use grant funds to pay for salary and benefits for one full-time traffic enforcement officer, traffic safety supplies, and for DUI checkpoints, saturation patrols, and traffic safety enforcement details. (File No. 0480-70)

Staff Recommendation: **Approval (Police Department: Edward Varso)**

MOTION: Moved by Councilmember Martinez and seconded by Deputy Mayor Morasco to approve authorizing the Escondido Police Department to accept a FY 2021-22 California Office of Traffic Safety (OTS) Selective Traffic Enforcement Program (STEP) Grant in the amount of $520,000; authorize the Chief of Police or his designee to execute grant documents on behalf of the City; and approve budget adjustments needed to spend grant funds. Approved unanimously.

8. FISCAL YEAR 2020 OPERATION STONEGARDEN GRANT AND BUDGET ADJUSTMENT -

Request the City Council approve accepting Fiscal Year 2020 Operation Stonegarden Grant Funds in the amount of $10,000 from the California Office of Emergency Services through the County of San Diego; authorize the Chief of Police or his designee to execute grant documents on behalf of the City; and approve budget adjustments needed to spend grant funds. The Department proposes to use grant funds to pay overtime expenses for multi-disciplinary crime suppression operations related to human trafficking, narcotics trafficking, criminal gang activity, and weapons trafficking. (File No. 0480-70

Staff Recommendation: **Approval (Police Department: Edward Varso)**

9. FISCAL YEAR 2020-21 REGIONAL REALIGNMENT RESPONSE GRANT -

Request the City Council approve authorizing the Escondido Police Department to accept $80,000 of Fiscal Year 2020-21 Regional Realignment Response Grant funds; authorize the Chief of Police or his designee to execute grant documents on behalf of the City; and approve budget adjustments needed to spend grant funds. Funding was provided by the State of California Board of Community Corrections through Assembly Bill 118 and Senate Bill 89, initiatives to reduce state prison overcrowding and support local law enforcement efforts to efficiently manage offenders and parole-violators. Escondido's allocation is used to support regional and local suppression operations. Funds must be used for police officer overtime and associated overhead. (File No. 0480-70)

Staff Recommendation: **Approval (Police Department: Edward Varso)**

10. ALLEY UTILITIES REPLACEMENT PROJECT -

Request the City Council approve authorizing the Mayor to execute a Consulting Agreement for design services for the Alley Utilities Replacement Project. (File No. 0600-10, A-3389)

Staff Recommendation: **Approval (Utilities Department: Christopher McKinney)**

RESOLUTION NO. 2021-142

MOTION: Moved by Deputy Mayor Morasco and seconded by Councilmember Inscoe to approve authorizing the Mayor to execute a Consulting Agreement for design services for the Alley Utilities Replacement Project. Approved unanimously.

CONSENT RESOLUTIONS AND ORDINANCES (COUNCIL/RRB)

The following Resolutions and Ordinances were heard and acted upon by the City Council/RRB at a previous City Council/Mobilehome Rent Review meeting. (The title of Ordinances listed on the Consent Calendar are deemed to have been read and further reading waived.)

PUBLIC HEARINGS

11. 2021 OMNIBUS ZONING CODE UPDATE -

Request the City Council approve a series of Escondido Zoning Code Amendments to address changes in state laws, correct errors, and clarify or improve existing regulations. The proposal involves minor amendments to Article 34 (Communication Antennas), Article 35 (Outdoor Lighting), Article 47 (Environmental Quality), Article 55 (Grading and Erosion Control), Article 56 (Miscellaneous Development Standards), Article 61 (Administration and Enforcement), Article 64 (Design Review), Article 65 (Old Escondido Neighborhood), Article 66 (Sign Ordinance), Article 67 (Density Bonus and Residential Incentives), Article 68 (Growth Management Ordinance), and Article 70 (Accessory Dwelling Units and Junior Accessory Dwelling Units) of the Escondido Zoning Code. The project also includes a minor revision to Table 4.1 of the East Valley Specific Plan. (File No. 0810-20)

Staff Recommendation: **Approval (Community Development Department: Adam Finestone)**

a) ORDINANCE NO. 2021-10 b) ORDINANCE NO. 2021-11 (First Reading and Introduction)

MOTION: Moved by Deputy Mayor Morasco and seconded by Councilmember Garcia to approve a series of Escondido Zoning Code Amendments to address changes in state laws, correct errors, and clarify or improve existing regulations. The proposal involves minor amendments to Article 34 (Communication Antennas), Article 35 (Outdoor Lighting), Article 47 (Environmental Quality), Article 55 (Grading and Erosion Control), Article 56 (Miscellaneous Development Standards), Article 61 (Administration and Enforcement), Article 64 (Design Review), Article 65 (Old Escondido Neighborhood), Article 66 (Sign Ordinance), Article 67 (Density Bonus and Residential Incentives), Article 68 (Growth Management Ordinance), and Article 70 (Accessory Dwelling Units and Junior Accessory Dwelling Units) of the Escondido Zoning Code. The project also includes a minor revision to Table 4.1 of the East Valley Specific Plan. Approved unanimously.

12. SHORT-FORM RENT REVIEW BOARD HEARING FOR ESCONDIDO VIEWS MOBILEHOME PARK (CASE NO. 0697-20-10287) -

Request the City Council consider approving a short-form rent increase application involving four spaces submitted for the City-owned lots at Escondido Views Mobilehome Park located at 2400 W. Valley Parkway, and if approved, adopt Rent Review Board Resolution No. 2021-05 granting an increase as requested in the application. (File No. 0697-20-10287)

Staff Recommendation: **Approval (Community Development Department: Adam Finestone)**

RESOLUTION RRB NO. 2021-05

MOTION: Moved by Councilmember Martinez and seconded by Deputy Mayor Morasco to approve a short-form rent increase application involving four spaces submitted for the City-owned lots at Escondido Views Mobilehome Park located at 2400 W. Valley Parkway, and if approved, adopt Rent Review Board Resolution No. 2021-05 granting an increase as requested in the application. Approved unanimously.

13. SHORT-FORM RENT REVIEW BOARD HEARING FOR MOUNTAIN SHADOWS MOBILEHOME PARK (CASE NO.: 0697-20-10286) -

Request the City Council consider approving a short-form rent increase application involving four spaces submitted for the City-owned lots at Mountain Shadows Mobilehome Park located at 1750-1751 W. Citracado Pkwy, and if approved, adopt Rent Review Board Resolution No. 2021-04 granting an increase as requested in the application. (File No. 0697-20-10286)

Staff Recommendation: **Approval (Community Development Department: Adam Finestone)**

RESOLUTION RRB NO. 2021-04

MOTION: Moved by Deputy Mayor Morasco and seconded by Councilmember Martinez to approve a short-form rent increase application involving four spaces submitted for the City-owned lots at Mountain Shadows Mobilehome Park located at 1750-1751 W. Citracado Pkwy, and if approved, adopt Rent Review Board Resolution No. 2021-04 granting an increase as requested in the application. Approved unanimously.

CURRENT BUSINESS

14. SAN PASQUAL UNDERGROUNDING PROJECT BID AWARD AND CONSULTING AGREEMENTS-

Request the City Council approve 1) authorizing the Mayor to execute a Public Improvement Agreement with the lowest responsive and responsible bidder for construction of the San Pasqual Undergrounding Project; 2) authorizing the Mayor to execute a Second Amendment to the Consulting Agreement with Michael Baker International for Engineering Services; and 3) authorizing the Mayor to execute a Consulting Agreement for Construction Management Services. (File No. 0600-10, A-3253, A-3377, A-3390, A-3391)

Staff Recommendation: **Approval (Utilities Department: Christopher McKinney)**

a) RESOLUTION NO. 2021-121 b) RESOLUTION NO. 2021-122 c) RESOLUTION NO. 2021-123

MOTION: Moved by Councilmember Garcia and seconded by Councilmember Inscoe to 1) authorize the Mayor to execute a Public Improvement Agreement with the lowest responsive and responsible bidder for construction of the San Pasqual Undergrounding Project; 2) authorize the Mayor to execute a Second Amendment to the Consulting Agreement with Michael Baker International for Engineering Services; and 3) authorize the Mayor to execute a Consulting Agreement for Construction Management Services. Approved unanimously.

15. APPOINTMENT OF AN AD HOC CITY COUNCIL SUBCOMMITTEE TO REVIEW THE FINANCIAL STATUS OF THE CITY AND CONSIDER THE POSSIBILITY OF PLACING A REVENUE MEASURE ON THE NOVEMBER 2022 GENERAL ELECTION BALLOT -

Request the Mayor appoint an ad hoc subcommittee to review the financial status of the City and consider the possibility of placing a Revenue Measure on the November 2022 General Election Ballot. (File No. 0120-10)

Staff Recommendation: **Approval (City Clerk's Office: Zack Beck)**

MOTION: Moved by Mayor McNamara and seconded by Deputy Mayor Morasco Inscoe to appoint Deputy Mayor Morasco and Mayor McNamara to serve on an ad hoc subcommittee to review the financial status of the City and consider the possibility of placing a Revenue Measure on the November 2022 General Election Ballot. Approved unanimously.

FUTURE AGENDA

FUTURE AGENDA -

The purpose of this item is to identify issues presently known to staff or which members of the City Council wish to place on an upcoming City Council agenda. Council comment on these future agenda items is limited by California Government Code Section 54954.2 to clarifying questions, brief announcements, or requests for factual information in connection with an item when it is discussed.

Staff Recommendation: **None (City Clerk's Office: Zack Beck)**

Councilmember Martinez – Traffic safety and red light issues

COUNCIL MEMBERS SUBCOMMITTEE REPORTS AND OTHER REPORTS

Martinez - Attended the skate park ribbon cutting ceremony. Attended an Air Pollution Control District meeting.

Garcia - Attended the skate park ribbon cutting ceremony.

Inscoe - Attended the skate park ribbon cutting ceremony. Attended the Esco Alley Art event. Homelessness Community Advisory Group will have another meeting on October 19, 2021 at 6:00 p.m.

Morasco - Attended a RSWA meeting. Attended the skate park ribbon cutting ceremony.

McNamara - Attended the skate park ribbon cutting ceremony. Attended the Esco Alley Art event. Thanked City Staff for their hard work in recognition of the 133rd birthday of Escondido

CITY MANAGER'S WEEKLY ACTIVITY REPORT

The most current information from the City Manager regarding Economic Development, Capital Improvement Projects, Public Safety and Community Development. This report is also available on the City's website, www.escondido.org.

- **WEEKLY ACTIVITY REPORT -**

ORAL COMMUNICATIONS

Ryan Johnson - Expressed concern regarding traffic at Rose and East Valley Parkway

ADJOURNMENT

Mayor McNamara adjourned the meeting at 6:50 p.m.

MAYOR

CITY CLERK

ESCONDIDO
City of Choice

CITY COUNCIL STAFF REPORT

Consent Item No. 4 **October 27, 2021** **File No. 0600-35**

SUBJECT: Amendment No. 1 to the Escondido Joint Powers Financing Authority Agreement

DEPARTMENT: Finance

RECOMMENDATION:

It is requested that the City Council:

1) Adopt Resolution No. 2021-164, a Resolution of the City Council of the City of Escondido approving Amendment No. 1 to the Joint Exercise of Powers Agreement of the Escondido Joint Powers Financing Authority; and

2) Adopt Resolution No. 2021-165, a Resolution of the City Council of the City of Escondido as the Successor Agency to the Escondido Redevelopment Agency approving Amendment No. 1 to the Joint Exercise of Powers Agreement of the Escondido Joint Powers Financing Authority; and

3) Adopt Resolution No. 2021-166, a Resolution of the City Council of the City of Escondido acting as the legislative body of City of Escondido Community Facilities District No. 2020-1 (Services), approving Amendment No. 1 to the Joint Exercise of Powers Agreement of the Escondido Joint Powers Financing Authority.

FISCAL ANALYSIS:

There is no fiscal impact associated with the approval of Amendment No. 1 to the Escondido Joint Powers Financing Authority Agreement.

BACKGROUND:

In November 1991, the City of Escondido (the “City”) and the Escondido Community Development Commission (the “Commission”) created a joint exercise of powers authority, known as the Escondido Joint Powers Financing Authority (the “Authority”), pursuant to a Joint Exercise of Powers Agreement (the “JPA Agreement”). The Authority was formed for the public purpose of assisting the financing and refinancing of public capital improvements. The Joint Exercise of Powers Law requires joint exercise of powers authorities to have at least two public agency members in good standing and validly existing. The Marks-Roos Local Bond Pooling Act of 1985 authorizes agencies formed under the Joint Exercise of Powers Law to assist in the financing of public capital improvements to be owned by any of its members. As the legislative body of the City, the City Council acts as the Governing Board of the Authority.

As part of the 2011 Budget Act, the California State Legislature approved the dissolution of the state's 400 plus Redevelopment Agencies. As a result, pursuant to Assembly Bill No. 1X 26, as modified by Assembly Bill No. 1484 and as further modified by Senate Bill No. 107, which added Parts 1.8 and 1.85 to Division 24 of the Health and Safety Code ("Dissolution Act"), the former Commission of the City of Escondido was dissolved on February 1, 2012 and the Successor Agency to the Redevelopment Agency of the City of Escondido ("Successor Agency") was vested with all authority, rights, powers, duties and obligations of the former Commission. The former Commission's interest in the JPA Agreement was also assigned to the Successor Agency.

The Dissolution Act contains language concerning the termination of the Successor Agency in the future that could have an impact for debt issued by the Authority. Health and Safety Code Section 34187 specifies that the Successor Agency's existence will terminate within one year after the final payment of debt of the former Community Development Commission (or the disposal of all real property and resolution of all outstanding litigation). The last debt of the Successor Agency is scheduled to mature in 2035, and assuming that all real property has been disposed of and that there is no litigation at the time, the Successor Agency's existence will terminate within approximately 15 years.

The 2019A and 2019B Water System Revenue Refunding bonds were issued by the Authority with maturity dates that extend beyond the scheduled maturity debt of the Successor Agency. In addition, to finance or refinance public capital improvements of the City and its related entities, it is expected that additional bonded indebtedness or obligations will be issued with the assistance of the Authority, and have terms and maturities extending beyond the anticipated termination of the Successor Agency.

Therefore, it is recommended that an amendment of the JPA Agreement be approved to add another member in order to preserve the continued existence of the Authority after the dissolution of the Successor Agency. The proposed Amendment No. 1 to the JPA Agreement (Exhibit "1") will add the City of Escondido Community Facilities District No. 2020-1 (Services) as a member of the Authority and withdraw the Successor Agency as a member of the Authority.

Pursuant to Health and Safety Code Section 34179(j), on July 1, 2018, one Countywide Oversight Board ("Countywide OB") was created to oversee and approve the wind down actions of the successor agencies for former redevelopment agencies. As such, once approved by City Council, the proposed Amendment No. 1 to the JPA Agreement will be submitted to the Countywide OB for approval, and then to the State Department of Finance for final approval.

APPROVED AND ACKNOWLEDGED ELECTRONICALLY BY:
Christina Holmes, Director of Finance
10/20/21 3:44 p.m.

ATTACHMENTS:

1. Resolution No. 2021-164
2. Exhibit A – Resolution No. 2021-164
3. Resolution No. 2021-165
4. Exhibit A – Resolution No. 2021-165
5. Resolution No. 2021-166
6. Exhibit A – Resolution No. 2021-166

RESOLUTION NO. 2021-164

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF ESCONDIDO APPROVING AMENDMENT NO. 1 TO THE JOINT EXERCISE OF POWERS AGREEMENT OF THE ESCONDIDO JOINT POWERS FINANCING AUTHORITY

WHEREAS, the Escondido Joint Powers Financing Authority (the "Authority") is a public entity that is duly organized and existing under a Joint Exercise of Powers Agreement, dated November 20, 1991 (the "JPA Agreement"), by and between the City of Escondido (the "City"), a municipal corporation that is duly organized and existing under and by virtue of the general laws of the State of California, and the Successor Agency to the Community Development Commission of the City of Escondido (the "Agency"); and

WHEREAS, the members of the Authority believe that it is prudent: (i) to add City of Escondido Community Facilities District No. 2020-1 (Services) (the "CFD") as an additional member of the Authority; and (ii) to remove the Agency as a member of the Authority; and

WHEREAS, the City and the Agency desire to amend the JPA Agreement: (i) to add the CFD as a member of the Authority; (ii) to remove the Agency as a member of the Authority; and (iii) to make other miscellaneous conforming updates and changes;

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Escondido, California, as follows:

1. That the above recitations are true.

2. Amendment No. 1 to the Joint Exercise of Powers Agreement of the Escondido Joint Powers Financing Authority (the "Amendment") is hereby approved substantially in the form on file with the City Clerk. The Mayor of the City or the City Manager, any Deputy City Manager or the Finance Director of the City (each, an "Authorized Officer") or the designee thereof is hereby authorized and directed to execute and deliver such Amendment with such changes, insertions and omissions as may be recommended by the City Attorney or the law firm of Stradling Yocca Carlson & Rauth, a Professional Corporation ("Bond Counsel"), and approved by the officer executing the same, said execution being conclusive evidence of such approval. A copy of the Amendment is attached hereto as Exhibit "A" and is incorporated by this reference

2. This Resolution shall take effect from and after its date of adoption.

AMENDMENT NO. 1 TO JOINT EXERCISE OF POWERS AGREEMENT

ESCONDIDO JOINT POWERS FINANCING AUTHORITY

among

CITY OF ESCONDIDO

and

SUCCESSOR AGENCY TO COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF ESCONDIDO

and

CITY OF ESCONDIDO COMMUNITY FACILITIES DISTRICT NO. 2020-1 (SERVICES)

Dated October 27, 2021

**AMENDMENT NO. 1 TO JOINT EXERCISE OF POWERS AGREEMENT
ESCONDIDO JOINT POWERS FINANCING AUTHORITY**

This AMENDMENT NO. 1 TO JOINT EXERCISE OF POWERS AGREEMENT (this "**Amendment**"), dated October 27, 2021, is entered into by and among the CITY OF ESCONDIDO, a municipal corporation that is duly organized and existing under and by virtue of the general laws of the State of California (the "**City**"), the SUCCESSOR AGENCY TO THE COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF ESCONDIDO, a public body, corporate and politic and successor-in-interest to the Community Development Commission of the City of Escondido (the "**Agency**"), and CITY OF ESCONDIDO COMMUNITY FACILITIES DISTRICT NO. 2020-1 (SERVICES), a community facilities district that is duly organized and existing under and by virtue of the laws of the State of California (the "**CFD**").

RECITALS

A. The Escondido Joint Powers Financing Authority (the "**Authority**") is a public entity that is duly organized and existing under a Joint Exercise of Powers Agreement, dated November 20, 1991 (the "**JPA Agreement**"), by and between the City and the Agency.

B. Section 8.05 of the JPA Agreement provides that the JPA Agreement may be amended for any purpose by supplemental agreement executed by the parties to the JPA Agreement.

C. The City, the Agency and the CFD desire to amend the JPA Agreement: (i) to add the CFD as a member of the Authority; (ii) to remove the Agency as a member of the Authority; and (iii) to make other miscellaneous conforming updates and changes.

AGREEMENT

SECTION 1. This Amendment hereby incorporates by reference all terms and conditions of the JPA Agreement unless specifically modified by this Amendment. All terms and conditions of the JPA Agreement which are not specifically modified by this Amendment shall remain in full force and effect.

SECTION 2. Capitalized terms that are used in this Amendment and not otherwise defined have the meanings that are set forth in the JPA Agreement.

SECTION 3. From the effective date of this Amendment: (i) the Successor Agency to the Community Development Agency of the City of Escondido shall withdraw as a member of the Authority; and (ii) the members of the Authority shall be the City of Escondido and City of Escondido Community Facilities District No. 2020-1 (Services).

SECTION 4. In accordance with Section 3, references to "CDC" in the JPA Agreement are hereby revised to mean "City of Escondido Community Facilities District No. 2020-1 (Services)" rather than "Successor Agency to the Community Development Commission of the City of Escondido" or "Community Development Commission of the City of Escondido."

SECTION 5. THIS AMENDMENT SHALL BE CONSTRUED AND GOVERNED IN ACCORDANCE WITH THE LAWS OF THE STATE OF CALIFORNIA.

SECTION 6. This Amendment shall become effective upon its execution and delivery.

SECTION 7. This Amendment may be executed in several counterparts, each of which shall be deemed as an original, all of which shall constitute but one of the same instrument.

Item 4.

IN WITNESS WHEREOF, the parties hereto have executed this Amendment by their officers thereunto duly authorized as of the day and year first written above.

CITY OF ESCONDIDO

By:______________________________________
Mayor

ATTEST:

____
City Clerk

SUCCESSOR AGENCY TO COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF ESCONDIDO

By:______________________________________
Chairman of the Successor Agency to the Community Development Commission of the City of Escondido

ATTEST:

____
Secretary

CITY OF ESCONDIDO COMMUNITY FACILITIES DISTRICT NO. 2020-1 (SERVICES)

By:______________________________________
Mayor of the City of Escondido, on behalf of City of Escondido Community Facilities District No. 2020-1 (Services)

ATTEST:

____

City Clerk of the City of Escondido on behalf of City of Escondido Community Facilities District No. 2020-1 (Services)

RESOLUTION NO. 2021-165

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF ESCONDIDO, CALIFORNIA, AS THE SUCCESSOR AGENCY TO THE ESCONDIDO REDEVELOPMENT AGENCY APPROVING AMENDMENT NO. 1 TO THE JOINT EXERCISE OF POWERS AGREEMENT OF THE ESCONDIDO JOINT POWERS FINANCING AUTHORITY

WHEREAS, the Escondido Joint Powers Financing Authority (the “Authority”) is a public entity that is duly organized and existing under a Joint Exercise of Powers Agreement, dated November 20, 1991 (the “JPA Agreement”), by and between the City of Escondido (the “City”), a municipal corporation that is duly organized and existing under and by virtue of the general laws of the State of California, and the Successor Agency to the Community Development Commission of the City of Escondido (the “Agency”); and

WHEREAS, the members of the Authority believe that it is prudent: (i) to add City of Escondido Community Facilities District No. 2020-1 (Services) (the “CFD”) as an additional member of the Authority; and (ii) to remove the Agency as a member of the Authority; and

WHEREAS, the City and the Agency desire to amend the JPA Agreement: (i) to add the CFD as a member of the Authority; (ii) to remove the Agency as a member of the Authority; and (iii) to make other miscellaneous conforming updates and changes; and

WHEREAS, Section 34179(j) of the Health and Safety Code of the State of California provides for the appointment of a countywide oversight board (the “Oversight Board”) with specific duties to approve certain Agency actions pursuant to Section 34180 of the Health and Safety Code and to direct the Agency in certain other actions pursuant to Section 34181 of the Health and Safety Code;

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Escondido, acting as the Commissioners of the Successor Agency to the Community Development Commission of the City of Escondido, that:

1. That the above recitations are true.

2. Amendment No. 1 to the Joint Exercise of Powers Agreement of the Escondido Joint Powers Financing Authority (the “Amendment”) is hereby approved substantially in the form on file with the Secretary. The Chair, the Executive Director, the Treasurer, any other member of the governing board of the Agency (each, an “Authorized Officer”) or the designee thereof is hereby authorized and directed to execute and deliver such Amendment with such changes, insertions and omissions as may be recommended by the City Attorney or the law firm of Stradling Yocca Carlson & Rauth, a Professional Corporation (“Bond Counsel”), and approved by the officer executing the same, said execution being conclusive evidence of such approval. A copy of the Amendment is attached hereto as Exhibit “A” and is incorporated by this reference.

3. This Resolution shall be delivered to the Oversight Board for approval.

4. This Resolution shall take effect from and after its date of adoption.

AMENDMENT NO. 1 TO JOINT EXERCISE OF POWERS AGREEMENT

ESCONDIDO JOINT POWERS FINANCING AUTHORITY

among

CITY OF ESCONDIDO

and

SUCCESSOR AGENCY TO COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF ESCONDIDO

and

CITY OF ESCONDIDO COMMUNITY FACILITIES DISTRICT NO. 2020-1 (SERVICES)

Dated October 27, 2021

**AMENDMENT NO. 1 TO JOINT EXERCISE OF POWERS AGREEMENT
ESCONDIDO JOINT POWERS FINANCING AUTHORITY**

This AMENDMENT NO. 1 TO JOINT EXERCISE OF POWERS AGREEMENT (this "**Amendment**"), dated October 27, 2021, is entered into by and among the CITY OF ESCONDIDO, a municipal corporation that is duly organized and existing under and by virtue of the general laws of the State of California (the "**City**"), the SUCCESSOR AGENCY TO THE COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF ESCONDIDO, a public body, corporate and politic and successor-in-interest to the Community Development Commission of the City of Escondido (the "**Agency**"), and CITY OF ESCONDIDO COMMUNITY FACILITIES DISTRICT NO. 2020-1 (SERVICES), a community facilities district that is duly organized and existing under and by virtue of the laws of the State of California (the "**CFD**").

<u>RECITALS</u>

A. The Escondido Joint Powers Financing Authority (the "**Authority**") is a public entity that is duly organized and existing under a Joint Exercise of Powers Agreement, dated November 20, 1991 (the "**JPA Agreement**"), by and between the City and the Agency.

B. Section 8.05 of the JPA Agreement provides that the JPA Agreement may be amended for any purpose by supplemental agreement executed by the parties to the JPA Agreement.

C. The City, the Agency and the CFD desire to amend the JPA Agreement: (i) to add the CFD as a member of the Authority; (ii) to remove the Agency as a member of the Authority; and (iii) to make other miscellaneous conforming updates and changes.

<u>AGREEMENT</u>

SECTION 1. This Amendment hereby incorporates by reference all terms and conditions of the JPA Agreement unless specifically modified by this Amendment. All terms and conditions of the JPA Agreement which are not specifically modified by this Amendment shall remain in full force and effect.

SECTION 2. Capitalized terms that are used in this Amendment and not otherwise defined have the meanings that are set forth in the JPA Agreement.

SECTION 3. From the effective date of this Amendment: (i) the Successor Agency to the Community Development Agency of the City of Escondido shall withdraw as a member of the Authority; and (ii) the members of the Authority shall be the City of Escondido and City of Escondido Community Facilities District No. 2020-1 (Services).

SECTION 4. In accordance with Section 3, references to "CDC" in the JPA Agreement are hereby revised to mean "City of Escondido Community Facilities District No. 2020-1 (Services)" rather than "Successor Agency to the Community Development Commission of the City of Escondido" or "Community Development Commission of the City of Escondido."

SECTION 5. THIS AMENDMENT SHALL BE CONSTRUED AND GOVERNED IN ACCORDANCE WITH THE LAWS OF THE STATE OF CALIFORNIA.

SECTION 6. This Amendment shall become effective upon its execution and delivery.

SECTION 7. This Amendment may be executed in several counterparts, each of which shall be deemed as an original, all of which shall constitute but one of the same instrument.

IN WITNESS WHEREOF, the parties hereto have executed this Amendment by their officers thereunto duly authorized as of the day and year first written above.

CITY OF ESCONDIDO

By:____
Mayor

ATTEST:

____
City Clerk

SUCCESSOR AGENCY TO COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF ESCONDIDO

By:____
Chairman of the Successor Agency to the Community Development Commission of the City of Escondido

ATTEST:

____
Secretary

CITY OF ESCONDIDO COMMUNITY FACILITIES DISTRICT NO. 2020-1 (SERVICES)

By:____
Mayor of the City of Escondido, on behalf of City of Escondido Community Facilities District No. 2020-1 (Services)

Item 4.

ATTEST:

____
City Clerk of the City of Escondido on behalf of
City of Escondido Community Facilities District
No. 2020-1 (Services)

RESOLUTION NO. 2021-166

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF ESCONDIDO, ACTING AS THE LEGISLATIVE BODY OF CITY OF ESCONDIDO COMMUNITY FACILITIES DISTRICT NO. 2020-1 (SERVICES), APPROVING AMENDMENT NO. 1 TO THE JOINT EXERCISE OF POWERS AGREEMENT OF THE ESCONDIDO JOINT POWERS FINANCING AUTHORITY

WHEREAS, the Escondido Joint Powers Financing Authority (the "Authority") is a public entity that is duly organized and existing under a Joint Exercise of Powers Agreement, dated November 20, 1991 (the "JPA Agreement"), by and between the City of Escondido (the "City"), a municipal corporation that is duly organized and existing under and by virtue of the general laws of the State of California, and the Successor Agency to the Community Development Commission of the City of Escondido (the "Agency"); and

WHEREAS, City of Escondido Community Facilities District No. 2020-1 (Services) (the "CFD") desires to become a member of the Authority;

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Escondido Acting as the Legislative Body of the City of Escondido Community Facilities District No. 2021-1, as follows:

1. That the above recitations are true.

2. Amendment No. 1 to the Joint Exercise of Powers Agreement of the Escondido Joint Powers Financing Authority (the "Amendment") is hereby approved

substantially in the form on file with the City Clerk. The Mayor of the City or the City Manager, any Deputy City Manager or the Finance Director of the City, any other member of the City Council or their respective written designee (each, an "Authorized Officer") or the designee thereof is hereby authorized and directed to execute and deliver such Amendment on behalf of the CFD with such changes, insertions and omissions as may be recommended by the City Attorney or the law firm of Stradling Yocca Carlson & Rauth, a Professional Corporation ("Bond Counsel"), and approved by the officer executing the same, said execution being conclusive evidence of such approval. A copy of the Amendment is attached hereto as Exhibit "A" and is incorporated by this reference

3. This Resolution shall take effect from and after its date of adoption.

AMENDMENT NO. 1 TO JOINT EXERCISE OF POWERS AGREEMENT

ESCONDIDO JOINT POWERS FINANCING AUTHORITY

among

CITY OF ESCONDIDO

and

SUCCESSOR AGENCY TO COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF ESCONDIDO

and

CITY OF ESCONDIDO COMMUNITY FACILITIES DISTRICT NO. 2020-1 (SERVICES)

Dated October 27, 2021

AMENDMENT NO. 1 TO JOINT EXERCISE OF POWERS AGREEMENT
ESCONDIDO JOINT POWERS FINANCING AUTHORITY

This AMENDMENT NO. 1 TO JOINT EXERCISE OF POWERS AGREEMENT (this "**Amendment**"), dated October 27, 2021, is entered into by and among the CITY OF ESCONDIDO, a municipal corporation that is duly organized and existing under and by virtue of the general laws of the State of California (the "**City**"), the SUCCESSOR AGENCY TO THE COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF ESCONDIDO, a public body, corporate and politic and successor-in-interest to the Community Development Commission of the City of Escondido (the "**Agency**"), and CITY OF ESCONDIDO COMMUNITY FACILITIES DISTRICT NO. 2020-1 (SERVICES), a community facilities district that is duly organized and existing under and by virtue of the laws of the State of California (the "**CFD**").

<u>RECITALS</u>

A. The Escondido Joint Powers Financing Authority (the "**Authority**") is a public entity that is duly organized and existing under a Joint Exercise of Powers Agreement, dated November 20, 1991 (the "**JPA Agreement**"), by and between the City and the Agency.

B. Section 8.05 of the JPA Agreement provides that the JPA Agreement may be amended for any purpose by supplemental agreement executed by the parties to the JPA Agreement.

C. The City, the Agency and the CFD desire to amend the JPA Agreement: (i) to add the CFD as a member of the Authority; (ii) to remove the Agency as a member of the Authority; and (iii) to make other miscellaneous conforming updates and changes.

<u>AGREEMENT</u>

SECTION 1. This Amendment hereby incorporates by reference all terms and conditions of the JPA Agreement unless specifically modified by this Amendment. All terms and conditions of the JPA Agreement which are not specifically modified by this Amendment shall remain in full force and effect.

SECTION 2. Capitalized terms that are used in this Amendment and not otherwise defined have the meanings that are set forth in the JPA Agreement.

SECTION 3. From the effective date of this Amendment: (i) the Successor Agency to the Community Development Agency of the City of Escondido shall withdraw as a member of the Authority; and (ii) the members of the Authority shall be the City of Escondido and City of Escondido Community Facilities District No. 2020-1 (Services).

SECTION 4. In accordance with Section 3, references to "CDC" in the JPA Agreement are hereby revised to mean "City of Escondido Community Facilities District No. 2020-1 (Services)" rather than "Successor Agency to the Community Development Commission of the City of Escondido" or "Community Development Commission of the City of Escondido."

SECTION 5. THIS AMENDMENT SHALL BE CONSTRUED AND GOVERNED IN ACCORDANCE WITH THE LAWS OF THE STATE OF CALIFORNIA.

SECTION 6. This Amendment shall become effective upon its execution and delivery.

SECTION 7. This Amendment may be executed in several counterparts, each of which shall be deemed as an original, all of which shall constitute but one of the same instrument.

IN WITNESS WHEREOF, the parties hereto have executed this Amendment by their officers thereunto duly authorized as of the day and year first written above.

CITY OF ESCONDIDO

By:_______________________________________
Mayor

ATTEST:

____
City Clerk

SUCCESSOR AGENCY TO COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF ESCONDIDO

By:_______________________________________
Chairman of the Successor Agency to the Community Development Commission of the City of Escondido

ATTEST:

____
Secretary

CITY OF ESCONDIDO COMMUNITY FACILITIES DISTRICT NO. 2020-1 (SERVICES)

By:_______________________________________
Mayor of the City of Escondido, on behalf of City of Escondido Community Facilities District No. 2020-1 (Services)

ATTEST:

____

City Clerk of the City of Escondido on behalf of
City of Escondido Community Facilities District
No. 2020-1 (Services)

ESCONDIDO
City of Choice

CITY COUNCIL STAFF REPORT

Consent Item No. 5 **October 27, 2021** **File No. 0600-10, A-3392**

SUBJECT: Authorization to Order Telecommunications Services Under the Calnet Contract

DEPARTMENT: Information Systems

RECOMMENDATION:

It is requested that the City Council adopt Resolution No. 2021-170, authorizing the Deputy City Manager / Director of Information Systems to execute all documents and agreements to procure and maintain telecommunication and network services provided under the CALNET Next Generation Data Networks and Communications Services ("CALNET NextGen") contract. Such signature-required documents and agreements may include but are not limited to Authorizations to Order ("ATO") contracts, Non-State Entity Service Policy and Agreements ("NESPA"), and contract amendments.

FISCAL ANALYSIS:

Funding for telecommunication and network services costs under the CALNET NextGen contract is available in the Telecommunications Internal Services budget. The term for CALNET NextGen contract shall be for a period of five years commencing on January 1, 2022 and will include three one-year options to extend. The estimated cost to the City for telecommunication and network services under the five-year CALNET NextGen contract is expected to exceed $500,000.

PREVIOUS ACTION:

On June 14th, 2000, by Resolution No. 2000-140, the City Council approved the City's procurement of telecommunications services under the initial CALNET contract from December 4th, 1998. On June 20, 2007, by Resolution No. 2007-113, the City Council approved the City's continued procurement of telecommunications services under CALNET 2 contract for a five-year term, beginning Jan 3rd, 2007. CALNET 2 was automatically extended by the State through July 29, 2015. On June 24, 2015, by Resolution No. 2015-113, the City Council approved the City's continued procurement of telecommunications services under the CALNET 3 contract, which shall expire on December 31, 2021.

BACKGROUND:

To ensure continued and uninterrupted procurement of telecommunication and network services under the five-year CALNET NextGen contract (which shall commence on January 1, 2022), qualified vendors may require the City to complete signature-required documents and agreements such as ATOs and NESPAs. As sample ATO is attached to this Staff Report as Exhibit 1 and incorporated herein by this reference. The estimated cost to the City for telecommunication and network services under the five-year CALNET NextGen contract is expected to exceed $500,000. Additional information regarding CALNET contracts may be found in the CALNET Contract Quick Reference Guide, which is attached to this Staff Report as Exhibit 2 and incorporated herein by this reference.

APPROVED AND ACKNOWLEDGED ELECTRONICALLY BY:
Rob Van De Hey, Deputy City Manager/Director of Information Systems
10/20/21 4:12 p.m.

ATTACHMENTS:

1. Attachment “1” – CALNET Legacy Authorization to Order
2. Attachment “2” – CALNET Contract Quick Reference Guide
3. Resolution No. 2021-170

CALNET
AUTHORIZATION TO ORDER (ATO)

AT&T Corp and the California Department of Technology (CDT) have entered into a multi-year statewide contract for CALNET Legacy Telecommunications Voice and Data Services, C4A1LEG18, Categories 15, 16, 17, and 18. The CDT may, at its sole option elect to extend the Contract Term for up to the number of years as indicated in the Contract.

Category 15, Dedicated Transport:

- Contract award: 01/03/2019
- Contract end: 01/02/2026
- Number of optional extensions and extension duration(s): 3 extensions, 1 year per extension

Category 15.2.2, Carrier DSO Service:

- Contract award: 01/03/2019
- Contract end: 01/02/2022
- Number of optional extensions and extension duration(s): 2 extensions, 1 year per extension

Category 16, Long Distance Calling:

- Contract award: 01/03/2019
- Contract end: 01/02/2024
- Number of optional extensions and extension duration(s): 5 extensions, 1 year per extension

Category 17, Toll Free Voice Calling:

- Contract award: 01/03/2019
- Contract end: 01/02/2024
- Number of optional extensions and extension duration(s): 5 extensions, 1 year per extension

Category 18, Legacy Telecommunications:

- Contract award: 01/03/2019
- Contract end: 01/02/2026
- Number of optional extensions and extension duration(s): 3 extensions, 1 year per extension

Category 18.3.1.1, Analog Service:

- Contract award: 01/03/2019
- Contract end: 01/02/2022
- Number of optional extensions and extension duration(s): 2 extensions, 1 year per extension

Pursuant to the Contract C4-LEG-12-10-TS-01, which is incorporated herein by reference, any eligible on-state public entity (herein "Non-State Entity"), as authorized in Government Code section 11541 is allowed to order services and products (collectively "Services") solely as set forth in the Contract.

To establish CALNET eligibility, the Non-State Entity will be required to have a Non-State Entity Service Policy and Agreement (NESPA) on file with the CDT CALNET Program, prior to submitting the Authorization to Order (ATO).

Once the Non-State Entity and the Contractor approve and sign the ATO, the Contractor shall deliver the ATO to the CALNET Program for review and approval. No Service(s) shall be ordered by the Non-State Entity or provided by the Contractor until both parties and the CALNET Program execute the ATO.

By executing the ATO, the
[Non-State Entity] may subscribe to the Service(s), and the Contractor agrees to provide the Service(s), in accordance with the terms and conditions of the ATO and the Contract. Service catalogs, rates and Contract terms are available at the CALNET Program website.

The ATO, and any resulting order for Service(s), is a contract between the Non-State Entity and the Contractor. As such, the CDT will not facilitate, intervene, advocate or escalate any disputes between the Non-State Entity and the Contractor or represent the Non-State Entity in resolution of litigated disputes between the parties.

The ATO shall not exceed the term of the Contract and shall remain in effect for the duration of the contract unless:

- The CDT, at its discretion, revokes the approved ATO; or
- The Non-State Entity terminates the ATO, for specific Services(s) in part or in total, prior to termination of the Contract, by providing the Contractor with a 30 calendar days' prior written notice of cancellation.

The Non-State Entity, upon execution of the ATO, certifies that:

- The Non-State Entity understands that the Contractor and the CDT may, from time to time and without the Non-State Entity's consent, amend the terms and conditions of the Contract thereby affecting the terms of service the Non-State Entity receives from the Contractor.
- The Non-State Entity has reviewed the terms and conditions, including the rates and charges, of the Contract.
- The Non-State Entity understands and agrees that the Contractor invoices for Service(s) subscribed to under the Contract are subject to review and/or audit by the CDT, pursuant to provisions of the Contract.

- All Service(s) ordered under the ATO will be submitted to the Contractor using an authorized purchasing document, signed by the Non-State Entity's authorized signatory. Any additions, changes to, or deletions of Service(s) shall be accomplished by submission of a purchasing document to the Contractor, noting the changes.

- The Non-State Entity understands and agrees that the Contractor shall provide the CALNET Program all data, invoices, reports and access to trouble tickets for Service(s) subscribed to under the Contract, pursuant to provisions of the Contract. Upon execution of the ATO, the Non-State Entity authorizes the CALNET Contractor to release the Non-State Entity's Customer Proprietary Network Information (CPNI) to the CALNET Program for purposes of administering the Contract.

- The Non-State Entity understands that, the Contractor shall bill the Non-State Entity, and the Non-State Entity shall pay the Contractor according to the terms and conditions, and rates set forth in the Contract for such Service(s).

E-Rate Customers Only – Complete if applying for E-Rate funding:

[Enter Non-State Entity name] intends to seek Universal Service Funding (E-Rate) for eligible Service(s) provided under the ATO. The Service(s) ordered under the ATO shall commence [MM/DD/YYYY] ("Service Date"). Upon the Service Date, the ATO supersedes and replaces any applicable servicing arrangements between the Contractor and the Non-State Agency for the Service(s) ordered under the ATO.

Contact Information

Any notice or demand given under this Contract to the Contractor or the Non-State Entity shall be in writing and addressed to the following:

Non-State Entity

Non-State Entity Name	Address
Authorized Agent	City, State, Zip Code
Title of Authorized Agent	Contact Number
	Email

Contractor

AT&T Corporation

Authorized Agent : Keith Nagel

Attention: Program Management Office

Address: 2700 Watt Avenue

Room 1213

Sacramento, CA 95821

Contact Number:

916-384-6175

Email:

KN7135@att.com

IN WITNESS WHEREOF, the parties below hereto have caused the execution of this ATO. The effective date of this ATO, between the Non-State Entity, the Contractor and CDT/CALNET shall be pursuant to the CDT/CALNET "**DATE EXECUTED**" shown below.

Non-State Entity

Authorized Agent Name

Title of Authorized Agent

Signature

Date Signed

Contractor

Authorized Agent Name

Title of Authorized Agent

Signature

Date Signed

Approved By: State of California Department of Technology

Authorized Agent Name

Title of Authorized Agent

Signature

Date Executed

CALNET 3 Category to CALNET NG Category

www.att.com/calnet

CALNET 3 Category	CALNET NextGen (NG) Category
Category 1.1 Dedicated Transport	Category 15 Dedicated Transport
Category 1.2 MPLS, VPN & Converged VoIP Services no longer available: Sub-Rate MPLS/AVPN	Category 20 MPLS Data Network & Category 29 Converged VoIP
Category 1.3 Standalone VoIP Telephony Services no longer available: VDNA	Category 21 Standalone VoIP
Category 1.4 Long Distance Services no longer available: Calling Cards	Category 16 Long Distance
Category 1.5 Toll Free Calling	Category 17 Toll Free Calling
Category 1.6 Legacy Telecommunications Services no longer available: Locally Based Automatic Call Distributor (ACD) Frame Relay Service Asynchronous Transfer Mode (ATM) Service	Category 18 Legacy Telecommunications
Category 2 Network Based Web Conferencing Services no longer available: AT&T Connect	Category 21 Standalone VoIP
Category 3 Metropolitan Area Network Ethernet Services no longer available: Opt-E-MAN GigaMAN DecaMAN	Category 23 Metropolitan Area Network Ethernet
Category 4.2 SONET Point to Point Connectivity Service no longer available	N/A
Category 5 Managed Internet Service	Category 24 Flat Rate Internet Service & Category 25 Sustained Bandwidth Internet Service
Category 6.1 - Hosted IVR - ACD Services no longer available: CenturyLink/Lumen (Replacements on NG are Five9, Avaya or NICE InContact)	Category 27 Standard Contact Center Services & Category 28 Custom Contact Center Services
Category 7 Network Based Management Security Services no longer available: Email Monitoring and Scanning Service Web Security and Filtering Service	Category 24 Flat Rate Internet Service & Category 25 Sustained Bandwidth Internet Service
Category 9.1 FirstNet Mobile	Category 9.1 FirstNet Mobile

California Contracts

CALNET 3

www.att.com/calnet

C3-A-12-10-TS-01

Category 1.1 Dedicated Transport (Expires 12/31/21)

SPIN: **143002665 (intralata)**

- Carrier DSO, DS1, and DS3 Service
- ISDN Primary Rate Interface Service
- Extended Demarcation Wiring and Installation Services

Category 1.2 MPLS, VPN & Converged VoIP (Expires 12/31/21)

SPIN: **143001192**

- MPLS Port Transport Speed Service
- MPLS Port & Access Bundled Transport Speed Service
- MPLS Port, Access & Router Bundled Transport Speed Service
- MPLS Port, Access & Router Bundled On-Net & Off-Net Transport Speed Service
- MPLS Port, Access & Router Bundled Ethernet On-Net & Off-Net Transport Speed Service
- Converged VoIP Service
- Converged Voice Mail Service
- Audio Conferencing Service
- Session Initiated Protocol (SIP) Trunking Service
- Extended Demarcation Wiring and Installation Services

Category 1.3 Standalone VoIP Telephony (Expires 12/31/21)

- Standalone VoIP Service
- VoIP Voice Mail Service
- Audio Conferencing Service
- Extended Demarcation Wiring and Installation Services

Category 1.4 Long Distance (Expires 12/31/21)

- Long Distance Network Access Transport Service
- Long Distance Domestic and International Calling Service
- Calling Cards
- Operator Services
- Audio Conferencing Service
- Extended Demarcation Wiring and Installation Services

Category 1.5 Toll Free Calling (Expires 12/31/21)

- Toll Free Network Access Transport Service
- Toll Free Domestic and International Service
- Extended Demarcation Wiring and Installation Services

Category 1.6 Legacy Telecommunications (Expires 12/31/21)

- Business Access Line Service
- Central Office Exchange Service
- Central Office Trunk Service
- Intra-LATA Calling
- Locally Based Automatic Call Distributor (ACD)
- Voice Mail Services
- Analog Service
- ISDN Basic Rate Interface (BRI) Service
- Frame Relay Service
- Asynchronous Transfer Mode (ATM) Service
- Extended Demarcation Wiring and Installation Services

Emergency Interim Amendments (COVID-19)

- 14a. Category 1.2 AT&T Unified Comm. Feature Collaboration Edge
- 14b. Category 1.2, 1.3, & 1.4 Event Conference
- 14c. Category 1.2 Managed ATS Video Conference

CALNET 3

www.att.com/calnet

C3-B-12-10-TS-01

Category 2 Network Based Web Conferencing (Expires 12/31/21)

- Web Conferencing

Category 3 Metropolitan Area Network Ethernet (Expires 12/31/21)

SPIN: **143002665**

- Metropolitan Area Ethernet (MAE) Services
- Extended Demarcation Wiring and Installation Services

Category 4.2 SONET Point to Point Connectivity (Expires 12/31/21)

SPIN:**143002665**

- SONET Point-to-Point Services (SPPS)
- Extended Demarcation Wiring and Installation Services

Category 5 Managed Internet Service (Expires 12/31/21)

SPIN: **143001192**

- Internet Flat Rate (InFRa) Service
- Internet Flat Rate with Managed Router (InFRaM) Service
- Internet Sustained Bandwidth Ethernet Transport (InSBET) Service
- Internet Sustained Bandwidth Ethernet Port (InSBEP) Service
- Internet Sustained Bandwidth Ethernet Port with Managed Router (InSBEPM) Service
- Extended Demarcation Wiring and Installation Services

Category 6.1 - Hosted IVR - ACD (Expires 12/31/21)

- Network Based Contact Center (NBCC) General Features
- Network Based Automatic Call Distributor (NBACD) Basic Agent Package
- Network Based Automatic Call Distributor (NBACD) Supervisor's Package
- NBACD System Administrator Software Package
- Network Based Interactive Voice Response (NBIVR) Services

www.att.com/firstnetresponder

Category 7 Network Based Management Security (Expires 12/31/21)

- Distributed Denial of Services (DDoS) Detection and Mitigation
- Email Monitoring and Scanning Service
- Web Security and Filtering Service
- Security Information and Event Management (SIEM)

Category 9.1 FirstNet Mobile (Expires 10/21/25)

- Responder and FirstNet Mobile Responder Services

Emergency Interim Amendments (COVID-19)

- 13a. Category 5 Flexware Cisco
- 13b. Category 2 AT&T Web Conference
- 13c. Category 2 AT&T Connect Large Event
- 13d. Category 7 AT&T Remote Access Token
- 13e. Category 2 Zoom FedRAMP
- 13f. Category 7 CSG Select Business

California Contracts

CALNET/ NextGen

www.att.com/calnet

C4-LEG-12-10-TS-01

Category 15 Dedicated Transport (Expires 1/02/29)

SPIN: **143002665 (intralata)**

- Carrier DSO, DS1, and DS3 Service (Section 15.2.2 Expires 1/02/24)
- ISDN Primary Rate Interface Service
- Service Related Infrastructure (SRI)
- Extended Demarcation Wiring and Installation Service

Category 16 Long Distance (Expires 1/02/29)

- Long Distance Network Access Transport Service
- Long Distance Domestic and International Calling Service
- Operator Services
- Audio Conferencing Service

Category 17 Toll Free Calling (Expires 1/02/29)

- Toll Free Network Access Transport Service
- Toll Free Domestic and International Service

Category 18 Legacy Telecommunications (Expires 1/02/29)

- Business Access Line Service
- Central Office Exchange Service (Centrex)
- Central Office Trunk Service
- Intra-LATA Calling
- Voice Mail Services
- Analog Service (Section 18.3.1.1 Expires 1/02/24)
- ISDN Basic Rate Interface (BRI) Service
- Extended Demarcation Wiring and Installation Service

Category 19.1 Cellular Voice and Data Services (Expires 5/25/25)

C4-DNCS-19-001-40

Category 20 MPLS Data Network (Expires 6/30/28)

SPIN: **143001192**

- MPLS Port Transport Speed Service
- MPLS Port & Access Bundled Transport Speed Service
- MPLS Port, Access & Router Bundled Transport Speed Service
- Managed Router Services (MRS)
- ANIRA
- AT&T Netbond
- AT&T Business Wi-Fi
- AT&T Network Based Firewall
- WAN Acceleration Services
- LTE Out-of-Band
- AT&T VSAT Service Connection
- Extended Demarcation Wiring and Installation Service

Category 21 Standalone VoIP (Expires 6/30/28)

- Standalone VoIP Service Feature Package (HVS)
- Standalone VoIP Calling Feature and Functionality
- Standalone VoIP On-Net & Off-Net Calling
- Standalone On-Net & Off-Net Toll-Free Service
- Standalone VoIP International Calling
- Standalone VoIP Voicemail Service
- Web Conferencing (Standard, Enhanced, wZoom, w/WebEx)
- AT&T Online Fax
- Misc devices (Phones, ATA's, SBC's, etc.)
- UPS as a Service (Universal Power Supply)
- Extended Demarcation Wiring and Installation Service
- Migration Professional Service

CALNET/ NextGen

www.att.com/calnet

C4-DNCS-19-001-40

Category 22 Cloud-Hosted VoIP Services (Expires 6/30/28)

- Cloud-Hosted VoIP Service Package
- International Off-Net Calling
- Voicemail Services
- Migration Professional Service

Category 23 Metropolitan Area Network Ethernet (Expires 6/30/28)

SPIN: **143002665**

- AT&T Switched Ethernet Service (ASE)
- AT&T Dedicated Ethernet Service (ADE)
- EPLS-WAN
- OPT-E-WAN
- ASEoD & ASEoD 3PA
- Extended Demarcation Wiring and Installation Service

Category 24 Flat Rate Internet Service (Expires 6/30/28)

SPIN: **143001192**

- AT&T Dedicated Internet
- AT&T Dedicated Internet with Managed Router
- Additional Security Service
- DDoS Detection and Mitigation Service
- AT&T SDWAN w/Cisco
- SIEM
- Flexware Standard & Specialized
- AT&T Global Secure Gateway
- Premise Based Firewall Service
- AT&T Vulnerability Services
- AT&T Enterprise Threat Protector
- Managed Network Access Control
- AT&T Enterprise Application Access
- Extended Demarcation Wiring and Installation Service

Category 25 Sustained Bandwidth Internet Service (Expires 6/30/28)

- AT&T Dedicated Internet Ethernet Service
- AT&T Dedicated Internet Ethernet Port with Managed Router
- DDoS Detection and Mitigation Service
- Extended Demarcation Wiring and Installation Service

Category 27 Standard Contact Center Services (Expires 6/30/28)

- Automatic Call Distributor (ACD)
- Interactive Voice Response (IVR) Solution

Category 28 Custom Contact Center Services (Expires 6/30/28)

- Customized Contact Center Consulting Service

Category 29 Converged VoIP (Expires 6/30/28)

- Converged VoIP Service Package (HVS)
- Converged Voice Mail Service
- Converged VoIP Microsoft Teams (IMTS & TAO)
- HVS Handsets
- IP Flex & IP Toll Free
- AT&T Cisco WebEx Enterprise (UC/CHCS)
- Avaya Hosted VoIP
- Migration Professional Service

Category 30 Broadband with Internet Service (Expires 6/30/28)

- Broadband with Internet Service
- Static IP Address

California Contracts

CMAS (California Multiple Award Schedule)

https://www.dgs.ca.gov/PD/About/Page-Content/PD-Branch-Intro-Accordion-List/Acquistions/California-Multiple-Award-Schedules

3-14-70-0255AE (Expires 1/17/24)
GSA contract holder: Avaya Federal Solutions Inc. (#GS-35F-0156V)

- Avaya Red

3-17-70-0255AH (Expires 7/26/22)
GSA contract holder: CSC (#GS-35F-573GA)

- AFL Telecommunications
- APC (Schneider Electric IT USA, Inc)
- Belden
- Berk-Tek
- Cablofil
- Chatsworth
- CommScope
- Communications Supply Corporation
- General Cable
- Hitachi Cable America Inc.
- Hubbell
- Leviton
- MaxCell
- Optical Cable Corporation
- Ortronics
- Panduit
- Preformed Line
- Sumitomo Electric Lightwave
- Transition
- TrippLite
- Wiremold/ Legrand

3-19-70-0255AL (Expires 6/26/22)
GSA contract holder: EC America, Inc. (#GS-35F-0511T)

All manufacturers awarded

- BMC Software
- Brocade
- Cisco
- Dell

Some key manufacturer include:

- Extreme
- Hitachi
- HP ESSN
- Multivista
- Symantec

3-18-70-0255AK (Expires 12/18/21)
GSA contract holder: AT&T Government Solutions (#GS-35F-129GA)

- Senior Program Manager
- Program Manager
- Project Manager
- Principal Engineer/Analyst
- Senior Systems Analyst/ Programmer
- Systems Analyst/Programmer
- Associate Systems Analyst/ Programmer
- Senior Systems Engineer
- Systems Engineer
- Technical Editor
- Senior Documentation/ Administration Support Special-ist
- Documentation/Administration Support Specialist
- Technical Writer
- Program Control Analyst
- Trainer
- Staff Trainer
- Training Support Specialist
- Principal Manufacturing Systems Engineer
- Senior Manufacturing Systems Engineer
- Associate Manufacturing Sys-tems Engineer
- Senior Logistician
- Logistician
- Staff Logistician
- Logistics Analyst
- Principal Functional Area Special-ist
- Senior Functional Area Specialist
- Functional Area Specialist
- Senior Information Security (INFOSEC) Specialist
- Information Security (INFOSEC) Specialist
- Information Security (INFOSEC) Analyst
- Security/Information Protection Support Specialist
- Principal Test Engineer
- Senior Test Engineer
- Test Engineer
- Principal Network/ Communications Engineer
- Senior Network/ Communications Engineer
- Network/Communications Engi-neer
- Principal Software Design Engi-neer
- Senior Software Design Engineer
- Software Design Engineer
- Junior Software Design Engineer
- Principal Staff Scientist/Engineer/ Analyst
- Senior Engineer/Scientist/Analyst
- Junior Systems Analyst
- Operations Research Analyst

CMAS (California Multiple Award Schedule)

https://www.dgs.ca.gov/PD/About/Page-Content/PD-Branch-Intro-Accordion-List/Acquistions/California-Multiple-Award-Schedules

3-21-08-1074 (Expires 5/3/26)
GSA contract holder: Promark (#GS-35F-303DA)

- AppDynamics
- Arcserve
- Casio
- Cisco
- Comtrade
- Dell
- EMC
- Exagrid
- Fujitsu
- HP
- JABRA
- Juniper
- Kodak
- Lenovo
- Lexmark
- LG
- Microsoft Surface
- Nexsan
- NetIQ
- Novel l
- Overland
- Panasonic
- Polycom
- Pivot3
- Quantum
- RES Software
- Roland
- Rubrik
- Scale Computing
- SMART Technologies
- Targus
- Tegile
- Varonis
- Veeam
- Veritas
- VMWare

FOCUS (Fast Open Contracts Utilization Services

http://www.gov2govfocus.org/program/index.html

2021246 (Expires 7/21/24)

- Adtran
- APC
- Aruba
- Avaya
- Checkpoint-Nokia
- Cisco
- EMC
- ID Solutions
- InterACT
- Juniper
- Lifesize
- NetApp
- Polycom
- Quintum
- Riverbed
- ShoreTel
- TrippLite
- VBrick
- Vidyo
- VPI

NASPO ValuePoint (National Association of State Procurement Officials)

https://www.dgs.ca.gov/PD/About/Page-Content/PD-Branch-Intro-Accordion-List/Acquisitions/Cooperative-Agreements

AR-233 Cisco Master Agreement
7-14-70-04 California Participating Addendum (Expires 5/31/21)

Structured Cabling

STP-SW-SCS-19-ATT (Expires 8/19/26)

Satellite Data Services

STP-SW-SAT-01-ATT (Expires 1/4/24)

RESOLUTION NO. 2021-170

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF ESCONDIDO, CALIFORNIA, AUTHORIZING THE DIRECTOR OF INFORMATION SYSTEMS TO EXECUTE ALL DOCUMENTS AND AGREEMENTS TO PROCURE TELECOMMUNICATIONS AND NETWORK SERVICES UNDER THE CALIFORNIA INTEGRATED INFORMATION NETWORK (CALNET) NEXTGEN CONTRACT

WHEREAS, the City of Escondido ("City") currently procures and maintains telecommunication and network services at discounted rates under the California Integrated Information Network ("CALNET") 3 contract; and

WHEREAS, the CALNET 3 contract will expire on December 31, 2021; and

WHEREAS, the California Department of Technology Services and multiple technology providers have entered into a new CALNET contract which shall commence on January 1, 2022 ("CALNET NextGen"); and

WHEREAS, under the CALNET NextGen contract, eligible non-state entities may procure services and products at discounted rates; and

WHEREAS, in order to procure services at discounted rates under the CALNET NextGen contract, the City must execute various documents and agreements, including but not limited to Authorizations, a Non-State Entity Service Policy and Agreement, and contract amendments ("CALNET NextGen Documents"); and

WHEREAS, the Deputy City Manager / Director of Information Systems will order services under the CALNET NextGen contract; and

WHEREAS, this City Council desires at this time and deems it to be in the best public interest to authorize the Director of Information Systems or his designee to execute, on behalf of the City, all CALNET NextGen Documents necessary for the continued and uninterrupted procurement of telecommunication and network services under the CALNET NextGen contract.

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Escondido, California, as follows:

1. That the above recitations are true.

2. That the City Council accepts the recommendation of the Deputy City Manager / Director of Information Systems.

3. That the Deputy City Manager / Director of Information Systems, or his designee, is hereby authorized to execute, on behalf of the City, all CALNET NextGen Documents necessary for the continued and uninterrupted procurement of telecommunication and network services under the CALNET NextGen contract.

ORDINANCE NO. 2021-10

AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF ESCONDIDO, CALIFORNIA, APPROVING THE 2021 OMNIBUS THAT AMENDS VARIOUS ARTICLES OF THE ESCONDIDO ZONING CODE.

WHEREAS, the City of Escondido Planning Division has conducted an annual review of the Escondido Zoning Code to determine if any revisions are necessary to reflect State mandated changes, to correct errors or inconsistencies, and to address land use considerations that have previously been overlooked; and

WHEREAS, Planning Division staff identified the need to amend Articles 34 (Communication Antennas), 35 (Outdoor Lighting), 47 (Environmental Quality), 55 (Grading and Erosion Control), 56 (Miscellaneous Development Standards), 61 (Administration and Enforcement), 64 (Design Review), 65 (Old Escondido Neighborhood), 66 (Sign Ordinance), 67 (Density Bonus and Residential Incentives), 68 (Growth Management Ordinance), and 70 (Accessory Dwelling Units and Junior Accessory Dwelling Units) of the Escondido Zoning Code; and

WHEREAS, the Planning Commission of the City of Escondido, on August 24, 2021, held a public hearing to consider the Zoning Code Amendments and unanimously recommended approval of the items as provided in Exhibit “B”; and

WHEREAS, pursuant to the California Environmental Quality Act (“CEQA”) and the CEQA Guidelines (Title 14 of California Code of Regulations, Section 15000 et. seq.), the City is the Lead Agency for the Project, as the public agency with the principal responsibility for approving the proposed Project; and

A COMPLETE COPY OF THIS ORDINANCE IS ON FILE IN THE OFFICE OF THE CITY CLERK FOR YOUR REVIEW.

ORDINANCE NO. 2021-11

AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF ESCONDIDO, CALIFORNIA, APPROVING AN AMENDMENT TO TABLE 4.1 IN THE EAST VALLEY PARKWAY SPECIFIC PLAN.

WHEREAS, the City of Escondido Planning Division has conducted an annual review of the Escondido Zoning Code to determine if any revisions are necessary to reflect State mandated changes, to correct errors or inconsistencies, and to address land use considerations that have previously been overlooked; and

WHEREAS, Planning Division staff identified the need to amend Table 4.1 of the East Valley Parkway Specific Plan; and

WHEREAS, the Planning Commission of the City of Escondido, on August 24, 2021, held a public hearing to consider the amendment to the East Valley Parkway Specific Plan and unanimously recommended approval of the item as provided in Exhibit "B"; and

WHEREAS, pursuant to the California Environmental Quality Act ("CEQA") and the CEQA Guidelines (Title 14 of California Code of Regulations, Section 15000 et. seq.), the City is the Lead Agency for the Project, as the public agency with the principal responsibility for approving the proposed Project; and

WHEREAS, on October 13, 2021, the City Council of the City of Escondido did hold a duly noticed public hearing as prescribed by law. At said hearing, this City Council received and considered the reports and recommendations of the Planning Commission and City staff, and gave all persons full opportunity to be heard and to present evidence

A COMPLETE COPY OF THIS ORDINANCE IS ON FILE IN THE OFFICE OF THE CITY CLERK FOR YOUR REVIEW.

ESCONDIDO
City of Choice

CITY COUNCIL STAFF REPORT

Current Business Item No. 8 **October 27, 2021** **File No. 0440-50**

SUBJECT: Financing Plan and Legal Documents for the Issuance of the 2021 Wastewater System Revenue Refunding Bonds

DEPARTMENT: Finance Department

RECOMMENDATION:

It is requested that the City Council take the following actions:

1. Adopt Resolution No. 2021-128, approving the issuance and sale of the Wastewater Revenue Refunding Bonds, Series 2021A, in an aggregate principal amount not to exceed $27,000,000 to refund the outstanding Escondido Joint Powers Financing Authority Revenue Bonds (Wastewater System Financing), Series 2012.

2. Authorize the City Manager, or his designee, to execute all documents related to this transaction.

3. Authorize the necessary revenue and expenditure budget adjustments for all transactions associated with the issuance of these Refunding Bond issues.

It is requested that the Escondido Joint Powers Financing Authority adopt Resolution No. EJPFA 2021-01, approving the execution and delivery of an escrow agreement in connection with the refunding of the Escondido Joint Powers Financing Authority Revenue Bonds (Wastewater System Financing), Series 2012 and certain other matters.

FISCAL ANALYSIS:

In 2012, the Escondido Joint Powers Financing Authority (“Authority”) issued Revenue Bonds (Wastewater System Financing), Series 2012, (the "2012 Bonds") in an amount of $27,390,000 to finance capital improvements to the Wastewater System and to refund a portion of the $9,830,000 of outstanding Water Revenue Certificates of Participation, Series 2000A. The 2012 Bonds mature in 2041 with interest rates varying from 1.0% to 4.0%. The 2012 Bonds can be refunded at this time and save approximately $8.0 million over the remaining maturity period of the bonds without extending the maturity.

BACKGROUND:

In compliance with the City’s Debt Management Policy, staff works with a Financial Advisor and other external consultants to evaluate market conditions and interest rates in an effort to determine possible cost savings to be achieved through the refunding of outstanding bond issues. The industry standard in evaluating a bond refinancing is to attain a three percent, or higher, savings on a present value basis, including all costs of issuance. The net present value savings on a bond refinancing is calculated by discounting the difference in the future debt service payments on the two issues – the existing bonds and potential new issue – at a projected interest rate for the new bonds.

The bond market continues to experience low interest rates for tax-exempt municipal bonds. As a result, refunding the 2012 Bonds will result in a lower interest rate, generating debt service savings for the Wastewater Utility Fund. Actual present value savings will be determined when the actual interest rate is known at the time of the refunding bond sale; however, the estimated present value savings and summary information is presented in the table below:

Wastewater Revenue Refunding Bonds, Series 2021A

Refunding Bond Principal not to exceed	$27,000,000
Estimated True Interest Cost	2.15%
Estimated Average Annual Cash Flow Savings	$468,937
Estimated Present Value Dollar Savings	$8,022,440
Estimated Present Value Percentage Savings	31.09%

The proposed refunding proceeds will be used to redeem in entirety the outstanding 2012 Bonds, pay administrative and issuance costs associated with the refunding bonds, and fund any necessary reserves. The proposed refunding transactions will not extend the final maturities on the refunded issue.

City Financing Team

The City's Financing Team consists of staff from the Utilities Department, the Finance Department, and the City Attorney's Office, with CSG Advisors Incorporated serving as the Financial Advisor. Authorized Officers of this team include the following:

- Michael McGuinness, City Attorney
- Christopher McKinney, Deputy City Manager / Director of Utilities
- Christina Holmes, Director of Finance

To carry out the refinancing, the City has retained the firms of Stifel, Nicolaus & Company, Incorporated, as Underwriter; and Stradling Yocca Carlson & Rauth as Bond and Disclosure Counsel.

The following documents, as referred to within the Resolution No. 2021-128 are to be approved:

<u>Indenture of Trust</u>. The Indenture of Trust document set forth the bond terms and conditions for the Wastewater Revenue Refunding Bonds, Series 2021A and describes how the bond trustee will pay bondholders. (See Attachment "1")

Escrow Agreement. The Escrow Agreement establishes an escrow fund into which moneys sufficient to redeem the Refunded Bonds will be deposited. (See Attachment "2")

Bond Purchase Contract. The Bond Purchase Contract provides for the sale of the Refunding Bonds to the Underwriter and describes the documents, certificates and opinions that must be finalized in order to close on the Refunding Bonds. (See Attachment "3")

Preliminary Official Statement. The Official Statement describes the security for the Refunding Bonds, contains information about the City and the Wastewater System and discloses potential risks to prospective investors. The Preliminary Official Statement is subject to federal securities laws, which require that all material information about such matters must be disclosed. (See Attachment "4")

Continuing Disclosure Certificate. The Continuing Disclosure Certificate provides for City's ongoing continuing disclosure duties in connection with the Refunding Bonds, including the obligation to update certain information about the Wastewater System annually and to update investors with information about rating changes on the Refunding Bonds and similar events should they occur in the future. (See Attachment "5")

All legal documents associated with the Refunding are in substantially final form and on file and available for review with the City Clerk. The above referenced documents will be in final form subsequent to the pricing and sale of the Refunding Bonds issues.

APPROVED AND ACKNOWLEDGED ELECTRONICALLY BY:
Christina Holmes, Director of Finance
10/20/21 3:44 p.m.

ATTACHMENTS:

1. Attachment "1" – Indenture of Trust
2. Attachment "2" – Escrow Agreement
3. Attachment "3 "– Bond Purchase Contract
4. Attachment "4" - Preliminary Official Statement
5. Attachment "5" - Continuing Disclosure Certificate
6. Resolution No. 2021-128, Approving the Issuance and Sale of the Wastewater Revenue Refunding Bonds, Series 2021A
7. Resolution No. 2021-128 – Exhibit A – Good Faith Estimate
8. Resolution No. EJPFA 2021-01 Approving the execution and delivery of an escrow agreement in connection with the refunding of the Escondido Joint Powers Financing Authority Revenue Bonds (Wastewater System Financing), Series 2012

INDENTURE OF TRUST

Dated as of December 1, 2021

By and between

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A.,
as Trustee

and the

CITY OF ESCONDIDO

Relating to

$_____
CITY OF ESCONDIDO
WASTEWATER REVENUE REFUNDING BONDS, SERIES 2021A

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INDENTURE OF TRUST

THIS INDENTURE OF TRUST is made and entered into and dated as of December 1, 2021 (the "**Indenture**"), by and between the CITY OF ESCONDIDO, a municipal corporation that is duly organized and existing under the general laws and the Constitution of the State of California (the "**City**"), and THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., a national banking association that is duly organized and existing under the laws of the United States of America, as trustee hereunder (the "**Trustee**").

RECITALS

A. The City desires to refinance certain capital improvements to its municipal Wastewater System as described in Exhibit B (collectively, the "**2012 Project**"), which improvements were previously financed or refinanced from proceeds of the Escondido Joint Powers Financing Authority Revenue Bonds (Wastewater System Financing), Series 2012 (the "**2012 Bonds**").

B. The City is authorized by Articles 10 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California, including but not limited to Section 53583, to issue bonds for the purpose of refunding any evidences of indebtedness of the City.

C. In order to provide for the authentication and delivery of Wastewater Revenue Refunding Bonds, Series 2021A (the "**2021 Bonds**"), to establish and declare the terms and conditions upon which such 2021 Bonds are to be issued and secured and to secure the payment of the principal thereof and interest and premium, if any, thereon, the City has authorized the execution and delivery of this Indenture.

D. The City has determined that all acts and proceedings which are required by law and necessary to make the 2021 Bonds, when executed by the City, authenticated and delivered by the Trustee and duly issued, the valid, binding and legal special obligations of the City, and to constitute the Indenture a valid and binding agreement for the uses and purposes herein set forth in accordance with its terms, have been done and taken, and the execution and delivery of the Indenture have been in all respects duly authorized;

GRANTING CLAUSES

The City, in consideration of the premises and the acceptance by the Trustee of the trusts hereby created and of the mutual covenants herein contained and of the purchase and acceptance of the 2021 Bonds by the owners thereof, and for other valuable considerations, the receipt whereof is hereby acknowledged, in order to secure the payment of the principal of and the interest and premium (if any) on all 2021 Bonds at any time issued and Outstanding under the Indenture, according to their tenor, and to secure the performance and observance of all the covenants and conditions therein and herein set forth, does hereby assign and pledge unto, and grant a security interest in, the following (the "**Trust Estate**") to the Trustee, and its successors in trust and assigns forever, for the securing of the performance of the obligations of the City to the 2021 Bond Owners hereinafter set forth:

FIRST

All right, title and interest of the City in and to the Revenues (as such term is defined herein), including, but without limiting the generality of the foregoing, the present and continuing right to make claim for, collect, receive and receipt for any Revenues payable to or receivable by the City under the Constitution of the State, the Government Code of the State, the Indenture and any other applicable laws of the State or otherwise, to bring actions and proceedings thereunder for the enforcement thereof, and to do any and all things which the City is or may become entitled to do thereunder, subject to the terms hereof.

SECOND

All moneys and securities held in funds and accounts of this Indenture, except amounts held in the Costs of Issuance Fund and the Rebate Fund, and all other rights of every name and nature from time to time herein or hereafter by delivery or by writing of any kind pledged, assigned or transferred as and for additional security hereunder to the Trustee by the City or by anyone on its behalf, or with its written consent, and to hold and apply the same, subject to the terms hereof.

TO HAVE AND TO HOLD all and singular the Trust Estate, whether now owned or hereafter acquired, unto the Trustee and its respective successors in trust and assigns forever for the benefit of the Owners, and such pledge shall constitute a lien on and security interest in such Trust Estate;

IN TRUST, upon the terms and trusts herein set forth for the equal and proportionate benefit, security and protection of all present and future owners of the 2021 Bonds issued under and secured by the Indenture without privilege, priority or distinction as to the lien or otherwise of any of the 2021 Bonds over any of the other 2021 Bonds;

PROVIDED, HOWEVER, that if the City, its successors or assigns shall well and truly pay, or cause to be paid, the principal of and interest and any redemption premium on the 2021 Bonds due or to become due thereon, at the times and in the manner provided in the 2021 Bonds according to the true intent and meaning thereof, and shall well and truly keep, perform and observe all of the covenants and conditions pursuant to the terms of the Indenture to be kept, performed and observed by it, and shall pay or cause to be paid to the Trustee all sums of money due or to become due in accordance with the terms and provisions hereof, then upon such final payments or deposits as herein provided, the Indenture and the rights hereby granted shall cease, terminate and be void; otherwise the Indenture shall remain in full force and effect.

It is expressly declared that all 2021 Bonds which are issued and secured hereunder are to be issued, authenticated and delivered, and all sold property, rights and interests, including, without limitation, the Revenues, which are hereby assigned and pledged, are to be dealt with and disposed of, under, upon and subject to the terms, conditions, stipulations, covenants, agreements, trusts, uses and purposes hereinafter expressed, and the City has agreed and covenanted and does hereby covenant and agree with the Trustee, for the benefit of the respective Owners from time to time of the 2021 Bonds, as follows:

ARTICLE I

DEFINITIONS; CONTENT OF CERTIFICATES AND OPINIONS

Section 1.01. Definitions. Unless the context otherwise requires, the terms defined in this Section 1.01 shall, for all purposes of the Indenture and of any indenture supplemental hereto and of any certificate, opinion or other document herein mentioned, have the meanings herein specified, to be equally applicable to both the singular and plural forms of any of the terms herein defined.

Accountant's Report. The term "Accountant's Report" means a report signed by an Independent Certified Public Accountant.

Authorized Officer. The term "Authorized Officer" means, with respect to the City, the Mayor, the City Manager, any Deputy City Manager, the Director of Utilities, the Finance Director, the City Clerk or any other person designated as an Authorized Officer of the City by a Certificate of the City signed by the Mayor, the City Manager, any Deputy City Manager, the Director of Utilities, the Finance Director or the City Clerk and filed with the Trustee.

Bond Counsel. The term "Bond Counsel" means Stradling Yocca Carlson & Rauth, a Professional Corporation, or another firm of nationally recognized attorneys experienced in the issuance of obligations the interest on which is excludable from gross income under Section 103 of the Code.

Bonds. The term "Bonds" means the 2021 Bonds, the 2015 Bonds and all other revenue bonds or notes of the City authorized, executed, issued and delivered by the City, the payments of which are payable from Net Revenues on a parity with the 2021 Bonds and the 2015 Bonds and which are secured by a pledge of and lien on Revenues as described in Section 5.01.

Bond Year. The term "Bond Year" has the meaning that is given to such term in the Tax Certificate.

Business Day. The term "Business Day" means: (1) a day which is not a Saturday, Sunday or legal holiday on which banking institutions in the State, or in any other state in which the Office of the Trustee is located, are closed; or (2) a day on which the New York Stock Exchange is not closed.

Certificate; Direction; Request; Requisition. The terms "Certificate," "Direction," "Request" and "Requisition" of the City mean a written certificate, direction, request or requisition signed in the name of the City by its Authorized Officer. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument. If and to the extent required by Section 1.02, each such instrument shall include the statements provided for in Section 1.02.

City. The term "City" means the City of Escondido, a municipal corporation that is duly organized and existing under the general laws and Constitution of the State of California.

Closing Date. The term "Closing Date" means the date on which the 2021 Bonds are delivered to the original purchaser thereof.

Code. The term "Code" means the Internal Revenue Code of 1986, as amended.

Continuing Disclosure Certificate. The term "Continuing Disclosure Certificate" means the Continuing Disclosure Certificate dated the Closing Date, executed by the City relating to the 2021 Bonds, as originally executed or as it may be from time to time amended or supplemented in accordance with its terms.

Contracts. The term "Contracts" means the SWRCB Agreements and all other contracts of the City previously or hereafter authorized and executed by the City, the payments under which are payable from Net Revenues on a parity with the 2021 Bonds and which are secured by a pledge and lien on Revenues as described in Section 5.01; but excluding contracts entered into for operation and maintenance of the Wastewater System.

Costs of Issuance. The term "Costs of Issuance" means all items of expense directly or indirectly payable by or reimbursable to the City and related to the authorization, issuance, sale and delivery of the 2021 Bonds, including but not limited to costs of preparation and reproduction of documents, printing expenses, filing and recording fees, initial fees and charges of the Trustee and counsel to the Trustee, legal fees and charges, fees and disbursements of consultants and professionals, rating agency fees, title insurance premiums, letter of credit fees and bond insurance premiums (if any), fees and charges for preparation, execution and safekeeping of the 2021 Bonds and any other cost, charge or fee in connection with the original issuance of the 2021 Bonds.

Costs of Issuance Fund. The term "Costs of Issuance Fund" means the fund by that name established pursuant to Section 3.03.

Debt Service. The term "Debt Service" means, for any period of calculation, the sum of:

(1) the interest accruing during such period on all outstanding Bonds, assuming that all outstanding serial Bonds are retired as scheduled and that all outstanding term Bonds are prepaid or paid from sinking fund payments as scheduled (except to the extent that such interest is capitalized or is reasonably anticipated to be reimbursed to the City by the United States of America pursuant to Section 54AA of the Code (Section 1531 of Title I of Division B of the American Recovery and Reinvestment Act of 2009 (Pub. L. No. 111-5, 23 Stat. 115 (2009), enacted February 17, 2009)), or any future similar program);

(2) that portion of the principal amount of all outstanding serial Bonds maturing in such period or maturing in the next succeeding period accruing during such period, in each case computed as if such principal amounts were deemed to accrue daily during such period in equal amounts;

(3) that portion of the principal amount of all outstanding term Bonds required to be prepaid or paid in such period or during the next succeeding period in each case computed as if such principal amounts were deemed to accrue daily during such period in equal amounts; and

(4) that portion of the Contracts required to be made during such period or during the next succeeding period, in each case computed as if such payments on such Contracts were deemed to accrue daily during such period in equal amounts (except to the extent that the interest portion of such Contracts is capitalized);

provided that, as to any such Bonds or Contracts bearing or comprising interest at other than a fixed rate, the rate of interest used to calculate Debt Service shall be the greater of: (a) the actual interest rate on such Bonds or Contracts on the date of calculation, or if the indebtedness is not yet outstanding, the initial interest rate (if established and binding); (b) if the Bonds or Contracts have been outstanding for at least twelve months, the average rate over the twelve calendar months immediately preceding the date of calculation; and (c) (i) if interest on the indebtedness is excludable from gross income under the applicable provisions of the Code, the most recently published Securities Industry and Financial Markets Association Index for tax-exempt variable rate obligations; or (ii) if interest is not so excludable, the interest rate on direct U.S. Treasury Obligations with comparable maturities plus 50 basis points; provided, however, that for purposes of any portion of Section 6.14 (Additional Contracts and Bonds) and Section 6.21 (Amount of Rates and Charges), measuring actual debt service coverage during a test period, variable rate indebtedness shall be deemed to bear interest at the actual rate per annum applicable during the test period; and

provided further that, if any series or issue of such Bonds or Contracts have twenty-five percent (25%) or more of the aggregate principal amount of such series or issue due in any one year, Debt Service shall be determined for the Fiscal Year of determination as if the principal of and interest on such series or issue of such Bonds or Contracts were being paid from the date of incurrence thereof in substantially equal annual amounts over a period of twenty-five (25) years from the date of calculation; and

provided further that, as to any such Bonds or Contracts or portions thereof bearing no interest but which are sold at a discount and which discount accretes with respect to such Bonds or Contracts or portions thereof, such accreted discount shall be treated as interest in the calculation of Debt Service; and

provided further that, the amount on deposit in a debt service reserve fund on any date of calculation of Debt Service shall be deducted from the amount of principal due at the final maturity of the Bonds and Contracts for which such debt service reserve fund was established and in each preceding year until such amount is exhausted; and

provided further that, Debt Service shall not include interest which is paid from investment earnings on amounts on deposit in reserve funds and transferred to the Payment Fund; and

provided further that if the Bonds or Contracts constitute Paired Obligations, the interest rate on such Bonds or Contracts shall be the resulting linked rate or the effective fixed interest rate to be paid by the City with respect to such Paired Obligations, but only if the applicable Paired Obligations satisfy the requirements set forth in Section 11.16.

Depository; DTC. The term “Depository” or “DTC” means The Depository Trust Company, New York, New York, a limited purpose trust company organized under the laws of the State of New York, in its capacity as securities depository for the 2021 Bonds.

Escrow Agent. The term “Escrow Agent” means The Bank of New York Mellon Trust Company, N.A., in its capacity as escrow agent under the Escrow Agreement.

Escrow Agreement. The term “Escrow Agreement” means the Escrow Agreement (2012 Bonds), by and among the City, the Escondido Joint Powers Financing Authority and the Escrow Agent, relating to the refunding of the 2012 Bonds.

Escrow Fund. The term “Escrow Fund” means the fund by that name established under the Escrow Agreement.

Event of Default. The term "Event of Default" means any of the events specified in Section 7.01.

Federal Securities. The term "Federal Securities" means any direct, noncallable general obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America), or noncallable obligations the timely payment of principal of and interest on which are fully and unconditionally guaranteed by the United States of America.

Fiscal Year. The term "Fiscal Year" means the twelve month period beginning on July 1 of each year and ending on the next succeeding June 30, both dates inclusive, or any other twelve month period hereafter selected and designated as the official fiscal year period of the City.

Fitch. The term "Fitch" means Fitch Ratings, Inc., or any successor thereto.

Generally Accepted Accounting Principles. The term "Generally Accepted Accounting Principles" means the uniform accounting and reporting procedures set forth in publications of the American Institute of Certified Public Accountants or its successor, or by any other generally accepted authority on such procedures, and includes, as applicable, the standards set forth by the Governmental Accounting Standards Board or its successor.

Indenture. The term "Indenture" means the Indenture of Trust, dated as of December 1, 2021, by and between the City and the Trustee, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture.

Independent Certified Public Accountant. The term "Independent Certified Public Accountant" means any firm of certified public accountants appointed by the City, each of whom is independent of the City pursuant to the Statement on Auditing Standards No. 1 of the American Institute of Certified Public Accountants.

Independent Financial Consultant. The term "Independent Financial Consultant" means a financial consultant or firm of such consultants appointed by the City, who, or each of whom: (1) is in fact independent and not under domination of the City; (2) does not have any substantial interest, direct or indirect, with the City; (3) is not connected with the City as an officer or employee thereof, but who may be regularly retained to make reports thereto; and (4) is registered as a "municipal advisor," as defined in Section 15B of the Securities Exchange Act of 1934, as amended.

Information Services. The term "Information Services" means the Municipal Securities Rulemaking Board; or, in accordance with then-current guidelines of the Securities and Exchange Commission, such other services providing information with respect to called bonds as the City may specify in a certificate to the Trustee.

Initial Rating Requirement. The term "Initial Rating Requirement" means the rating requirement described in Section 11.16(a).

Interest Account. The term "Interest Account" means the account by that name in the Payment Fund established pursuant to Section 5.02.

Interest Payment Date. The term "Interest Payment Date" means _____ 1, 202__ and each March 1 and September 1 thereafter.

Investment Agreement. The term "Investment Agreement" means any investment agreement (including guaranteed investment contracts, forward delivery agreements, repurchase agreements or similar obligations) with, or guaranteed by, an entity the long-term unsecured obligations or the claims paying ability of which are rated "A" or better by a nationally recognized rating agency (without regard to gradations or modifiers within such category) at the time of initial investment.

Letter of Representations. The term "Letter of Representations" means the letter of the City delivered to and accepted by the Depository on or prior to delivery of the 2021 Bonds as book entry bonds setting forth the basis on which the Depository serves as depository for such book entry bonds, as originally executed or as it may be supplemented or revised or replaced by a letter from the City delivered to and accepted by the Depository.

Minimum Rating Requirement. The term "Minimum Rating Requirement" means the rating requirement described in Section 11.16(b).

Moody's. The term "Moody's" means Moody's Investors Service, Inc. or any successor thereto.

Net Proceeds. The term "Net Proceeds" means, when used with respect to any casualty insurance or condemnation award, the proceeds from such insurance or condemnation award remaining after payment of all expenses (including attorneys' fees) incurred in the collection of such proceeds.

Net Revenues. The term "Net Revenues" means, for any period, the Revenues for such period less the Operation and Maintenance Costs for such period. When held by the Trustee in any funds or accounts established hereunder, Net Revenues shall include all interest or realized gain derived from the investment of amounts in any of such funds or accounts.

Nominee. The term "Nominee" means the nominee of the Depository, which may be the Depository, as determined from time to time pursuant to Section 2.08.

Office. The term "Office" means with respect to the Trustee, the corporate trust office of the Trustee at 400 South Hope Street, Suite 500, Los Angeles, California 90071, Attention: Corporate Trust, Reference: City of Escondido 2021 Wastewater Bonds, or such other or additional offices as may be specified in writing by the Trustee to the City, except that with respect to presentation of 2021 Bonds for payment or for registration of transfer and exchange, such term means the office or agency of the Trustee at which, at any particular time, its corporate trust agency business shall be conducted.

Operation and Maintenance Costs. The term "Operation and Maintenance Costs" means costs spent or incurred for maintenance and operation of the Wastewater System calculated in accordance with generally accepted accounting principles applicable to governmental agencies, including, but not limited to, the reasonable expenses of management and repair and other expenses necessary to maintain and preserve the Wastewater System in good repair and working order, and including administrative costs of the City that are charged directly or apportioned to the Wastewater System, including but not limited to salaries and wages of employees, payments to the Public Employees Retirement System, overhead, insurance, 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 (other than debt service payments) required to be paid by it to comply with the terms of the 2021 Bonds or of the Indenture or any Contract or of any resolution or indenture authorizing the issuance of any Bonds or of such Bonds; but excluding in all cases depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles or other bookkeeping entries of a similar nature.

Opinion of Bond Counsel. The term "Opinion of Bond Counsel" means a written Opinion of Bond Counsel (including but not limited to counsel to the City) selected by the City. If and to the extent required by the provisions of Section 1.02, each Opinion of Bond Counsel shall include the statements provided for in Section 1.02.

Outstanding. The term "Outstanding," when used as of any particular time with reference to 2021 Bonds, means (subject to the provisions of Section 11.09) all 2021 Bonds theretofore or thereupon being authenticated and delivered by the Trustee under the Indenture except: (i) 2021 Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation; (ii) 2021 Bonds with respect to which all liability of the City shall have been discharged in accordance with Section 10.02, including 2021 Bonds (or portions thereof) described in Section 11.09; and (iii) 2021 Bonds for the transfer or exchange of or in lieu of or in substitution for which other 2021 Bonds shall have been authenticated and delivered by the Trustee pursuant to the Indenture.

Owner; 2021 Bond Owner. The term "Owner" or "2021 Bond Owner," whenever used herein with respect to a 2021 Bond, means the person in whose name the ownership of such 2021 Bond is registered on the Registration Books.

Paired Obligation Provider. The term "Paired Obligation Provider" means a party to a Paired Obligation other than the City.

Paired Obligations. The term "Paired Obligations" means any Bond or Contract (or portion thereof) designated as Paired Obligations in the resolution, indenture or other document authorizing the issuance or execution and delivery thereof, which are simultaneously issued or executed and delivered: (i) the principal of which is of equal amount maturing and to be redeemed or prepaid (or cancelled after acquisition thereof) on the same dates and in the same amounts; and (ii) the interest rates which, taken together, are reasonably expected to result in a fixed interest rate obligation of the City for the term of such Bond or Contract, as certified by an Independent Financial Consultant in writing, and which comply with the provisions of Section 11.16 hereof.

Participants. The term "Participants" means those broker-dealers, banks and other financial institutions from time to time for which the Depository holds book entry certificates as securities depository.

Payment Fund. The term "Payment Fund" means the fund by that name established pursuant to Section 5.02.

Permitted Investments. The term "Permitted Investments" means any of the following, if and to the extent permitted by law and by any policy guidelines promulgated by the City (provided that the Trustee shall be entitled to rely upon any investment directions from the City as conclusive certification to the Trustee that the investments described therein comply with any policy guidelines promulgated by the City and are so authorized under the laws of the State of California).

The following obligations may be used as Permitted Investments for all purposes, including defeasance investments in refunding escrow agreements:

(a) Cash (insured at all times by the Federal Deposit Insurance Corporation); and

(b) Obligations of, or obligations guaranteed as to principal and interest by, the U.S. or any agency or instrumentality thereof, when such obligations are backed by the full faith and credit of the U.S. including: U.S. treasury obligations; All direct or fully guaranteed obligations; Farmers Home Administration; General Services Administration; Guaranteed Title XI financing; Government National Mortgage Association (GNMA); and State and Local Government Series.

Any security used for defeasance must provide for the timely payment of principal and interest and cannot be callable or prepayable prior to maturity or earlier redemption of the rated debt (excluding securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date).

The following obligations may be used as Permitted Investments for all purposes other than defeasance investments in refunding escrow accounts:

(c) Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including: Export-Import Bank; Rural Economic Community Development Administration; Federal Farm Credit Bureau; U.S. Maritime Administration; Small Business Administration; U.S. Department of Housing & Urban Development (PHAs); and Federal Housing Administration and Federal Financing Bank;

(d) Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America: Senior debt obligations issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC); Obligations of the Resolution Funding Corporation (REFCORP); Senior debt obligations of the Federal Home Loan Bank System; and Senior debt obligations of other Government Sponsored Agencies;

(e) U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks which may include the Trustee and its affiliates which have a rating on their short term certificates of deposit on the date of purchase of "P-1" by Moody's and "A-1" by S&P and maturing not more than 360 calendar days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank);

(f) Commercial paper which is rated at the time of purchase in the single highest classification, "P-1" by Moody's or "A-1" by S&P and which matures not more than 270 calendar days after the date of purchase;

(g) Investments in a money market fund rated "AAm", "AAAm" or "AAAm-G" or better by S&P, including such funds for which the Trustee, its affiliates or subsidiaries provide investment advisory or other management services or for which the Trustee or an affiliate of the Trustee serves as investment administrator, shareholder servicing agent, and/or custodian or subcustodian, notwithstanding the fact that: (i) the Trustee or an affiliate of the Trustee receives and retains fees from funds for services provided to the fund; (ii) the Trustee collects fees for services rendered pursuant to the Indenture, which fees are separate from the fees received from such funds; and (iii) services performed for such funds and pursuant to the Indenture may at times duplicate those provided to such funds by the Trustee or an affiliate of the Trustee;

(h) Pre-refunded municipal obligations defined as follows: any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice:

(1) which are rated, based on an irrevocable escrow account or fund (the "escrow"), in the highest rating category of Moody's or S&P or any successors thereto; or

(2) (i) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in paragraph (b) above, which escrow may be applied only to the payment of such principal and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate; and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate;

(i) Municipal obligations rated "Aaa/AAA" or general obligations of states with a rating of "A2/A" or higher by both Moody's and S&P;

(j) Investment Agreements (supported by appropriate opinions of counsel);

(k) the Local Agency Investment Fund of the State, created pursuant to Section 16429.1 of the California Government Code, to the extent the Trustee is authorized to register such investment in its name;

(l) Shares of beneficial interest issued by a joint powers authority organized pursuant to California Government Code § 6509.7. To be eligible for purchase, the pool must meet the requirements of California Government Code § 53601(p); and

(m) Certificates of deposit insured by the Federal Deposit Insurance Corporation.

The value of the above investments shall be determined as follows: (a) for the purpose of determining the amount in any fund, all Permitted Investments credited to such fund shall be valued at cost; (b) as to certificates of deposit and bankers' acceptances: the face amount thereof, plus accrued interest thereon; and (c) as to any investment not specified above: the value thereof established by prior agreement among the City and the Trustee.

<u>Principal Account</u>. The term "Principal Account" means the account by that name in the Payment Fund established pursuant to Section 5.02.

<u>Rating</u>. The term "Rating" means any currently effective rating on the 2021 Bonds issued by a Rating Agency.

Rating Agencies. The term “Rating Agencies” means S&P, Moody’s or Fitch, as the context dictates.

Record Date. The term “Record Date” means, with respect to any Interest Payment Date, the fifteenth (15th) day of the calendar month preceding such Interest Payment Date, whether or not such day is a Business Day.

Redemption Date. The term “Redemption Date” means the date fixed for a redemption prior to maturity of the 2021 Bonds.

Redemption Fund. The term “Redemption Fund” means the fund by that name established pursuant to Section 5.05.

Redemption Price. The term “Redemption Price” means, with respect to any 2021 Bond (or portion thereof), the principal amount of such 2021 Bond (or portion) plus the interest accrued to the applicable Redemption Date and the applicable premium, if any, payable upon redemption thereof pursuant to the provisions of such 2021 Bond and the Indenture.

Registration Books. The term “Registration Books” means the records maintained by the Trustee for the registration of ownership and registration of transfer of the 2021 Bonds pursuant to Section 2.05.

Responsible Officer of the Trustee. The term “Responsible Officer of the Trustee” means any officer within the corporate trust services division (or any successor group or department of the Trustee) including any vice president, assistant vice president, assistant secretary or any other officer or assistant officer of the Trustee within the Office (or any successor corporate trust office) customarily performing functions similar to those performed by the persons who at the time shall be such officers, respectively, or to whom any corporate trust matter is referred at the Office because of such person’s knowledge of any familiarity with the particular subject and having direct responsibility for the administration of this Indenture.

Revenue Fund. The term “Revenue Fund” means the Wastewater Enterprise Fund of the City and/or such other fund or account of the City in which Revenues are deposited.

Revenues. The term “Revenues” means all income, rents, rates, fees, charges and other moneys derived from the ownership of or operation of the Wastewater System, including, without limiting the generality of the foregoing: (1) all income, rents, rates, fees, charges, business interruption insurance proceeds or other moneys derived by the City from the collection, treatment and disposal of wastewater or other services or facilities provided in the conduct or operation of the business of the Wastewater System; and (2) the earnings on and income derived from the investment of such income, rents, rates, fees, charges, proceeds or other moneys, including City reserves, but excluding in all cases: (x) customers’ deposits or any other deposits or advances subject to refund until such deposits or advances have become the property of the City; (y) any proceeds of taxes or benefit assessments restricted by law to be used by the City to pay amounts due on bonds or other obligations heretofore or hereafter incurred; and (z) any and all revenues derived from the ownership or operation of or in connection with, and pledged to, Separate Facilities.

Separate Facilities. The term “Separate Facilities” means any capital items acquired on or after the date hereof and which were not financed from the proceeds of Bonds or Contracts of the City having a parity claim on the Revenue Fund or Revenues.

S&P. The term “S&P” means S&P Global Ratings, a Standard & Poor’s Financial Services LLC business, or any successor thereto.

Securities Depositories. The term “Securities Depositories” means The Depository Trust Company; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other securities depositories as the City may designate in a Written Request of the City delivered to the Trustee.

State. The term “State” means the State of California.

Supplemental Indenture. The term “Supplemental Indenture” means any indenture hereafter duly authorized and entered into between the City and the Trustee, supplementing, modifying or amending the Indenture; but only if and to the extent that such Supplemental Indenture is specifically authorized hereunder.

SWRCB. The term “SWRCB” means the State of California Water Resources Control Board.

SWRCB Agreements. The term “SWRCB Agreements” means:

(i) the Water Reclamation Project agreement with the SWRCB payable in annual installments of $987,722, without interest and maturing on April 1, 2023;

(ii) the Tertiary Treatment Facility Project agreement with the SWRCB payable in annual installments of $741,130 and maturing on April 1, 2023;

(iii) the Blower Project agreement with the SWRCB payable in annual installments of $98,817 and maturing on December 30, 2024;

(iv) the Recycled Water Easterly Main and Tanks Project agreement (Project No. C-06-8113-110) with the SWRCB payable in annual installments of $176,085 and maturing on April 8, 2049;

(v) the Brine Line Transmission Project agreement (Project No. C-06-8115-110) with the SWRCB payable in annual installments of $216,373 and maturing on October 23, 2049;

(vi) the Recycled Water Easterly Agricultural System Project agreement (Project No. C-06-8112-110) with the SWRCB; and

(vii) the MFRO Facility Project agreement (Project No. C-06-8059-110) with the SWRCB.

Tax Certificate. The term “Tax Certificate” means that certificate signed by the City on the Closing Date of the 2021 Bonds relating to the requirements of the Code.

Trustee. The term “Trustee” means The Bank of New York Mellon Trust Company, N.A., a national banking association duly organized and existing under the laws of the United States of America, or its successor as Trustee hereunder as provided in Section 8.01.

2012 Bonds. The term “2012 Bonds” means the Escondido Joint Powers Financing Authority Revenue Bonds (Wastewater System Financing), Series 2012, pursuant to which the 2012 Project was financed or refinanced.

2012 Project. The term “2012 Project” means those components of the Wastewater System that are described in Exhibit B, which were financed or refinanced from proceeds of the 2012 Bonds.

2015 Bonds. The term “2015 Bonds” means, collectively, the City of Escondido Refunding Revenue Bonds (Wastewater System) Series 2015A and the City of Escondido Refunding Revenue Bonds (Wastewater System) Series 2015B (Taxable) issued by the City.

2021 Bonds. The term “2021 Bonds” means the City of Escondido Wastewater Revenue Refunding Bonds, Series 2021A issued by the City and at any time Outstanding pursuant to the Indenture.

Wastewater Service. The term “Wastewater Service” means the wastewater collection, treatment and disposal service made available or provided by the Wastewater System (including recycled water storage and distribution facilities).

Wastewater System. The term “Wastewater System” means the whole and each and every part of the wastewater system (including the recycled water storage and distribution system) of the City, including all real property and buildings whether owned or operated by the City or another party, including the portion thereof existing on the date hereof, and including all additions, betterments, extensions and improvements to such Wastewater System or any part thereof hereafter acquired or constructed, but not including any Separate Facilities.

Written Consent of the City; Written Order of the City; Written Request of the City; Written Requisition of the City. The terms “Written Consent of the City,” “Written Order of the City,” “Written Request of the City” and “Written Requisition of the City” mean, respectively, a written consent, order, request or requisition signed by or on behalf of the City by an Authorized Officer of the City or by any two persons who are specifically authorized by resolution of the City to sign or execute such a document on its behalf.

Section 1.02. Content of Certificates and Opinions. Every certificate or opinion provided for in the Indenture except the certificate of destruction provided for in Section 11.05, with respect to compliance with any provision hereof shall include: (a) a statement that the person making or giving such certificate or opinion has read such provision and the definitions herein relating thereto; (b) a brief statement as to the nature and scope of the examination or investigation upon which the certificate or opinion is based; (c) a statement that, in the opinion of such person he or she has made or caused to be made such examination or investigation as is necessary to enable him or her to express an informed opinion with respect to the subject matter referred to in the instrument to which his or her signature is affixed; (d) a statement of the assumptions upon which such certificate or opinion is based, and that such assumptions are reasonable; and (e) a statement as to whether, in the opinion of such person, such provision has been complied with.

Any such certificate or opinion made or given by an officer of the City may be based, insofar as it relates to legal or accounting matters, upon a certificate or opinion of or representation by counsel or an Independent Certified Public Accountant or Independent Financial Consultant, unless such officer knows, or in the exercise of reasonable care should have known, that the certificate, opinion or representation with respect to the matters upon which such certificate or statement may be based, as aforesaid, is erroneous. Any such certificate or opinion made or given by counsel or an Independent Certified Public Accountant or Independent Financial Consultant may be based, insofar as it relates to factual matters (with respect to which information is in the possession of the City) upon a certificate or opinion of or representation by an officer of the City, unless such counsel or Independent Certified Public Accountant or Independent Financial Consultant knows, or in the exercise of reasonable care should have known, that the certificate or opinion or representation with respect to the matters upon which such person's certificate or opinion or representation may be based, as aforesaid, is erroneous. The same officer of the City, or the same counsel or Independent Certified Public Accountant or Independent Financial Consultant, as the case may be, need not certify to all of the matters required to be certified under any provision of the Indenture, but different officers, counsel or Independent Certified Public Accountants or Independent Financial Consultants may certify to different matters, respectively.

Section 1.03. Interpretation.

(a) Unless the context otherwise indicates, words expressed in the singular shall include the plural and vice versa and the use of the neuter, masculine, or feminine gender is for convenience only and shall be deemed to include the neuter, masculine or feminine gender, as appropriate.

(b) Headings of articles and sections herein and the table of contents hereof are solely for convenience of reference, do not constitute a part hereof and shall not affect the meaning, construction or effect hereof.

(c) All references herein to "Articles," "Sections" and other subdivisions are to the corresponding Articles, Sections or subdivisions of the Indenture; the words "herein," "hereof," "hereby," "hereunder" and other words of similar import refer to the Indenture as a whole and not to any particular Article, Section or subdivision hereof.

ARTICLE II

THE 2021 BONDS

Section 2.01. Authorization of 2021 Bonds. The City hereby authorizes the issuance hereunder from time to time of the 2021 Bonds, which shall constitute special obligations of the City, for the purposes of refinancing the 2012 Project. The 2021 Bonds are hereby designated the "City of Escondido Wastewater Revenue Refunding Bonds, Series 2021A" in the aggregate principal amount of $_____. The Indenture constitutes a continuing agreement with the Owners from time to time of the 2021 Bonds to secure the full payment of the principal of and interest and premium (if any) on all the 2021 Bonds, subject to the covenants, provisions and conditions herein contained.

Section 2.02. Terms of the 2021 Bonds. The 2021 Bonds shall be issued in fully registered form without coupons in denominations of $5,000 or any integral multiple thereof.

The 2021 Bonds shall mature on September 1 in each of the years and in the amounts set forth below and shall bear interest on each Interest Payment Date at the rates set forth below:

Maturity Date (September 1)	***Principal Amount***	***Interest Rate***
20__	$	%

Interest on the 2021 Bonds shall be payable on each Interest Payment Date to the person whose name appears on the Registration Books as the Owner thereof as of the Record Date immediately preceding each such Interest Payment Date, such interest to be paid by check of the Trustee sent by first class mail on the applicable Interest Payment Date to the Owner at the address of such Owner as it appears on the Registration Books (except that in the case of an Owner of one million dollars ($1,000,000) or more in principal amount, such payment may, at such Owner's option, be made by wire transfer of immediately available funds to an account in the United States in accordance with written instructions provided to the Trustee by such Owner prior to the Record Date. Principal of and premium (if any) on any 2021 Bond shall be paid by check of the Trustee upon presentation and surrender thereof at maturity or upon the prior redemption thereof, at the Office of the Trustee. Both the principal of and interest and premium (if any) on the 2021 Bonds shall be payable in lawful money of the United States of America.

Each 2021 Bond shall be dated the date of initial delivery, and shall bear interest from the Interest Payment Date next preceding the date of authentication thereof unless: (a) it is authenticated after a Record Date and on or before the following Interest Payment Date, in which event it shall bear interest from such Interest Payment Date; or (b) unless it is authenticated on or before ____ 15, 202__, in which event it shall bear interest from the date of initial delivery; provided, however, that if, as of the date of authentication of any 2021 Bond, interest thereon is in default, such 2021 Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon. Interest on the 2021 Bonds shall be calculated on the basis of a 360-day year composed of twelve 30-day months.

Section 2.03. <u>Transfer of 2021 Bonds</u>. Any 2021 Bond may, in accordance with its terms, be transferred on the Registration Books by the person in whose name it is registered, in person or by his or her duly authorized attorney, upon surrender of such 2021 Bond at the Office of the Trustee for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form acceptable to the Trustee. The Trustee shall not be required to register the transfer of any 2021 Bond during the period in which the Trustee is selecting 2021 Bonds for redemption and any 2021 Bond that has been selected for redemption.

Whenever any 2021 Bond or 2021 Bonds shall be surrendered for transfer, the City shall execute and the Trustee shall authenticate and shall deliver a new 2021 Bond or 2021 Bonds of authorized denomination or denominations for a like aggregate principal amount of the same maturity. The Trustee shall require the 2021 Bond Owner requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer. Following any transfer of 2021 Bonds, the Trustee will cancel and destroy the 2021 Bonds that it has received.

Prior to any transfer of the 2021 Bonds outside the book-entry system (including, but not limited to, the initial transfer outside the book-entry system) the transferor shall provide or cause to be provided to the Trustee all information necessary to allow the Trustee to comply with any applicable tax reporting obligations, including without limitation any cost basis reporting obligations under Code Section 6045, as amended. The Trustee shall conclusively rely on the information provided to it and shall have no responsibility to verify or ensure the accuracy of such information.

Section 2.04. Exchange of 2021 Bonds. 2021 Bonds may be exchanged at the Office of the Trustee for a like aggregate principal amount of other authorized denominations of the same maturity. The Trustee shall not be required to exchange any 2021 Bond during the period in which the Trustee is selecting 2021 Bonds for redemption and any 2021 Bond that has been selected for redemption. The Trustee shall require the 2021 Bond Owner requesting such exchange to pay any tax or other governmental charge required to be paid with respect to such exchange. Following any exchange of 2021 Bonds, the Trustee will cancel and destroy the 2021 Bonds that it has received.

Section 2.05. Registration Books. The Trustee will keep or cause to be kept, at the Office of the Trustee, sufficient records for the registration and transfer of ownership of the 2021 Bonds, which shall upon reasonable notice and at reasonable times be open to inspection during regular business hours by the City and the Owners; and, upon presentation for such purpose, the Trustee shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on such records, the ownership of the 2021 Bonds as hereinbefore provided.

The person in whose name any 2021 Bond shall be registered shall be deemed the Owner thereof for all purposes hereof, and payment of or on account of the interest on and principal and Redemption Price of by such 2021 Bonds shall be made only to or upon the order in writing of such registered Owner, which payments shall be valid and effectual to satisfy and discharge liability upon such 2021 Bond to the extent of the sum or sums so paid.

Section 2.06. Form and Execution of 2021 Bonds. The 2021 Bonds shall be in substantially the form set forth in Exhibit A. The 2021 Bonds shall be executed in the name and on behalf of the City with the manual or facsimile signature of its City Manager. The 2021 Bonds may carry a seal, and such seal may be in the form of a facsimile of the City's seal and may be reproduced, imprinted or impressed on the 2021 Bonds. The 2021 Bonds shall then be delivered to the Trustee for authentication by it. In case any of the officers who shall have signed or attested any of the 2021 Bonds shall cease to be such officer or officers of the City before the 2021 Bonds so signed or attested shall have been authenticated or delivered by the Trustee, or issued by the City, such 2021 Bonds may nevertheless be authenticated, delivered and issued and, upon such authentication, delivery and issue, shall be as binding upon the City as though those who signed and attested the same had continued to be such officers of the City, and also any 2021 Bonds may be signed and attested on behalf of the City by such persons as at the actual date of execution of such 2021 Bonds shall be the proper officers of the City although at the nominal date of such 2021 Bonds any such person shall not have been such officer of the City.

Only such of the 2021 Bonds as shall bear thereon a certificate of authentication substantially in the form set forth in Exhibit A, manually or electronically executed by the Trustee, shall be valid or obligatory for any purpose or entitled to the benefits of the Indenture, and such certificate of or on behalf of the Trustee shall be conclusive evidence that the 2021 Bonds so authenticated have been duly executed, authenticated and delivered hereunder and are entitled to the benefits of the Indenture.

Section 2.07. 2021 Bonds Mutilated, Lost, Destroyed or Stolen. If any 2021 Bond shall become mutilated, the City, at the expense of the Owner of said 2021 Bond, shall execute, and the Trustee shall thereupon authenticate and deliver, a new 2021 Bond of like tenor and authorized denomination in exchange and substitution for the 2021 Bonds so mutilated, but only upon surrender to the Trustee of the 2021 Bond so mutilated. Every mutilated 2021 Bond so surrendered to the Trustee shall be canceled by it and upon the Written Request of the City delivered to, or upon the order of, the City. If any 2021 Bond shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee and, if such evidence be satisfactory to the Trustee and indemnity satisfactory to the Trustee shall be given, the City, at the expense of the Owner, shall execute, and the Trustee shall thereupon authenticate and deliver, a new 2021 Bond of like tenor and authorized denomination in lieu of and in substitution for the 2021 Bond so lost, destroyed or stolen (or if any such 2021 Bond shall have matured or shall be about to mature, instead of issuing a substitute 2021 Bond, the Trustee may pay the same without surrender thereof). The City may require payment by the Owner of a sum not exceeding the actual cost of preparing each new 2021 Bond issued under this Section and of the expenses which may be incurred by the City and the Trustee in the premises. Any 2021 Bond issued under the provisions of this Section in lieu of any 2021 Bond alleged to be lost, destroyed or stolen shall constitute an original additional contractual obligation on the part of the City whether or not the 2021 Bond so alleged to be lost, destroyed, or stolen be at any time enforceable by anyone, and shall be entitled to the benefits of the Indenture with all other 2021 Bonds secured by the Indenture. Notwithstanding any other provision of this Section, in lieu of delivering a new 2021 Bond for a 2021 Bond which has been mutilated, lost, destroyed or stolen and which has matured or has been selected for redemption, the Trustee may make payment of such 2021 Bond upon receipt of indemnity satisfactory to the Trustee.

Section 2.08. Book Entry System.

(a) Election of Book Entry System. Prior to the issuance of the 2021 Bonds, the City may provide that such 2021 Bonds shall be initially issued as book entry 2021 Bonds. If the City shall elect to deliver any 2021 Bonds in book entry form, then the City shall cause the delivery of a separate single fully registered bond (which may be typewritten) for each maturity date of such 2021 Bonds in an authorized denomination corresponding to that total principal amount of the 2021 Bonds designated to mature on such date. Upon initial issuance, the ownership of each such 2021 Bond shall be registered in the 2021 Bond Registration Books in the name of the Nominee, as nominee of the Depository, and ownership of the 2021 Bonds, or any portion thereof may not thereafter be transferred except as provided in Section 2.08(e).

With respect to book entry 2021 Bonds, the City and the Trustee shall have no responsibility or obligation to any Participant or to any person on behalf of which such a Participant holds an interest in such book entry 2021 Bonds. Without limiting the immediately preceding sentence, the City and the Trustee shall have no responsibility or obligation with respect to: (i) the accuracy of the records of the Depository, the Nominee, or any Participant with respect to any ownership interest in book entry 2021 Bonds; (ii) the delivery to any Participant or any other person, other than an Owner as shown in the 2021 Bond Registration Books, of any notice with respect to book entry 2021 Bonds, including any notice of redemption; (iii) the selection by the Depository and its Participants of the beneficial interests in book entry 2021 Bonds to be redeemed in the event that the City redeems the 2021 Bonds in part; or (iv) the payment by the Depository or any Participant or any other person, of any amount of principal of, premium, if any, or interest on book entry 2021 Bonds. The City and the Trustee may treat and consider the person in whose name each book entry 2021 Bond is registered in the 2021 Bond Registration Books as the absolute Owner of such book entry 2021 Bond for the purpose of payment of principal of, premium and interest on such 2021 Bond, for the purpose of giving notices of redemption and other matters with respect to such 2021 Bond, for the purpose of registering transfers with respect to such 2021 Bond, and for all other purposes whatsoever. The Trustee shall pay all principal of, premium, if any, and interest on the 2021 Bonds only to or upon the order of the respective Owner, as shown in the 2021 Bond Registration Books, or his respective attorney duly authorized in writing, and all such payments shall be valid and effective to fully satisfy and discharge the City's obligations with respect to payment of principal of, premium, if any, and interest on the 2021 Bonds to the extent of the sum or sums so paid. No person other than an Owner, as shown in the 2021 Bond Registration Books, shall receive a 2021 Bond evidencing the obligation to make payments of principal of, premium, if any, and interest on the 2021 Bonds. Upon delivery by the Depository to the City and the Trustee, of written notice to the effect that the Depository has determined to substitute a new nominee in place of the Nominee, and subject to the provisions herein with respect to Record Dates, the word Nominee in the Indenture shall refer to such nominee of the Depository.

(b) Delivery of Letter of Representations. In order to qualify the book entry 2021 Bonds for the Depository's book entry system, the City and the Trustee (if required by the Depository) shall execute and deliver to the Depository a Letter of Representations. The execution and delivery of a Letter of Representations shall not in any way impose upon the City or the Trustee any obligation whatsoever with respect to persons having interests in such book entry 2021 Bonds other than the Owners, as shown on the 2021 Bond Registration Books. By executing a Letter of Representations, the Trustee shall agree to take all action necessary at all times so that the Trustee will be in compliance with all representations of the Trustee in such Letter of Representations. In addition to the execution and delivery of a Letter of Representations, the City and the Trustee shall take such other actions, not inconsistent with the Indenture, as are reasonably necessary to qualify book entry 2021 Bonds for the Depository's book entry program.

(c) Selection of Depository. In the event that: (i) the Depository determines not to continue to act as securities depository for book entry 2021 Bonds; or (ii) the City determines that continuation of the book entry system is not in the best interest of the beneficial owners of the 2021 Bonds or the City, then the City will discontinue the book entry system with the Depository. If the City determines to replace the Depository with another qualified securities depository, the City shall prepare or direct the preparation of a new single, separate, fully registered 2021 Bond for each of the maturity dates of such book entry 2021 Bonds, registered in the name of such successor or substitute qualified securities depository or its Nominee as provided in subsection (e) hereof. If the City fails to identify another qualified securities depository to replace the Depository, then the 2021 Bonds shall no longer be restricted to being registered in such 2021 Bond Registration Books in the name of the Nominee, but shall be registered in whatever name or names the Owners transferring or exchanging such 2021 Bonds shall designate, in accordance with the provisions of Sections 2.03 and 2.04 hereof.

(d) Payments To Depository. Notwithstanding any other provision of the Indenture to the contrary, so long as all Outstanding 2021 Bonds are held in book entry form and registered in the name of the Nominee, all payments of principal of, redemption premium, if any, and interest on such 2021 Bond and all notices with respect to such 2021 Bond shall be made and given, respectively to the Nominee, as provided in the Letter of Representations or as otherwise instructed by the Depository and agreed to by the Trustee notwithstanding any inconsistent provisions herein.

(e) Transfer of 2021 Bonds to Substitute Depository.

(i) The 2021 Bonds shall be initially issued as provided in Section 2.01 hereof. Registered ownership of such 2021 Bonds, or any portions thereof, may not thereafter be transferred except:

(A) to any successor of DTC or its nominee, or of any substitute depository designated pursuant to clause (B) of subsection (i) of this Section 2.08(e) (a "**Substitute Depository**"); provided that any successor of DTC or Substitute Depository shall be qualified under any applicable laws to provide the service proposed to be provided by it;

(B) to any Substitute Depository, upon: (1) the resignation of DTC or its successor (or any Substitute Depository or its successor) from its functions as depository; or (2) a determination by the City that DTC (or its successor) is no longer able to carry out its functions as depository; provided that any such Substitute Depository shall be qualified under any applicable laws to provide the services proposed to be provided by it; or

(C) to any person as provided below, upon: (1) the resignation of DTC or its successor (or any Substitute Depository or its successor) from its functions as depository; or (2) a determination by the City that DTC or its successor (or Substitute Depository or its successor) is no longer able to carry out its functions as depository.

(ii) In the case of any transfer pursuant to clauses (A) or (B) of subsection (i) of this Section 2.08(e), upon receipt of all Outstanding 2021 Bonds by the Trustee, together with a Written Request of the City to the Trustee designating the Substitute Depository, a single new 2021 Bond, which the City shall prepare or cause to be prepared, shall be issued for each maturity of 2021 Bonds then Outstanding, registered in the name of such successor or such Substitute Depository or their Nominees, as the case may be, all as specified in such Written Request of the City. In the case of any transfer pursuant to clause (C) of subsection (i) of this Section 2.08(e), upon receipt of all Outstanding 2021 Bonds by the Trustee, together with a Written Request of the City to the Trustee, new 2021 Bonds, which the City shall prepare or cause to be prepared, shall be issued in such denominations and registered in the names of such persons as are requested in such Written Request of the City, subject to the limitations of Section 2.01 hereof, provided that the Trustee shall not be required to deliver such new 2021 Bonds within a period of less than sixty (60) days from the date of receipt of such Written Request from the City.

(iii) In the case of a partial redemption or an advance refunding of any 2021 Bonds evidencing a portion of the principal maturing in a particular year, DTC or its successor (or any Substitute Depository or its successor) shall make an appropriate notation on such 2021 Bonds indicating the date and amounts of such reduction in principal, in form acceptable to the Trustee, all in accordance with the Letter of Representations. The Trustee shall not be liable for such Depository's failure to make such notations or errors in making such notations and the records of the Trustee as to the Outstanding principal amount of such 2021 Bonds shall be controlling.

(iv) The City and the Trustee shall be entitled to treat the person in whose name any 2021 Bond is registered as the Owner thereof for all purposes of the Indenture and any applicable laws, notwithstanding any notice to the contrary received by the Trustee or the City; and the City and the Trustee shall not have responsibility for transmitting payments to, communicating with, notifying, or otherwise dealing with any beneficial owners of the 2021 Bonds. Neither the City nor the Trustee shall have any responsibility or obligation, legal or otherwise, to any such beneficial owners or to any other party, including DTC or its successor (or Substitute Depository or its successor), except to the Owner of any 2021 Bonds, and the Trustee may rely conclusively on its records as to the identity of the Owners of the 2021 Bonds.

ARTICLE III

ISSUANCE OF 2021 BONDS; APPLICATION OF PROCEEDS

Section 3.01. Issuance of the 2021 Bonds. At any time after the execution of the Indenture, the City may execute and the Trustee shall authenticate and, upon Written Request of the City, deliver the 2021 Bonds in the aggregate principal amount of $_____.

Section 3.02. Application of Proceeds of the 2021 Bonds. The proceeds of the sale of the 2021 Bonds in the amount of $____ shall be delivered to the Trustee, who shall:

(a) transfer $____ to the Escrow Agent for deposit in the Escrow Fund; and

(b) deposit $____ into the Costs of Issuance Fund.

The Trustee may establish temporary funds or accounts in its records to record and facilitate such deposits.

Section 3.03. Establishment and Application of Costs of Issuance Fund. The Trustee shall establish, maintain and hold in trust a separate fund designated as the "Costs of Issuance Fund." The moneys in the Costs of Issuance Fund shall be used and withdrawn by the Trustee to pay the Costs of Issuance upon submission of Written Requisitions of the City stating the person to whom payment is to be made, the amount to be paid along with payment instructions, the purpose for which the obligation was incurred, that such payment is proper charge against said fund and that payment for such charge has not previously been made. Each such Written Requisition of the City shall be sufficient evidence to the Trustee of the facts stated therein and the Trustee shall have no duty to confirm the accuracy of such facts. On the six month anniversary of the issuance of the 2021 Bonds, or upon the earlier Written Request of the City, all amounts remaining in the Costs of Issuance Fund shall be transferred by the Trustee to the Interest Account and the Costs of Issuance Fund shall be closed. Investment earnings on amounts on deposit in the Costs of Issuance Fund shall be applied in accordance with Section 5.06 hereof.

Section 3.04. Validity of 2021 Bonds. The validity of the authorization and issuance of the 2021 Bonds is not dependent on and shall not be affected in any way by any proceedings taken by the City or the Trustee with respect to any other agreement. The recital contained in the 2021 Bonds that the same are issued pursuant to the Constitution and laws of the State shall be conclusive evidence of the validity and of compliance with the provisions of law in their issuance.

ARTICLE IV

REDEMPTION OF 2021 BONDS

Section 4.01. Terms of Redemption.

(a) The 2021 Bonds with stated maturities on or after September 1, 20__, shall be subject to redemption prior to their respective stated maturities, as a whole or in part on _____ 1, 20__, or any date thereafter, as directed by the City in a Written Request provided to the Trustee at least 35 days (or such lesser number of days acceptable to the Trustee in the sole discretion of the Trustee, such notice for the convenience of the Trustee) and by lot within each maturity in integral multiples of $5,000, at a Redemption Price equal to the principal amount thereof plus accrued interest thereon to the Redemption Date, without premium.

(b) The 2021 Bonds with a stated maturity on September 1, 20__ are subject to mandatory sinking fund redemption prior to maturity, in part (by lot), on September 1, 20__ and each September 1 thereafter to maturity, in integral multiples of $5,000 at a Redemption Price equal to the principal amount thereof plus accrued interest to the Redemption Date, without premium, in accordance with the following schedule:

Redemption Date (September 1)	***Principal Amount***
20__	$
20__*	

* Maturity.

Section 4.02. Selection of 2021 Bonds for Redemption. Whenever provision is made in the Indenture for the redemption of less than all of the 2021 Bonds, the Trustee shall select the 2021 Bonds for redemption as a whole or in part among maturities on any date as directed by the City and by lot within each maturity in integral multiples of $5,000 in accordance with Section 4.01 hereof. The Trustee will promptly notify the City in writing of the numbers of the 2021 Bonds or portions thereof so selected for redemption.

Section 4.03. Notice of Redemption. Notice of redemption shall be sent electronically or mailed by first class mail at least twenty (20) days but not more than sixty (60) days before any Redemption Date, to the respective Owners of any 2021 Bonds designated for redemption at their addresses appearing on the Registration Books, to the Securities Depositories and to the Information Services. Each notice of redemption shall state the date of the notice, the Redemption Date, the place or places of redemption, the Redemption Price, the maturities, CUSIP numbers, if any, and, in the case of 2021 Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice shall also state that on the Redemption Date there will become due and payable on each of said 2021 Bonds or parts thereof designated for redemption the Redemption Price thereof or of said specified portion of the principal thereof in the case of a 2021 Bond to be redeemed in part only, together with interest accrued thereon to the Redemption Date, and that (provided that moneys for redemption have been deposited with the Trustee) from and after such Redemption Date interest thereon shall cease to accrue, and shall require that such 2021 Bonds be then surrendered to the Trustee. Neither the failure to receive such notice nor any defect in the notice or the mailing thereof will affect the validity of the redemption of any 2021 Bond. Notice of redemption of 2021 Bonds shall be given by the Trustee, at the expense of the City, for and on behalf of the City.

With respect to any notice of optional redemption of 2021 Bonds, such notice may state that such redemption shall be conditional upon the receipt by the Trustee on or prior to the date fixed for such redemption of moneys sufficient to pay the principal of, premium, if any, and interest on such 2021 Bonds to be redeemed and that, if such moneys shall not have been so received, said notice shall be of no force and effect and the Trustee shall not be required to redeem such 2021 Bonds. In the event that such notice of redemption contains such a condition and such moneys are not so received, the redemption shall not be made, and the Trustee shall within a reasonable time thereafter give notice, in the manner in which the notice of redemption was given, that such moneys were not so received.

Section 4.04. Partial Redemption of 2021 Bonds. Upon surrender of any 2021 Bond redeemed in part only, the City shall execute and the Trustee shall authenticate and deliver to the Owner thereof, at the expense of the City, a new 2021 Bond or 2021 Bonds of authorized denominations equal in aggregate principal amount to the unredeemed portion of the 2021 Bonds surrendered and of the same interest rate and maturity.

Section 4.05. Effect of Redemption. Notice of redemption having been duly given as aforesaid, and moneys for payment of the Redemption Price of, together with interest accrued to the date fixed for redemption on, the 2021 Bonds (or portions thereof) so called for redemption being held by the Trustee, on the Redemption Date designated in such notice, the 2021 Bonds (or portions thereof) so called for redemption shall become due and payable, interest on the 2021 Bonds so called for redemption shall cease to accrue, said 2021 Bonds (or portions thereof) shall cease to be entitled to any benefit or security under the Indenture, and the Owners of said 2021 Bonds shall have no rights in respect thereof except to receive payment of the Redemption Price thereof. The Trustee shall, upon surrender for payment of any of the 2021 Bonds to be redeemed on their Redemption Dates, pay such 2021 Bonds at the Redemption Price.

All 2021 Bonds redeemed pursuant to the provisions of this Article shall be canceled and destroyed upon surrender thereof to the Trustee.

ARTICLE V

REVENUES, FUNDS AND ACCOUNTS; PAYMENT OF PRINCIPAL AND INTEREST

Section 5.01. Pledge and Assignment; Revenue Fund.

(a) All of the Revenues, all amounts held in the Revenue Fund described in subsection (b) below and any other amounts (including proceeds of the sale of the 2021 Bonds) held in any fund or account established pursuant to the Indenture (excluding the Costs of Issuance Fund and the Rebate Fund) are hereby irrevocably pledged to secure the payment of the principal of and interest, and the premium, if any, on the 2021 Bonds in accordance with their terms and the provisions of the Indenture, and the Revenues shall not be used for any other purpose while the 2021 Bonds remain Outstanding; provided that out of the Revenues there may be apportioned such sums for such purposes as are expressly permitted herein. Said pledge, together with the pledge created by all other Contracts and Bonds, shall constitute a first lien on and security interest on Revenues and, subject to application of Revenues and all amounts on deposit therein as permitted herein, the

Revenue Fund and other funds and accounts created hereunder for the payment of the principal of and interest, and the premium, if any, on the 2021 Bonds and all Contracts and Debt Service on Bonds in accordance with the terms hereof, and shall attach, be perfected and be valid and binding from and after the Closing Date, without any physical delivery thereof or further act and shall be valid and binding against all parties having claims of any kind in tort, contract or otherwise against the City, irrespective of whether such parties have notice hereof.

(b) In order to carry out and effectuate the pledge and lien contained herein, the City agrees and covenants that all Revenues shall be received by the City in trust hereunder and shall be deposited when and as received in the Revenue Fund, which fund the City agrees and covenants to maintain and to hold separate and apart from other funds so long as the 2021 Bonds and any Contracts or Debt Service on Bonds remain unpaid. Moneys in the Revenue Fund shall be used and applied by the City as provided herein. All moneys in the Revenue Fund shall be held in trust and shall be applied, used and withdrawn for the purposes set forth in this Section.

The City shall, from the moneys in the Revenue Fund, pay all Operation and Maintenance Costs (including amounts reasonably required to be set aside in contingency reserves for Operation and Maintenance Costs, the payment of which is not then immediately required) as such Operation and Maintenance Costs become due and payable. All remaining moneys in the Revenue Fund shall be set aside by the City at the following times for the transfer to the following respective special funds in the following order of priority:

(i) Interest and Principal Payments. Not later than the Business Day prior to each Interest Payment Date, the City shall, from the moneys in the Revenue Fund, transfer to the Trustee for deposit in the Payment Fund or the Redemption Fund the payments of interest and principal or mandatory sinking fund payments, as applicable, on the 2021 Bonds due and payable on such Interest Payment Date. The City shall also, from the moneys in the Revenue Fund, transfer to the applicable trustee for deposit in the respective payment fund, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, any other Debt Service in accordance with the provisions of any Bond or Contract.

(ii) Reserve Funds. After making the payments, allocations or transfers provided for in subsection (i) above, the City shall, from the remaining moneys in the Revenue Fund, thereafter, without preference or priority and in the event of any insufficiency of such moneys ratably without any discrimination or preference, transfer to the applicable trustee for such other reserve funds and/or accounts, if any, as may have been established in connection with Bonds or Contracts, that sum, if any, necessary to restore such funds or accounts to an amount equal to the reserve requirement applicable to such Bonds or Contracts, as applicable.

(iii) Subordinate Obligations. After making the payments, allocations or transfers provided for in subsections (i) and (ii) above, the City shall, from the remaining moneys in the Revenue Fund, thereafter, without preference or priority and in the event of any insufficiency of such moneys ratably without any discrimination or preference, transfer to the applicable trustee for deposit in the respective payment fund, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, any debt service on obligations which are payable from Net Revenues on a subordinate basis to Bonds and Contracts.

(iv) Surplus. Moneys on deposit in the Revenue Fund on any date when the City reasonably expects such moneys will not be needed for the payment of Operation and

Maintenance Costs or any of the purposes described in clauses (b)(i), (b)(ii) or (b)(iii) may be expended by the City at any time for any purpose permitted by law.

(v) Investments. All moneys held by the City in the Revenue Fund shall be invested in Permitted Investments and the investment earnings thereon shall remain on deposit in such fund, except as otherwise provided herein.

Section 5.02. Allocation of Revenues. There is hereby established with the Trustee the Payment Fund, which the Trustee covenants to maintain and hold in trust separate and apart from other funds held by it so long as any principal of and interest on the 2021 Bonds remain unpaid. Except as directed herein, all payments of interest and principal on the 2021 Bonds received by the Trustee pursuant to Section 5.01(b) shall be promptly deposited by the Trustee upon receipt thereof into the Payment Fund; except that all moneys received by the Trustee and required hereunder to be deposited in the Redemption Fund shall be promptly deposited therein. All payments of interest and principal on the 2021 Bonds deposited with the Trustee shall be held, disbursed, allocated and applied by the Trustee only as provided in the Indenture. The Trustee shall also establish and hold an Interest Account and a Principal Account within the Payment Fund.

The Trustee shall transfer from the Payment Fund and deposit into the following respective accounts, the following amounts in the following order of priority and at the following times, the requirements of each such account (including the making up of any deficiencies in any such account resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account subsequent in priority:

(a) Not later than the Business Day preceding each Interest Payment Date, the Trustee shall deposit in the Interest Account that sum, if any, required to cause the aggregate amount on deposit in the Interest Account to be at least equal to the amount of interest becoming due and payable on such date on all 2021 Bonds then Outstanding. No deposit need be made into the Interest Account so long as there shall be in such fund moneys sufficient to pay the interest becoming due and payable on such date on all 2021 Bonds then Outstanding.

(b) Not later than the Business Day preceding each date on which the principal or mandatory sinking fund payments of the 2021 Bonds shall become due and payable hereunder, the Trustee shall deposit in the Principal Account or the Redemption Fund, as applicable, that sum, if any, required to cause the aggregate amount on deposit in the Principal Account or the Redemption Fund, as applicable, to equal the principal or mandatory sinking fund payment amount of the 2021 Bonds coming due and payable on such date. No deposit need be made into the Principal Account or the Redemption Fund, as applicable, so long as there shall be in such account or fund moneys sufficient to pay the principal becoming due and payable on such date on all 2021 Bonds then Outstanding.

Section 5.03. Application of Interest Account. All amounts in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying interest on the 2021 Bonds as it shall become due and payable (including accrued interest on any 2021 Bonds purchased or accelerated prior to maturity pursuant to the Indenture).

Section 5.04. Application of Principal Account. All amounts in the Principal Account shall be used and withdrawn by the Trustee solely to pay the principal amount of the 2021 Bonds at maturity, purchase or acceleration; provided, however, that at any time prior to selection for redemption of any such 2021 Bonds, upon written direction of the City, the Trustee shall apply such amounts to the purchase of 2021 Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as shall be directed pursuant to a Written Request of the City, except that the purchase price (exclusive of accrued interest) may not exceed the Redemption Price then applicable to the 2021 Bonds.

Section 5.05. Application of Redemption Fund. There is hereby established with the Trustee a special fund designated as the "Redemption Fund." All amounts in the Redemption Fund shall be used and withdrawn by the Trustee solely for the purpose of paying the Redemption Price of the 2021 Bonds to be redeemed on any Redemption Date pursuant to Section 4.01; provided, however, that at any time prior to selection for redemption of any such 2021 Bonds, upon written direction of the City, the Trustee shall apply such amounts to the purchase of 2021 Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as shall be directed pursuant to a Written Request of the City, except that the purchase price (exclusive of accrued interest) may not exceed the Redemption Price then applicable to the 2021 Bonds.

Section 5.06. Investments. All moneys in any of the funds or accounts established with the Trustee pursuant to the Indenture shall be invested by the Trustee solely in Permitted Investments. Such investments shall be directed by the City pursuant to a Written Request of the City filed with the Trustee at least two (2) Business Days in advance of the making of such investments. In the absence of any such directions from the City, the Trustee shall invest any such moneys in Permitted Investments described in clause (g) of the definition thereof; provided, however, that any such investment shall be made by the Trustee only if, prior to the date on which such investment is to be made, the Trustee shall have received a written direction from the City specifying a specific money market fund and, if no such written direction from the City is so received, the Trustee shall hold such moneys uninvested. Obligations purchased as an investment of moneys in any fund shall be deemed to be part of such fund or account.

All interest or gain derived from the investment of amounts in any of the funds or accounts established hereunder shall be deposited in the Interest Account unless otherwise provided in the Indenture. For purposes of acquiring any investments hereunder, the Trustee may commingle funds (other than the Rebate Fund) held by it hereunder upon the Written Request of the City. The Trustee may act as principal or agent in the acquisition or disposition of any investment and may impose its customary charges therefor. The Trustee shall incur no liability for losses arising from any investments made pursuant to this Section 5.06.

The City acknowledges that to the extent that regulations of the Comptroller of the Currency or other applicable regulatory entity grant the City the right to receive brokerage confirmations of security transactions as they occur, the City specifically waives receipt of such confirmations to the extent permitted by law. The City further understands that trade confirmations for securities transactions effected by the Trustee will be available upon request at no additional cost and other trade confirmations may be obtained from the applicable broker. The Trustee will furnish the City with periodic cash transaction statements which shall include detail for all investment transactions effected by the Trustee hereunder. Upon the City's election, such statements will be delivered via the Trustee's online service and upon electing such service, paper statements will be provided only upon request.

The Trustee or any of its affiliates may act as sponsor, advisor or manager in connection with any investments made by the Trustee under the Indenture.

For investment purposes, the Trustee may commingle the funds and accounts established hereunder (other than the Rebate Fund), but shall account for each separately. In making any valuations of investments hereunder, the Trustee may utilize and rely on generally recognized pricing information services (including brokers and dealers in securities) that may be available to the Trustee, including those available through the Trustee accounting system.

Section 5.07. Rebate Fund.

(a) Establishment. The Trustee shall establish a separate fund for the 2021 Bonds designated the "Rebate Fund." Absent an Opinion of Bond Counsel that the exclusion from gross income for federal income tax purposes of interest on the 2021 Bonds will not be adversely affected, the City shall cause to be deposited in the Rebate Fund such amounts as are required to be deposited therein pursuant to this Section and the Tax Certificate. All money at any time deposited in the Rebate Fund shall be held by the Trustee in trust for payment to the United States Treasury. All amounts on deposit in the Rebate Fund for the 2021 Bonds shall be governed by this Section and the Tax Certificate for the 2021 Bonds, unless and to the extent that the City delivers to the Trustee an Opinion of Bond Counsel that the exclusion from gross income for federal income tax purposes of interest on the 2021 Bonds will not be adversely affected if such requirements are not satisfied. The Trustee shall be deemed conclusively to have complied with the provisions of this Section and the Tax Certificate if the Trustee follows the directions of the City, and the Trustee shall have no independent responsibility to or liability resulting from failure of the Trustee to enforce compliance by the City with the Tax Certificate or the provisions of this Section.

(i) Annual Computation. Within 55 days of the end of each Bond Year, the City shall calculate or cause to be calculated the amount of rebatable arbitrage, in accordance with Section 148(f)(2) of the Code and Section 1.148-3 of the Treasury Regulations (taking into account any applicable exceptions with respect to the computation of the rebatable arbitrage, described, if applicable, in the Tax Certificate (e.g., the temporary investments exceptions of Section 148(f)(4)(B) and the construction expenditures exception of Section 148(f)(4)(C) of the Code), and taking into account whether the election pursuant to Section 148(f)(4)(C)(vii) of the Code (the "**1½% Penalty**") has been made), for this purpose treating the last day of the applicable Bond Year as a computation date, within the meaning of Section 1.148-1(b) of the Treasury Regulations (the "**Rebatable Arbitrage**"). The City shall obtain expert advice as to the amount of the Rebatable Arbitrage to comply with this provision.

(ii) Annual Transfer. Within 55 days of the end of each Bond Year, upon the Written Order of the City, an amount shall be deposited to the Rebate Fund by the Trustee from any Revenues legally available for such purpose (as specified by the City in the aforesaid Written Order), if and to the extent required so that the balance in the Rebate Fund shall equal the amount of Rebatable Arbitrage so calculated in accordance with clause (i) of this subsection (a). In the event that immediately following the transfer required by the previous sentence, the amount then on deposit to the credit of the Rebate Fund exceeds the amount required to be on deposit therein, upon Written Order of the City, the Trustee shall withdraw the excess from the Rebate Fund and then transfer such amount to the Interest Fund.

(iii) Payment to the Treasury. The Trustee shall pay, as directed by Written Order of the City, to the United States Treasury, out of amounts in the Rebate Fund:

(A) Not later than 60 days after the end of: (X) the fifth Bond Year; and (Y) each applicable fifth Bond Year thereafter, an amount equal to at least 90% of the Rebatable Arbitrage calculated as of the end of such Bond Year; and

(B) Not later than 60 days after the payment of all the 2021 Bonds, an amount equal to 100% of the Rebatable Arbitrage calculated as of the end of such applicable Bond Year, and any income attributable to the Rebatable Arbitrage, computed in accordance with Section 148(f) of the Code and Section 1.148-3 of the Treasury Regulations.

In the event that, prior to the time of any payment required to be made from the Rebate Fund, the amount in the Rebate Fund is not sufficient to make such payment when such payment is due, the City shall calculate or cause to be calculated the amount of such deficiency and deposit an amount received from any legally available source equal to such deficiency prior to the time such payment is due. Each payment required to be made pursuant to this subsection (a) shall be made to the Internal Revenue Service Center, Ogden, Utah 84201 on or before the date on which such payment is due, and shall be accompanied by Internal Revenue Service Form 8038-T, or shall be made in such other manner as provided under the Code.

(b) Disposition of Unexpended Funds. Any funds remaining in the Rebate Fund after redemption and payment of the 2021 Bonds and the payments described in subsection (a) above being made may be withdrawn by the City upon written request and utilized in any manner by the City.

(c) Survival of Defeasance. Notwithstanding anything in this Section to the contrary, the obligation to comply with the requirements of this Section shall survive the defeasance or payment in full of the 2021 Bonds.

Section 5.08. Application of Funds and Accounts When No 2021 Bonds are Outstanding. On the date on which all 2021 Bonds shall be retired hereunder or provision made therefor pursuant to Article X and after payment of all amounts due the Trustee hereunder, all moneys then on deposit in any of the funds or accounts established with the Trustee pursuant to the Indenture shall be withdrawn by the Trustee and paid to the City for use by the City at any time for any purpose permitted by law.

ARTICLE VI

PARTICULAR COVENANTS

Section 6.01. Punctual Payment. The City shall punctually pay or cause to be paid the principal and interest to become due in respect of all of the 2021 Bonds, in strict conformity with the terms of the 2021 Bonds and of the Indenture, according to the true intent and meaning thereof, but only out of Net Revenues and other assets pledged for such payment as provided in the Indenture.

Section 6.02. Extension of Payment of 2021 Bonds. The City shall not directly or indirectly extend or assent to the extension of the maturity of any of the 2021 Bonds or the time of payment of any claims for interest by the purchase of such 2021 Bonds or by any other arrangement, and in case the maturity of any of the 2021 Bonds or the time of payment of any such claims for interest shall be extended, such 2021 Bonds or claims for interest shall not be entitled, in case of any default hereunder, to the benefits of the Indenture, except subject to the prior payment in full of the principal of all of the 2021 Bonds then Outstanding and of all claims for interest thereon which shall not have been so extended. Nothing in this Section shall be deemed to limit the right of the City to issue Bonds for the purpose of refunding any Outstanding 2021 Bonds, and such issuance shall not be deemed to constitute an extension of maturity of 2021 Bonds.

Section 6.03. Against Encumbrances. The City will not make any pledge of or place any lien on Revenues or the moneys in the Revenue Fund except as provided herein. The City may at any time, or from time to time, execute Contracts or issue Bonds as permitted herein. The City may also at any time, or from time to time, incur evidences of indebtedness or incur other obligations for any lawful purpose which are payable from and secured by a pledge of lien on Revenues on any moneys in the Revenue Fund as may from time to time be deposited therein, provided that such pledge and lien shall be subordinate in all respects to the pledge of and lien thereon provided herein.

Section 6.04. Power to Issue 2021 Bonds and Make Pledge and Assignment. The City is duly authorized pursuant to law to issue the 2021 Bonds, to enter into the Indenture and to pledge and assign the Revenues and other assets purported to be pledged and assigned under the Indenture in the manner and to the extent provided in the Indenture. The 2021 Bonds and the provisions of the Indenture are and will be the legal, valid and binding special obligations of the City in accordance with their terms, and the City shall and the Trustee may, at all times, subject to the provisions of Article VIII and to the extent permitted by law, defend, preserve and protect said pledge and assignment of Revenues and other assets and all the rights of the 2021 Bond Owners under the Indenture against all claims and demands of all persons whomsoever.

Section 6.05. Accounting Records and Financial Statements.

(a) The Trustee shall at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with corporate trust industry standards, in which complete and accurate entries shall be made of all transactions made by it relating to the proceeds of 2021 Bonds and all funds and accounts established by it pursuant to the Indenture. Such books of record and account shall be available for inspection by the City upon reasonable prior notice during business hours and under reasonable circumstances.

(b) The City will keep appropriate accounting records in which complete and correct entries shall be made of all transactions relating to the Wastewater System, which records shall be available for inspection by the Trustee (which shall have no duty to inspect such records) at reasonable hours and under reasonable conditions.

(c) The City will prepare and file with the Trustee annually within two hundred seventy (270) days of each Fiscal Year (commencing with the Fiscal Year ended June 30, 2021) financial statements of the City for the preceding Fiscal Year prepared in accordance with Generally Accepted Accounting Principles, together with an Accountant's Report thereon. The Trustee shall have no duty to review, verify or analyze such financial statements, and shall hold such financial statements solely as a repository for the benefit of the 2021 Bond Owners. The Trustee shall not be deemed to have notice of any information contained therein, or default or Event of Default which may be disclosed therein in any manner.

Section 6.06. Tax Covenants. Notwithstanding any other provision of this Indenture, absent an Opinion of Bond Counsel that the exclusion from gross income of the interest on the 2021 Bonds will not be adversely affected for federal income tax purposes, the City covenants to comply with all applicable requirements of the Code necessary to preserve such exclusion from gross income and specifically covenants, without limiting the generality of the foregoing, as follows:

(a) Private Activity. The City will not take or omit to take any action or make any use of the proceeds of the 2021 Bonds or of any other moneys or property that would cause the 2021 Bonds to be "private activity bonds" within the meaning of Section 141 of the Code.

(b) Arbitrage. The City will make no use of the proceeds of the 2021 Bonds or of any other amounts or property, regardless of the source, and will not take or omit to take any action that would cause the 2021 Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code.

(c) Federal Guarantee. The City will make no use of the proceeds of the 2021 Bonds and will not take or omit to take any action that would cause the 2021 Bonds to be "federally guaranteed" within the meaning of Section 149(b) of the Code.

(d) Information Reporting. The City will take or cause to be taken all necessary action to comply with the informational reporting requirements of Section 149(e) of the Code necessary to preserve the exclusion of interest on the 2021 Bonds pursuant to Section 103(a) of the Code.

(e) Hedge Bonds. The City will make no use of the proceeds of the 2021 Bonds or any other amounts or property, regardless of the source, and will not take any action or refrain from taking any action that would cause the 2021 Bonds to be considered "hedge bonds" within the meaning of Section 149(g) of the Code unless the City takes all necessary action to assure compliance with the requirements of Section 149(g) of the Code to maintain the exclusion from gross income of the interest on the 2021 Bonds for federal income tax purposes.

(f) Miscellaneous. The City will take no action, or omit to take any action, inconsistent with the expectations stated in the Tax Certificate and will comply with the covenants and requirements stated therein and incorporated by reference herein.

This Section and the covenants set forth herein shall not be applicable to, and nothing contained herein shall be deemed to prevent the City from issuing or executing and delivering additional obligations, the interest with respect to which has been determined by Bond Counsel to be subject to federal income taxation.

Section 6.07. Waiver of Laws. The City shall not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of, any stay or extension law now or at any time hereafter in force that may affect the covenants and agreements contained in the Indenture or in the 2021 Bonds, and all benefit or advantage of any such law or laws is hereby expressly waived by the City to the extent permitted by law.

Section 6.08. Further Assurances. The City will make, execute and deliver any and all such further indentures, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Indenture and for the better assuring and confirming unto the Owners of the 2021 Bonds of the rights and benefits provided in the Indenture.

Section 6.09. Budgets. On or prior to the fifteenth day of each Fiscal Year, the City shall certify to the Trustee that the amounts budgeted for payment of the principal of and interest on the 2021 Bonds are fully adequate for the payment of all such payments for such Fiscal Year. If the amounts so budgeted are not adequate for the payment of the principal of and interest on the 2021 Bonds due under the Indenture, the City will take such action as may be necessary to cause such annual budget to be amended, corrected or augmented so as to include therein the amounts required to be raised by the City in the then ensuing Fiscal Year for the payment of the principal of and interest on the 2021 Bonds due under the Indenture and will notify the Trustee of the proceedings then taken or proposed to be taken by the City.

Section 6.10. Observance of Laws and Regulations. To the extent necessary to assure its performance hereunder, the City will well and truly keep, observe and perform all valid and lawful obligations or regulations now or hereafter imposed on the City by contract, or prescribed by any law of the United States of America, or of the State, or by any officer, board or commission having jurisdiction or control, as a condition of the continued enjoyment of any and every right, privilege or franchise now owned or hereafter acquired by the City, respectively, including its right to exist and carry on its business, to the end that such contracts, rights and franchises shall be maintained and preserved, and shall not become abandoned, forfeited or in any manner impaired.

Section 6.11. Compliance with Contracts. The City will neither take nor omit to take any action under any contract if the effect of such act or failure to act would in any manner impair or adversely affect the ability of the City to pay principal of or interest on the 2021 Bonds; and the City will comply with, keep, observe and perform all agreements, conditions, covenants and terms, express or implied, required to be performed by it contained in all other contracts affecting or involving the Wastewater System, to the extent that the City is a party thereto.

Section 6.12. Prosecution and Defense of Suits. The City shall promptly, upon request of the Trustee or any 2021 Bond Owner, from time to time take such action as may be necessary or proper to remedy or cure any defect in or cloud upon the title to the Wastewater System or any part thereof, whether now existing or hereafter developing, shall prosecute all such suits, actions and other proceedings as may be appropriate for such purpose and shall indemnify and save the Trustee (including all of its employees, officers and directors), the Trustee and every 2021 Bond Owner harmless from all loss, cost, damage and expense, including attorneys' fees, which they or any of them may incur by reason of any such defect, cloud, suit, action or proceeding.

The City shall defend against every suit, action or proceeding at any time brought against the Trustee (including all of its employees, officers and directors) or any 2021 Bond Owner upon any claim arising out of the receipt, application or disbursement of any of the payments of principal of or interest on the 2021 Bonds or involving the rights of the Trustee or any 2021 Bond Owner under the Indenture; provided that the Trustee or any 2021 Bond Owner at such party's election may appear in and defend any such suit, action or proceeding. The City shall indemnify and hold harmless the Trustee and the 2021 Bond Owners against any and all liability claimed or asserted by any person, arising out of such receipt, application or disbursement, and shall indemnify and hold harmless the 2021 Bond Owners against any attorneys' fees or other expenses which any of them may incur in connection with any litigation (including pre-litigation activities) to which any of them may become a party by reason of ownership of 2021 Bonds. The City shall promptly reimburse any 2021 Bond

Owner in the full amount of any attorneys' fees or other expenses which such Owner may incur in litigation or otherwise in order to enforce such party's rights under the Indenture or the 2021 Bonds, provided that such litigation shall be concluded favorably to such party's contentions therein.

Section 6.13. Continuing Disclosure. The City hereby covenants and agrees that it will comply with and carry out all of its obligations under the Continuing Disclosure Certificate to be executed and delivered by the City in connection with the issuance of the 2021 Bonds. Notwithstanding any other provision of the Indenture, failure of the City to comply with the Continuing Disclosure Certificate shall not be considered an Event of Default; however, any Owner or Beneficial Owner 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 Section. For purposes of this Section, "**Beneficial Owner**" means any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any 2021 Bonds (including persons holding 2021 Bonds through nominees, depositories or other intermediaries).

Section 6.14. Additional Contracts and Bonds. The City may at any time execute any Contract or issue any Bonds, as the case may be, in accordance herewith; provided that:

(i) The Net Revenues for any consecutive twelve calendar month period during the eighteen calendar month period preceding the date of adoption by the City Council of the City of the resolution authorizing the issuance of such Bonds or the date of the execution of such Contract, as the case may be, as evidenced by both a calculation prepared by the City and a special report prepared by an Independent Certified Public Accountant or an Independent Financial Consultant on such calculation on file with the City, shall have produced a sum equal to at least one hundred fifteen percent (115%) of the Debt Service for such twelve month period; and

(ii) The Net Revenues for any consecutive twelve calendar month period during the eighteen calendar month period preceding the date of the execution of such Contract or the date of adoption by the City Council of the City of the resolution authorizing the issuance of such Bonds, as the case may be, including adjustments to give effect as of the first day of such twelve month period to increases or decreases in rates and charges for the Wastewater Service approved and in effect as of the date of calculation, as evidenced by both a calculation prepared by the City and a special report prepared by an Independent Certified Public Accountant or an Independent Financial Consultant on such calculation on file with the City, shall have produced a sum equal to at least one hundred fifteen percent (115%) of the sum of: (1) the Debt Service for such twelve month period; plus (2) the Debt Service which would have accrued on any Contracts executed or Bonds issued since the end of such twelve month period, assuming that such Contracts had been executed or Bonds had been issued at the beginning of such twelve month period; plus (3) the Debt Service which would have accrued had such proposed additional Contract been executed or such proposed additional Bonds been issued at the beginning of such twelve month period.

Notwithstanding the foregoing, Contracts executed or Bonds to refund Bonds or Contracts may be delivered without satisfying the conditions set forth above if aggregate Debt Service after such Contracts are executed or Bonds are issued is not greater than aggregate Debt Service would have been prior to the execution of such Contracts or the issuance of such Bonds.

Furthermore, notwithstanding the foregoing, the City may at any time issue evidence of indebtedness or incur other obligations for any lawful purpose that are payable from and secured by a lien on Revenues or money in the Revenue Fund as may from time to time be deposited therein on a basis that is subordinate to the 2021 Bonds.

Section 6.15. Against Sale or Other Disposition of Property. The City will not enter into any agreement or lease which impairs the operation of the Wastewater System or any part thereof necessary to secure adequate Revenues for the payment of the principal of and interest on the 2021 Bonds, or which would otherwise impair the operation of the Wastewater System. Any real or personal property which has become nonoperative or which is not needed for the efficient and proper operation of the Wastewater System, or any material or equipment which has become worn out, may be sold if such sale will not impair the ability of the City to pay the principal of and interest on the 2021 Bonds and if the proceeds of such sale are deposited in the Revenue Fund.

Nothing herein shall restrict the ability of the City to sell any portion of the Wastewater System if such portion is immediately repurchased by the City and if such arrangement cannot by its terms result in the purchaser of such portion of the Wastewater System exercising any remedy which would deprive the City of or otherwise interfere with its right to own and operate such portion of the Wastewater System.

Section 6.16. Against Competitive Facilities. To the extent that it can so legally obligate itself, the City covenants that it will not acquire, construct, maintain or operate and will not, to the extent permitted by law and within the scope of its powers, permit any other public or private agency, corporation, district or political subdivision or any person whomsoever to acquire, construct, maintain or operate within the City any municipal wastewater system that is competitive with the Wastewater System.

Section 6.17. Maintenance and Operation of the Wastewater System. The City will maintain and preserve the Wastewater System in good repair and working order at all times and will operate the Wastewater System in an efficient and economical manner and will pay all Operation and Maintenance Costs as they become due and payable.

Section 6.18. Payment of Claims. The City will pay and discharge any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien on the Revenues or the funds or accounts created hereunder or on any funds in the hands of the City pledged to pay the principal of or interest on the 2021 Bonds or to the Owners prior or superior to the lien under the Indenture.

Section 6.19. Insurance.

(a) The City will procure and maintain or cause to be procured and maintained insurance on the Wastewater System with responsible insurers in such amounts and against such risks (including accident to or destruction of the Wastewater System) as are usually covered in connection with facilities similar to the Wastewater System so long as such insurance is available from reputable insurance companies.

In the event of any damage to or destruction of the Wastewater System caused by the perils covered by such insurance, the Net Proceeds thereof shall be applied to the reconstruction, repair or replacement of the damaged or destroyed portion of the Wastewater System. The City shall begin such reconstruction, repair or replacement promptly after such damage or destruction shall occur, and shall continue and properly complete such reconstruction, repair or replacement as expeditiously as possible, and shall pay out of such Net Proceeds all costs and expenses in connection with such reconstruction, repair or replacement so that the same shall be completed and the Wastewater System shall be free and clear of all claims and liens.

If such Net Proceeds exceed the costs of such reconstruction, repair or replacement, then the excess Net Proceeds shall be applied by the City in any manner permitted by law.

(b) The City will procure and maintain such other insurance which it shall deem advisable or necessary to protect its interests, which insurance shall afford protection in such amounts and against such risks as are usually covered in connection with municipal retail Wastewater Systems similar to the Wastewater System.

(c) Any insurance required to be maintained by paragraph (a) above and, if the City determines to procure and maintain insurance pursuant to paragraph (b) above, such insurance, may be maintained under a self-insurance program so long as such self-insurance is maintained in the amounts and manner usually maintained in connection with municipal retail Wastewater Systems similar to the Wastewater System and is, in the opinion of an accredited actuary, actuarially sound.

Section 6.20. Payment of Taxes and Compliance with Governmental Regulations. The City will pay and discharge all taxes, assessments and other governmental charges which may hereafter be lawfully imposed upon the Wastewater System, or any part thereof or upon the Revenues when the same shall become due. The City will duly observe and conform with all valid regulations and requirements of any governmental authority relative to the operation of the Wastewater System, or any part thereof, but the City shall not be required to comply with any regulations or requirements so long as the validity or application thereof shall be contested in good faith.

Section 6.21. Amount of Rates and Charges. The City shall, to the fullest extent permitted by law, fix and prescribe, at the commencement of each Fiscal Year, rates and charges for the Wastewater Service which are reasonably expected, at the commencement of such Fiscal Year, to be at least sufficient to yield during each Fiscal Year Net Revenues equal to one hundred fifteen percent (115%) of the Debt Service and any amounts required to be paid to the provider of a reserve fund surety bond, if any, in 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 shall not reduce the rates and charges then in effect unless the Net Revenues from such reduced rates and charges will at all times be sufficient to meet the requirements of this section. To the extent that the covenant with respect to rates and charges in connection with any Bonds or Contracts differs from the foregoing covenant, the City shall also comply with the covenant with respect to rates and charges in connection with such Bonds or Contracts.

Section 6.22. Collection of Rates and Charges. The City will have in effect at all times by-laws, rules and regulations requiring each customer to pay the rates and charges applicable to the Wastewater Service and providing for the billing thereof and for a due date and a delinquency date for each bill.

Section 6.23. Eminent Domain Proceeds. If all or any part of the Wastewater System shall be taken by eminent domain proceedings, the Net Proceeds thereof shall be applied either to additions, betterments, extensions or improvements to the Wastewater System or, if the City elects not to apply such Net Proceeds to such capital items or if such Net Proceeds are not fully expended for such purposes, such Net Proceeds not required by the City for such purposes shall be deposited in the Revenue Fund.

Section 6.24. Enforcement of Contracts. The City will not voluntarily consent to or permit any rescission of, nor will it consent to any amendment to or otherwise take any action under or in connection with any contracts previously or hereafter entered into if such rescission or amendment would in any manner impair or adversely affect the ability of the City to pay principal of and interest on the 2021 Bonds.

ARTICLE VII

EVENTS OF DEFAULT AND REMEDIES OF 2021 BOND OWNERS

Section 7.01. Events of Default. The following events shall be Events of Default hereunder:

(a) Default by the City in the due and punctual payment of the principal of any 2021 Bonds, the principal of any Bonds or the principal with respect to any Contract, when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by acceleration, or otherwise.

(b) Default by the City in the due and punctual payment of any installment of interest on any 2021 Bonds, any installment of interest on any Bond or any installment of interest with respect to any Contract, when and as the same shall become due and payable.

(c) Default by the City in the observance of any of the other covenants, agreements or conditions on its part in the Indenture or in the 2021 Bonds, or required by any Bond or indenture relating thereto or by any Contract, if such default shall have continued for a period of sixty (60) days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the City by the Trustee or by the Owners of not less than a majority in aggregate principal amount of 2021 Bonds Outstanding, a majority in principal amount of such Bond outstanding, or a majority in principal amount outstanding with respect to such Contract, as applicable; provided, however, that if in the reasonable opinion of the City the default stated in the notice can be corrected, but not within such sixty (60) day period, and corrective action is instituted by the City within such sixty (60) day period and diligently pursued in good faith until the default is corrected, such default shall not be an Event of Default hereunder; provided, however, that such extended cure period shall not be longer than 180 days from the delivery date of such default notice.

(d) The City shall file a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or a court of competent jurisdiction shall approve a petition filed with or without the consent of the City seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction shall assume custody or control of the City or of the whole or any substantial part of its property.

(e) Payment of the principal of any Bond or with respect to any Contract is accelerated in accordance with its terms.

Section 7.02. Remedies Upon Event of Default. If any Event of Default specified in Section 7.01(d) or (e) shall occur and be continuing, the Trustee shall, and for any other Event of Default, the Trustee may, and, at the written direction of the Owners of not less than a majority in aggregate principal amount of the 2021 Bonds at the time Outstanding, shall, in each case, upon notice in writing to the City, declare the principal of all of the 2021 Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration, the same shall become and shall be immediately due and payable, anything in the Indenture or in the 2021 Bonds contained to the contrary notwithstanding.

Nothing contained herein shall permit or require the Trustee to accelerate payments due under the Indenture if the City is not in default of its obligation hereunder.

Any such declaration is subject to the condition that if, at any time after such declaration and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, the City shall deposit with the Trustee a sum sufficient to pay all the principal of and installments of interest on the 2021 Bonds payment of which is overdue, with interest on such overdue principal at the rate borne by the respective 2021 Bonds to the extent permitted by law, and the reasonable fees, disbursements and expenses of the Trustee, or shall deposit with the applicable trustee with respect to any Contract a sum sufficient to pay all the principal and installments of interest with respect to such Contract payment of which is overdue, with interest on such overdue principal at the rate borne by such Contract to the extent permitted by law, and the reasonable charges and expenses of the applicable trustee with respect to such Contract, or shall deposit with the applicable trustee with respect to any Bond a sum sufficient to pay all the principal of and installment of interest on such Bond payment of which is overdue, with interest on such overdue principal at the rate borne by such Bonds to the extent permitted by law, and the reasonable charges and expenses of the applicable trustee with respect to such Bonds, and any and all other Events of Default actually known to a Responsible Officer of the Trustee or the applicable trustee with respect to such Contract or Bonds (other than in the payment of principal of and interest on the 2021 Bonds, payment of principal and interest with respect to such Contract or payment of principal and interest on such Bond, as applicable, due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then and in every such case the Trustee shall on behalf of the Owners of all of the 2021 Bonds, rescind and annul such declaration and its consequences and waive such Event of Default; but no such rescission and annulment shall extend to or shall affect any subsequent Event of Default, or shall impair or exhaust any right or power consequent thereon.

Section 7.03. Application of Revenues and Other Funds After Default. If an Event of Default shall occur and be continuing, all Revenues held or thereafter received by the Trustee and any other funds then held or thereafter received by the Trustee under any of the provisions of the Indenture (other than the Rebate Fund) shall be applied in the following order:

(a) To the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the Owners of the 2021 Bonds, Contracts or Bonds and payment of reasonable fees and expenses of the Trustee (including reasonable fees and disbursements of its counsel) incurred in and about the performance of its powers and duties under the Indenture;

(b) To the payment of Operation and Maintenance Costs; and

(c) To the payment of the principal of and interest then due on the 2021 Bonds (upon presentation of the 2021 Bonds to be paid, and stamping or otherwise noting thereon of the payment if only partially paid, or surrender thereof if fully paid), in accordance with the provisions of the Indenture, and to the payment of the principal and interest then due with respect to such Contract in accordance with the provisions thereof and the payment of the principal of and interest then due on such Bonds in accordance with the provisions thereof and of any indenture related thereto, in the following order of priority:

First: To the payment to the persons entitled thereto of all installments of interest then due on the 2021 Bonds, with respect to such Contract or on such Bonds, as applicable, in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the persons entitled thereto of the unpaid principal of any 2021 Bonds, principal with respect to such Contract or principal of any Bonds, as applicable, which shall have become due, whether at maturity or by acceleration or redemption, with interest on the overdue principal at the rate of eight percent (8%) per annum, and, if the amount available shall not be sufficient to pay in full all the 2021 Bonds, all amounts due under such Contract or all the Bonds, as applicable, together with such interest, then to the payment thereof ratably, according to the amounts of principal due on such date to the persons entitled thereto, without any discrimination or preference; and

Third: If there shall exist any remainder after the foregoing payments, such remainder shall be paid to the City.

Section 7.04. Trustee to Represent 2021 Bond Owners. The Trustee is hereby irrevocably appointed (and the successive respective Owners of the 2021 Bonds, by taking and holding the same, shall be conclusively deemed to have so appointed the Trustee) as trustee and true and lawful attorney in fact of the Owners of the 2021 Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Owners under the provisions of the 2021 Bonds or the Indenture and applicable provisions of law. Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Trustee to represent the 2021 Bond Owners, the Trustee in its discretion may, and upon the written request of the Owners of a majority in aggregate principal amount of the 2021 Bonds then Outstanding, and upon being indemnified to its satisfaction therefor, shall proceed to protect or enforce its rights or the rights of such Owners by such appropriate action, suit, mandamus or other proceedings as it shall deem most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained herein, or in aid of the execution of any power herein granted, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee or in such Owners under the 2021 Bonds or the Indenture or any law; and upon instituting such proceeding, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver of the Revenues and other assets pledged under the Indenture, pending such proceedings. All rights of action under the Indenture or the 2021 Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the 2021 Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in the name of the Trustee for the benefit and protection of all the Owners of such 2021 Bonds, subject to the provisions of the Indenture.

Nothing herein shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any 2021 Bond Owner any plan of reorganization, arrangement, adjustment, or composition affecting the Bonds or the rights of any 2021 Bond Owner thereof, or to authorize the Trustee to vote in respect of the claim of any 2021 Bond Owner in any such proceeding without the approval of the 2021 Bond Owners so affected.

Section 7.05. 2021 Bond Owners' Direction of Proceedings. Anything in the Indenture to the contrary notwithstanding, the Owners of a majority in aggregate principal amount of the 2021 Bonds then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, and upon indemnification of the Trustee to its reasonable satisfaction to direct the method of conduct in all remedial proceedings taken by the Trustee hereunder, provided that such direction shall not be otherwise than in accordance with law and the provisions of the Indenture, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee (which determination the Trustee has no duty to make) would be unjustly prejudicial to 2021 Bond Owners not parties to such direction.

Section 7.06. Suit by Owners. No Owner of any 2021 Bonds shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Indenture with respect to such 2021 Bonds, unless: (a) such Owners shall have given to the Trustee written notice of the occurrence of an Event of Default; (b) the Owners of not less than fifty percent (50%) in aggregate principal amount of the 2021 Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers hereinbefore granted or to institute such suit, action or proceeding in its own name; (c) such Owner or Owners shall have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; (d) the Trustee shall have failed to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee; and (e) no direction inconsistent with such written request shall have been given to the Trustee during such sixty (60) day period by the Owners of a majority in aggregate principal amount of the 2021 Bonds then Outstanding.

Such notification, request, tender of indemnity and refusal or omission are hereby declared, in every case, to be conditions precedent to the exercise by any Owner of 2021 Bonds of any remedy hereunder or under law; it being understood and intended that no one or more Owners of 2021 Bonds shall have any right in any manner whatever by their action to affect, disturb or prejudice the security of the Indenture or the rights of any other Owners of 2021 Bonds, or to enforce any right under the 2021 Bonds, the Indenture, or applicable law with respect to the 2021 Bonds, except in the manner herein provided, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained in the manner herein provided and for the benefit and protection of all Owners of the Outstanding 2021 Bonds, subject to the provisions of the Indenture.

Section 7.07. Absolute Obligation of the City. Nothing in this Section 7.07 or in any other provision of the Indenture or in the 2021 Bonds shall affect or impair the obligation of the City, which is absolute and unconditional, to pay the principal of and interest on the 2021 Bonds to the respective Owners of the 2021 Bonds at their respective dates of maturity, or upon call for redemption, as herein provided, but only out of the Revenues and other assets herein pledged therefor, or affect or impair the right of such Owners, which is also absolute and unconditional, to enforce such payment by virtue of the contract embodied in the 2021 Bonds.

Section 7.08. Remedies Not Exclusive. No remedy herein conferred upon or reserved to the Trustee or to the Owners of the 2021 Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy, to the extent permitted by law, shall be cumulative and in addition to any other remedy given hereunder or now or hereafter existing at law or in equity or otherwise.

Section 7.09. No Waiver of Default. No delay or omission of the Trustee or of any Owner of the 2021 Bonds to exercise any right or power arising upon the occurrence of any Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Event of Default or an acquiescence therein.

ARTICLE VIII

THE TRUSTEE

Section 8.01. Duties, Immunities and Liabilities of Trustee.

(a) The Trustee shall, prior to an Event of Default, and after the curing or waiving of all Events of Default which may have occurred, perform such duties and only such duties as are expressly and specifically set forth in the Indenture, and no implied covenants or duties shall be read into the Indenture against the Trustee. The Trustee shall, during the existence of any Event of Default (which has not been cured or waived), exercise such of the rights and powers vested in it by the Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

(b) The City may remove the Trustee at any time upon thirty (30) days' prior notice, unless an Event of Default shall have occurred and then be continuing, and shall remove the Trustee if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Owners of not less than a majority in aggregate principal amount of the 2021 Bonds then Outstanding (or their attorneys duly authorized in writing) or if at any time the Trustee shall cease to be eligible in accordance with subsection (e) of this Section, or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver of the Trustee or its property shall be appointed, or any public officer shall take control or charge of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, in each case by giving written notice of such removal to the Trustee and thereupon shall promptly appoint a successor Trustee by an instrument in writing.

(c) The Trustee may at any time resign by giving written notice of such resignation to the City and by giving the 2021 Bond Owners notice of such resignation by mail at the addresses shown on the Registration Books. Upon receiving such notice of resignation, the City shall promptly appoint a successor Trustee by an instrument in writing.

(d) Any removal or resignation of the Trustee and appointment of a successor Trustee shall become effective upon acceptance of appointment by the successor Trustee. If no successor Trustee shall have been appointed and have accepted appointment within forty-five (45) days of giving notice of removal or notice of resignation as aforesaid, the retiring Trustee or any 2021 Bond Owner (on behalf of such 2021 Bond Owner and all other 2021 Bond Owners) may petition any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor

Trustee. Any successor Trustee appointed under the Indenture shall signify its acceptance of such appointment by executing and delivering to the City and to its predecessor Trustee a written acceptance thereof, and thereupon such successor Trustee, without any further act, deed or conveyance, shall become vested with all of the moneys, estates, properties, rights, powers, trusts, duties and obligations of such predecessor Trustee, with like effect as if originally named Trustee herein; but, nevertheless at the Written Request of the City or the request of the successor Trustee, such predecessor Trustee shall execute and deliver any and all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and confirming to such successor Trustee all of the right, title and interest of such predecessor Trustee in and to any property held by it under the Indenture and shall pay over, transfer, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions herein set forth. Upon request of the successor Trustee, the City shall execute and deliver any and all instruments as may be reasonably required for more fully and certainly vesting in and confirming to such successor Trustee all such moneys, estates, properties, rights, powers, trusts, duties and obligations. Upon acceptance of appointment by a successor Trustee as provided in this subsection, the City shall mail or cause the successor trustee to mail a notice of the succession of such Trustee to the trusts hereunder to each rating agency which is then rating the 2021 Bonds and to the 2021 Bond Owners at the addresses shown on the Registration Books. If the City fails to mail such notice within fifteen (15) days after acceptance of appointment by the successor Trustee, the successor Trustee shall cause such notice to be mailed at the expense of the City.

(e) Any Trustee appointed under the provisions of this Section in succession to the Trustee shall be a trust company, banking association or bank having the powers of a trust company, having a combined capital and surplus of at least Seventy Five Million Dollars ($75,000,000), and subject to supervision or examination for federal or state authority. If such bank, banking association or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purpose of this subsection the combined capital and surplus of such trust company, banking association or bank shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. In case at any time the Trustee shall cease to be eligible in accordance with the provisions of this subsection (e), the Trustee shall resign immediately in the manner and with the effect specified in this Section.

Section 8.02. Merger or Consolidation. Any trust company, banking association or bank into which the Trustee may be merged or converted or with which it may be consolidated or any trust company, banking association or bank resulting from any merger, conversion or consolidation to which it shall be a party or any trust company, banking association or bank to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided that such trust company, banking association or bank shall be eligible under subsection (e) of Section 8.01, shall be the successor to such Trustee, without the execution or filing of any paper or any further act, anything herein to the contrary notwithstanding.

Section 8.03. Liability of Trustee.

(a) The recitals of facts herein and in the 2021 Bonds shall be taken as statements of the City, and the Trustee shall not assume responsibility for the correctness of the same, or make any representations as to the validity or sufficiency of the Indenture or the 2021 Bonds, nor shall the Trustee incur any responsibility in respect thereof, other than as expressly stated herein in connection with the respective duties or obligations herein or in the 2021 Bonds assigned to or imposed upon it.

The Trustee shall, however, be responsible for its representations contained in its certificate of authentication on the 2021 Bonds. The Trustee shall not be liable in connection with the performance of its duties hereunder, except for its own negligence or willful misconduct. The Trustee may become the Owner of 2021 Bonds with the same rights it would have if it were not Trustee, and, to the extent permitted by law, may act as depository for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of 2021 Bond Owners, whether or not such committee shall represent the Owners of a majority in principal amount of the 2021 Bonds then Outstanding.

(b) The Trustee shall not be liable for any error of judgment made in good faith by a responsible officer, unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts.

(c) The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Owners of not less than a majority (or such other percentage provided for herein) in aggregate principal amount of the 2021 Bonds at the time Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under the Indenture.

(d) The Trustee shall not be liable for any action taken by it in good faith and believed by it to be authorized or within the discretion or rights or powers conferred upon it by the Indenture.

(e) The Trustee shall not be deemed to have knowledge of any default or Event of Default hereunder or any other event which, with the passage of time, the giving of notice, or both, would constitute an Event of Default hereunder unless and until a Responsible Officer of the Trustee shall have actual knowledge of such event or the Trustee shall have been notified in writing, in accordance with Section 11.07, of such event by the City or the Owners of not less than fifty percent (50%) of the 2021 Bonds then Outstanding. Except as otherwise expressly provided herein, the Trustee shall not be bound to ascertain or inquire as to the performance or observance by the City of any of the terms, conditions, covenants or agreements herein or any of the documents executed in connection with the 2021 Bonds, or as to the existence of an Event of Default thereunder or an event which would, with the giving of notice, the passage of time, or both, constitute an Event of Default thereunder. The Trustee shall not be responsible for the validity, effectiveness or priority of any collateral given to or held by it.

(f) No provision of the Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of its duties hereunder, or in the exercise of any of its rights or powers.

(g) The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by the Indenture, including at the request, order or direction of any of the Owners pursuant to the Indenture, unless such Owners shall have offered to the Trustee security or indemnity satisfactory to the Trustee against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction. No permissive power, right or remedy conferred upon the Trustee hereunder shall be construed to impose a duty to exercise such power, right or remedy.

(h) Whether or not herein expressly so provided, every provision of the Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee shall be subject to the provisions of this Article VIII.

(i) The Trustee shall have no responsibility or liability with respect to any information, statement, or recital in any official statement, offering memorandum or any other disclosure material prepared or distributed with respect to the 2021 Bonds.

(j) The immunities extended to the Trustee also extend to its directors, officers, employees and agents.

(k) The Trustee may execute any of the trusts or powers of the Indenture and perform any of its duties through attorneys, agents and receivers and shall not be answerable for the conduct of the same if appointed by it with reasonable care.

(l) The Trustee shall not be considered in breach of or in default in its obligations hereunder or progress in respect thereto in the event of delay in the performance of such obligations due to unforeseeable causes beyond its control and without its fault or negligence, including, but not limited to, acts of God or of the public enemy or terrorists, acts of a government, acts of the other party, fires, floods, epidemics, quarantine restrictions, strikes, freight embargoes, earthquakes, explosion, mob violence, riot, inability to procure or general sabotage or rationing of labor, equipment, facilities, sources of energy, material or supplies in the open market, litigation or arbitration involving a party or others relating to zoning or other governmental action or inaction pertaining to the Wastewater System, malicious mischief, condemnation, and unusually severe weather or delays of suppliers or subcontractors due to such causes or any similar event and/or occurrences beyond the control of the Trustee.

(m) The Trustee shall have the right to accept and act upon instructions, including funds transfer instructions (“**Instructions**”) given pursuant to this Indenture and delivered using Electronic Means (“**Electronic Means**” shall mean the following communications methods: e-mail, facsimile transmission, secure electronic transmission containing applicable authorization codes, passwords and/or authentication keys issued by the Trustee, or another method or system specified by the Trustee as available for use in connection with its services hereunder); provided, however, that the City shall provide to the Trustee an incumbency certificate listing officers with the authority to provide such Instructions (“**Authorized Officers**”) and containing specimen signatures of such Authorized Officers, which incumbency certificate shall be amended by the City whenever a person is to be added or deleted from the listing. If the City elects to give the Trustee Instructions using Electronic Means and the Trustee in its discretion elects to act upon such Instructions, the Trustee’s understanding of such Instructions shall be deemed controlling. The City understands and agrees that the Trustee cannot determine the identity of the actual sender of such Instructions and that the Trustee shall conclusively presume that directions that purport to have been sent by an Authorized Officer listed on the incumbency certificate provided to the Trustee have been sent by such Authorized Officer. The City shall be responsible for ensuring that only Authorized Officers transmit such Instructions to the Trustee and that the City and all Authorized Officers are solely responsible to safeguard the use and confidentiality of applicable user and authorization codes, passwords and/or authentication keys upon receipt by the City. The Trustee shall not be liable for any losses, costs or expenses arising directly or indirectly from the Trustee’s reliance upon and compliance with such Instructions notwithstanding the fact that such directions conflict or are inconsistent with a subsequent written instruction. The City agrees: (i) to assume all risks arising out of the use of Electronic Means to submit Instructions to the Trustee, including without limitation the risk of the Trustee acting on unauthorized Instructions, and the risk of interception and misuse by third parties; (ii) that it is fully informed of the protections and risks associated with the various methods of transmitting Instructions to the Trustee and that there may be more secure methods of transmitting Instructions than the method(s) selected by the City; (iii) that the security procedures (if any) to be followed in connection with its transmission of Instructions provide to it a commercially reasonable degree of protection in light of its particular needs and circumstances; and (iv) to notify the Trustee immediately upon learning of any compromise or unauthorized use of the security procedures.

(n) The Trustee shall not be concerned with or accountable to anyone for the subsequent use or application of any moneys which shall be released or withdrawn in accordance with the provisions hereof.

(o) The permissive right of the Trustee to do things enumerated herein shall not be construed as a duty and it shall not be answerable for other than its negligence or willful misconduct.

Section 8.04. Right to Rely on Documents. The Trustee shall be protected in acting upon any notice, resolution, requisition, request, consent, order, certificate, report, opinion, notes, direction, facsimile transmission, electronic mail or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. The Trustee may consult with counsel, who may be counsel of or to the City, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance therewith.

The Trustee may treat the Owners of the 2021 Bonds appearing in the Trustee's Registration Books as the absolute owners of the 2021 Bonds for all purposes and the Trustee shall not be affected by any notice to the contrary.

Whenever in the administration of the trusts imposed upon it by the Indenture the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a Certificate, Request or Requisition of the City, and such Certificate, Request or Requisition shall be full warrant to the Trustee for any action taken or suffered in good faith under the provisions of the Indenture in reliance upon such Certificate, Request or Requisition, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as it may deem reasonable.

Section 8.05. Preservation and Inspection of Documents. All documents that are received by the Trustee under the provisions of the Indenture shall be retained in its possession during the term hereof in accordance with applicable document retention policies and shall be subject at all reasonable times to the inspection of the City and any 2021 Bond Owner, and their agents and representatives duly authorized in writing, at reasonable hours and under reasonable conditions.

Section 8.06. Compensation and Indemnification. The City shall pay to the Trustee from time to time all reasonable compensation for all services rendered under the Indenture, and also all reasonable expenses, charges, legal and consulting fees and other disbursements and those of their attorneys, agents and employees, incurred in and about the performance of their powers and duties under the Indenture.

The City shall indemnify, defend and hold harmless the Trustee, its officers, employees, directors and agents from and against any loss, costs, claims, liability or expense (including fees and expenses of its attorneys and advisors) incurred without negligence or willful misconduct on its part, arising out of or in connection with the execution of the Indenture, acceptance or administration of this trust or any other document or transaction executed in connection herewith, including costs and expenses of defending itself against any claim or liability in connection with the exercise or performance of any of its powers hereunder. The rights of the Trustee and the obligations of the City under this Section 8.06 shall survive removal or resignation of the Trustee hereunder or the discharge of the 2021 Bonds and the Indenture.

When the Trustee incurs expenses or renders services after the occurrence of an Event of Default, such expenses and the compensation for such services are intended to constitute expenses of administration under any federal or state bankruptcy, insolvency, arrangement, moratorium, reorganization or other debtor relief law. Upon an Event of Default, and only upon an Event of Default, the Trustee shall have a first lien with right of payment prior to payment on account of principal of and premium, if any, and interest on any 2021 Bond, upon the trust estate for the foregoing fees, charges and expenses incurred by it.

ARTICLE IX

MODIFICATION OR AMENDMENT OF THE INDENTURE

Section 9.01. Amendments Permitted.

(a) The Indenture and the rights and obligations of the City and of the Owners of the 2021 Bonds and of the Trustee may be modified or amended from time to time and at any time by an indenture or indentures supplemental thereto, which the City and the Trustee may enter into when the written consent of the Owners of a majority in aggregate principal amount of all 2021 Bonds then Outstanding, exclusive of 2021 Bonds disqualified as provided in Section 11.09 hereof, shall have been filed with the Trustee. No such modification or amendment shall: (1) extend the fixed maturity of any 2021 Bonds, or reduce the amount of principal thereof or premium (if any) thereon, or extend the time of payment, or change the rate of interest or the method of computing the rate of interest thereon, or extend the time of payment of interest thereon, without the consent of the Owner of each 2021 Bond so affected; or (2) reduce the aforesaid percentage of 2021 Bonds the consent of the Owners of which is required to affect any such modification or amendment, or permit the creation of any lien on the Revenues and other assets pledged under the Indenture prior to or on a parity with the lien created by the Indenture except as permitted herein, or deprive the Owners of the 2021 Bonds of the lien created by the Indenture on such Revenues and other assets except as permitted herein, without the consent of the Owners of all of the 2021 Bonds then Outstanding. It shall not be necessary for the consent of the 2021 Bond Owners to approve the particular form of any Supplemental Indenture, but it shall be sufficient if such consent shall approve the substance thereof. Promptly after the execution by the City and the Trustee of any Supplemental Indenture pursuant to this subsection (a), the Trustee shall mail a notice, setting forth in general terms the substance of such Supplemental Indenture, to each Rating Agency and the Owners of the 2021 Bonds at the respective addresses shown on the Registration Books. Any failure to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such Supplemental Indenture.

(b) The Indenture and the rights and obligations of the City, the Trustee and the Owners of the 2021 Bonds may also be modified or amended from time to time and at any time by a Supplemental Indenture, which the City and the Trustee may enter into without the consent of any 2021 Bond Owners, if the Trustee shall receive an Opinion of Bond Counsel to the effect that the provisions of such Supplemental Indenture shall not materially adversely affect the interests of the Owners of the Outstanding 2021 Bonds, including, without limitation, for any one or more of the following purposes:

(1) to add to the covenants and agreements of the City contained in the Indenture other covenants and agreements thereafter to be observed, to pledge or assign additional security for the 2021 Bonds (or any portion thereof), or to surrender any right or power herein reserved to or conferred upon the City;

(2) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Indenture, or in regard to matters or questions arising under the Indenture, as the City may deem necessary or desirable; and

(3) to modify, amend or supplement the Indenture in such manner as to permit the qualification hereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereunder in effect, and to add such other terms conditions and provisions as may be permitted by said act or similar federal statute.

(c) The Trustee may in its discretion, but shall not be obligated to, enter into any such Supplemental Indenture authorized by subsections (a) or (b) of this Section which materially adversely affects the Trustee’s own rights, duties or immunities under the Indenture or otherwise.

(d) Prior to the Trustee entering into any Supplemental Indenture hereunder, there shall be delivered to the Trustee an Opinion of Bond Counsel stating, in substance, that such Supplemental Indenture has been adopted in compliance with the requirements of the Indenture and that the adoption of such Supplemental Indenture will not, in and of itself, adversely affect the exclusion of interest on the 2021 Bonds from federal income taxation and from state income taxation.

Section 9.02. Effect of Supplemental Indenture. Upon the execution of any Supplemental Indenture pursuant to this Article, the Indenture shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Indenture of the City, the Trustee and all Owners of 2021 Bonds Outstanding shall thereafter be determined, exercised and enforced thereunder subject in all respects to such modification and amendment, and all the terms and conditions of any such Supplemental Indenture shall be deemed to be part of the terms and conditions of the Indenture for any and all purposes.

Section 9.03. Endorsement of 2021 Bonds; Preparation of New 2021 Bonds. 2021 Bonds delivered after the execution of any Supplemental Indenture pursuant to this Article may, and if the Trustee so determines shall, bear a notation by endorsement or otherwise in form approved by the City and the Trustee as to any modification or amendment provided for in such Supplemental Indenture, and, in that case, upon demand on the Owner of any 2021 Bonds Outstanding at the time of such execution and presentation of his or her 2021 Bonds for the purpose at the Office of the Trustee or at such additional offices as the Trustee may select and designate for that purpose, a suitable notation shall be made on such 2021 Bonds. If the Supplemental Indenture shall so provide, new 2021 Bonds so modified as to conform, in the opinion of the City and the Trustee, to any modification or amendment contained in such Supplemental Indenture, shall be prepared and executed by the City and authenticated by the Trustee, and upon demand on the Owners of any 2021 Bonds then Outstanding shall be exchanged at the Office of the Trustee, without cost to any 2021 Bond Owner, for 2021 Bonds then Outstanding, upon surrender for cancellation of such 2021 Bonds, in equal aggregate principal amount of the same maturity.

Section 9.04. Amendment of Particular 2021 Bonds. The provisions of this Article shall not prevent any 2021 Bond Owner from accepting any amendment as to the particular 2021 Bonds held by such Owner.

ARTICLE X

DEFEASANCE

Section 10.01. Discharge of Indenture. The 2021 Bonds may be paid by the City in any of the following ways, provided that the City also pays or causes to be paid any other sums payable hereunder by the City:

(a) by paying or causing to be paid the principal of and interest and redemption premiums (if any) on the 2021 Bonds, as and when the same become due and payable;

(b) by depositing with the Trustee, in trust, at or before maturity, money or securities in the necessary amount (as provided in Section 10.03) to pay or redeem all 2021 Bonds then Outstanding; or

(c) by delivering to the Trustee, for cancellation by it, all of the 2021 Bonds then Outstanding.

If the City shall also pay or cause to be paid all other sums payable hereunder by the City, then and in that case, at the election of the City (as evidenced by a Certificate of the City, filed with the Trustee, signifying the intention of the City to discharge all such indebtedness and the Indenture), and notwithstanding the fact that any 2021 Bonds shall not have been surrendered for payment, the Indenture and the pledge of Revenues and other assets made under the Indenture and all covenants, agreements and other obligations of the City under the Indenture shall cease, terminate, become void and be completely discharged and satisfied, except for the City's obligations under Section 8.06. In such event, upon the Written Request of the City, the Trustee shall execute and deliver to the City all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee shall pay over, transfer, assign or deliver all moneys or securities or other property held by it pursuant to the Indenture which are not required for the payment or redemption of 2021 Bonds not theretofore surrendered for such payment or redemption to the City.

Section 10.02. Discharge of Liability on 2021 Bonds. Upon the deposit with the Trustee, in trust, at or before maturity, of money or securities in the necessary amount (as provided in Section 10.03) to pay or redeem any Outstanding 2021 Bonds (whether upon or prior to the maturity or the Redemption Date of such 2021 Bonds), provided that, if such Outstanding 2021 Bonds are to be redeemed prior to maturity, notice of such redemption shall have been given as provided in Article IV or provisions satisfactory to the Trustee shall have been made for the giving of such notice, then all liability of the City in respect of such 2021 Bonds shall cease, terminate and be completely discharged, and the Owners thereof shall thereafter be entitled only to payment out of such money or securities deposited with the Trustee as aforesaid for their payment, subject however, to the provisions of Section 10.04.

The City may at any time surrender to the Trustee for cancellation by it any 2021 Bonds previously issued and delivered, which the City may have acquired in any manner whatsoever, and such 2021 Bonds, upon such surrender and cancellation, shall be deemed to be paid and retired.

Section 10.03. Deposit of Money or Securities with Trustee. Whenever in the Indenture it is provided or permitted that there be deposited with or held in trust by the Trustee money or securities in the necessary amount to pay or redeem any 2021 Bonds, the money or securities so to be deposited or held may include money or securities held by the Trustee in the funds and accounts established pursuant to the Indenture and shall be:

(a) lawful money of the United States of America in an amount equal to the principal amount of such 2021 Bonds and all unpaid interest thereon to maturity, except that, in the case of 2021 Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption shall have been given as provided in Article IV or provisions satisfactory to the Trustee shall have been made for the giving of such notice, the amount to be deposited or held shall be the principal amount of such 2021 Bonds and all unpaid interest and premium, if any, thereon to the Redemption Date; or

(b) Federal Securities the principal of and interest on which when due will, in the written opinion of an Independent Certified Public Accountant or Independent Financial Consultant filed with the City and the Trustee, provide money sufficient to pay the principal of and all unpaid interest to maturity, or to the Redemption Date (with premium, if any), as the case may be, on the 2021 Bonds to be paid or redeemed, as such principal, interest and premium, if any, become due, provided that in the case of 2021 Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in Article IV or provision satisfactory to the Trustee shall have been made for the giving of such notice;

provided, in each case, that: (i) the Trustee shall have been irrevocably instructed (by the terms of the Indenture or by Written Request of the City) to apply such money to the payment of such principal, interest and premium, if any, with respect to such 2021 Bonds; and (ii) the City shall have delivered to the Trustee an Opinion of Bond Counsel addressed to the City and the Trustee to the effect that such 2021 Bonds have been discharged in accordance with the Indenture (which opinion may rely upon and assume the accuracy of the Independent Certified Public Accountant's or Independent Financial Consultant's opinion referred to above).

Section 10.04. Payment of 2021 Bonds After Discharge of Indenture. Notwithstanding any provisions of the Indenture, any moneys held by the Trustee in trust for the payment of the principal of, or interest on, any 2021 Bonds and remaining unclaimed for two (2) years after the principal of all of the 2021 Bonds has become due and payable (whether at maturity or upon call for redemption or by acceleration as provided in the Indenture), if such moneys were so held at such date, or two (2) years after the date of deposit of such moneys if deposited after said date when all of the 2021 Bonds became due and payable, shall be repaid to the City (without liability for interest) free from the trusts created by the Indenture upon receipt of an indemnification agreement acceptable to the City and the Trustee indemnifying the Trustee with respect to claims of Owners of 2021 Bonds which have not yet been paid, and all liability of the Trustee with respect to such moneys shall thereupon cease;

provided, however, that before the repayment of such moneys to the City as aforesaid, the Trustee shall at the written direction of the City (at the cost of the City) first mail to the Owners of 2021 Bonds which have not yet been paid, at the addresses shown on the Registration Books, a notice, in such form as may be deemed appropriate by the Trustee with respect to the 2021 Bonds so payable and not presented and with respect to the provisions relating to the repayment to the City of the moneys held for the payment thereof.

ARTICLE XI

MISCELLANEOUS

Section 11.01. Liability of City Limited to Revenues. Notwithstanding anything in the Indenture or the 2021 Bonds, but subject to the priority of payment with respect to Operation and Maintenance Costs, the City shall not be required to advance any moneys derived from any source other than the Revenues, the Revenue Fund and other moneys pledged under the Indenture for any of the purposes mentioned in the Indenture, whether for the payment of the principal of or interest on the 2021 Bonds or for any other purpose of the Indenture. Nevertheless, the City may, but shall not be required to, advance for any of the purposes hereof any funds of the City which may be made available to it for such purposes.

The obligation of the City to pay interest and principal on the 2021 Bonds is a special obligation of the City payable solely from the Net Revenues, and does not constitute a debt of the City or of the State of California or of any political subdivision thereof (other than the City) in contravention of any constitutional or statutory debt limitation or restriction.

Section 11.02. Successor Is Deemed Included in All References to Predecessor. Whenever in the Indenture either the City or the Trustee is named or referred to, such reference shall be deemed to include the successors or assigns thereof, and all the covenants and agreements in the Indenture contained by or on behalf of the City or the Trustee shall bind and inure to the benefit of the respective successors and assigns thereof whether so expressed or not.

Section 11.03. Limitation of Rights to Parties and 2021 Bond Owners. Nothing in the Indenture or in the 2021 Bonds expressed or implied is intended or shall be construed to give to any person other than the City, the Trustee and the Owners of the 2021 Bonds, any legal or equitable right, remedy or claim under or in respect of the Indenture or any covenant, condition or provision therein or herein contained; and all such covenants, conditions and provisions are and shall be held to be for the sole and exclusive benefit of the City, the Trustee and the Owners of the 2021 Bonds.

Section 11.04. Waiver of Notice; Requirement of Mailed Notice. Whenever in the Indenture the giving of notice by mail or otherwise is required, the giving of such notice may be waived in writing by the person entitled to receive such notice and in any such case the giving or receipt of such notice shall not be a condition precedent to the validity of any action taken in reliance upon such waiver. Whenever in the Indenture any notice shall be required to be given by mail, such requirement shall be satisfied by the deposit of such notice in the United States mail, postage prepaid, by first class mail.

Section 11.05. Destruction of 2021 Bonds. Whenever in the Indenture provision is made for the cancellation by the Trustee and the delivery to the City of any 2021 Bonds, the Trustee shall destroy such 2021 Bonds as may be allowed by law, and, upon the City's request, deliver a certificate of such destruction to the City.

Section 11.06. Severability of Invalid Provisions. If any one or more of the provisions contained in the Indenture or in the 2021 Bonds shall for any reason be held to be invalid, illegal or unenforceable in any respect, then such provision or provisions shall be deemed severable from the remaining provisions contained in the Indenture and such invalidity, illegality or unenforceability shall not affect any other provision of the Indenture, and the Indenture shall be construed as if such invalid or illegal or unenforceable provision had never been contained herein. The City hereby declares that it would have entered into the Indenture and each and every other Section, paragraph, sentence, clause or phrase hereof and authorized the issuance of the 2021 Bonds pursuant thereto irrespective of the fact that any one or more Sections, paragraphs, sentences, clauses or phrases of the Indenture may be held illegal, invalid or unenforceable.

Section 11.07. Notices. Any notice to or demand upon the City or the Trustee shall be deemed to have been sufficiently given or served for all purposes by being sent by facsimile, electronic mail, overnight mail or courier, or by being deposited, first class mail, postage prepaid, in a post office letter box, addressed, as the case may be, to the City at City of Escondido, 201 North Broadway, Escondido, California 92025, Attention: Director of Administrative Services (or such other address as may have been filed in writing by the City with the Trustee), or to the Trustee at its Office. Notwithstanding the foregoing provisions of this Section 11.07, the Trustee shall not be deemed to have received, and shall not be liable for failing to act upon the contents of, any notice unless and until the Trustee actually receives such notice.

Section 11.08. Evidence of Rights of 2021 Bond Owners. Any request, consent or other instrument required or permitted by the Indenture to be signed and executed by 2021 Bond Owners may be in any number of concurrent instruments of substantially similar tenor and shall be signed or executed by such 2021 Bond Owners in person or by an agent or agents duly appointed in writing. Proof of the execution of any such request, consent or other instrument or of a writing appointing any such agent, or of the holding by any person of 2021 Bonds transferable by delivery, shall be sufficient for any purpose of the Indenture and shall be conclusive in favor of the Trustee and the City if made in the manner provided in this Section.

The fact and date of the execution by any person of any such request, consent or other instrument or writing may be proved by the certificate of any notary public or other officer of any jurisdiction, authorized by the laws thereof to take acknowledgments of deeds, certifying that the person signing such request, consent or other instrument acknowledged to him the execution thereof, or by an affidavit of a witness of such execution duly sworn to before such notary public or other officer.

The Ownership of 2021 Bonds shall be proved by the Registration Books.

Any request, consent, or other instrument or writing of the Owner of any 2021 Bond shall bind every future Owner of the same 2021 Bond and the Owner of every 2021 Bond issued in exchange therefor or in lieu thereof, in respect of anything done or suffered to be done by the Trustee or the City in accordance therewith or reliance thereon.

Section 11.09. Disqualified 2021 Bonds. In determining whether the Owners of the requisite aggregate principal amount of 2021 Bonds have concurred in any demand, request, direction, consent or waiver under the Indenture, 2021 Bonds which are actually known by a Responsible Officer of the Trustee to be owned or held by or for the account of the City, or by any other obligor on the 2021 Bonds, or by any person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the City or any other obligor on the 2021 Bonds, shall be disregarded and deemed not to be Outstanding for the purpose of any such determination, unless all 2021 Bonds are so owned or held, in which case such 2021 Bonds shall not be disregarded and shall be deemed to be Outstanding. 2021 Bonds so owned which have been pledged in good faith may be regarded as Outstanding for the purposes of this Section if the pledgee shall establish to the satisfaction of the Trustee the pledgee's right to vote such 2021 Bonds and that the pledgee is not a person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the City or any other obligor on the 2021 Bonds. In case of a dispute as to such right, any decision by the Trustee taken upon the advice of counsel shall be full protection to the Trustee. Upon request, the City shall certify to the Trustee those 2021 Bonds that are disqualified pursuant to this Section 11.09 and the Trustee may conclusively rely on such certificate.

Section 11.10. Money Held for Particular 2021 Bonds. The money held by the Trustee for the payment of the interest, principal or premium due on any date with respect to particular 2021 Bonds (or portions of 2021 Bonds in the case of registered 2021 Bonds redeemed in part only) shall, on and after such date and pending such payment, be set aside on its books and held in trust by it for the Owners of the 2021 Bonds entitled thereto, subject, however, to the provisions of Section 10.04 hereof but without any liability for interest thereon.

Section 11.11. Funds and Accounts. Any fund or account required by the Indenture to be established and maintained by the Trustee may be established and maintained in the accounting records of the Trustee, either as a fund or an account, and may, for the purposes of such records, any audits thereof and any reports or statements with respect thereto, be treated either as a fund or as an account; but all such records with respect to all such funds and accounts shall at all times be maintained in accordance with corporate trust industry standards to the extent practicable, and with due regard for the requirements of Section 6.05(a) and for the protection of the security of the 2021 Bonds and the rights of every Owner thereof.

Section 11.12. Waiver of Personal Liability. No member, officer, agent, employee, consultant or attorney of the City shall be individually or personally liable for the payment of the principal of or premium or interest on the 2021 Bonds or be subject to any personal liability or accountability by reason of the issuance thereof; but nothing herein contained shall relieve any such member, officer, agent, employee, consultant or attorney from the performance of any official duty provided by law or by the Indenture.

Section 11.13. Execution in Several Counterparts. The Indenture may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original; and all such counterparts, or as many of them as the City and the Trustee shall preserve undestroyed, shall together constitute but one and the same instrument.

Section 11.14. CUSIP Numbers. Neither the Trustee nor the City shall be liable for any defect or inaccuracy in the CUSIP number that appears on any 2021 Bond or in any redemption notice. The Trustee may, in its discretion, include in any redemption notice a statement to the effect that the CUSIP numbers on the 2021 Bonds have been assigned by an independent service and are included in such notice solely for the convenience of the 2021 Bondholders and that neither the City nor the Trustee shall be liable for any inaccuracies in such numbers.

Section 11.15. Choice of Law. THE INDENTURE SHALL BE GOVERNED BY THE LAWS OF THE STATE OF CALIFORNIA.

Section 11.16. Paired Obligation Provider Guidelines. For purposes of Sections 6.14 and 6.21, Paired Obligations shall comply with the following conditions:

(a) A Paired Obligation Provider shall initially have a long-term rating of A- or better by S&P and A3 or better by Moody’s.

(b) So long as the long-term rating of the Paired Obligation Provider is not reduced below BBB by S&P or Baa2 by Moody’s, the interest rate of such Paired Obligation shall be deemed to be equal to the irrevocable fixed interest rate attributable thereto for purposes of Sections 6.14 and 6.21.

In the event that a Paired Obligation Provider does not maintain the Minimum Rating Requirement and the City does not replace such Paired Obligation Provider with another Paired Obligation Provider which maintains the Initial Rating Requirement within ten (10) Business Days of notice that the Paired Obligation Provider has not maintained the Minimum Rating Requirement, interest with respect to such Paired Obligations shall be computed for purposes of Sections 6.14 and 6.21 without regard to payments to be received from the Paired Obligation Provider. The Trustee has no obligation to monitor the ratings of any Paired Obligation Providers.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]

IN WITNESS WHEREOF, the City has caused the Indenture to be signed in its name by its Authorized Officer, and the Trustee, in token of its acceptance of the duties and obligations of the Trustee created hereunder, has caused the Indenture to be signed in its corporate name by its officer thereunto duly authorized, all as of the day and year first above written.

CITY OF ESCONDIDO

By: ____
Mayor

ATTEST:

____
City Clerk

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., as Trustee

By: ____
Authorized Officer

EXHIBIT A

FORM OF 2021 BOND

UNLESS THIS BOND IS PRESENTED BY AN AUTHORIZED OFFICER OF THE DEPOSITORY (AS DEFINED IN THE INDENTURE) TO THE TRUSTEE FOR REGISTRATION OF TRANSFER, EXCHANGE, OR PAYMENT, AND ANY BOND ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED OFFICER OF THE DEPOSITORY (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED OFFICER OF THE DEPOSITORY), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

No. ____ $__________

UNITED STATES OF AMERICA
STATE OF CALIFORNIA

CITY OF ESCONDIDO
WASTEWATER REVENUE REFUNDING BONDS, SERIES 2021A

INTEREST RATE	MATURITY DATE	ORIGINAL ISSUE DATE	CUSIP
____%	September 1, 20__	December __, 2021	296343 ___

REGISTERED OWNER CEDE & CO.

PRINCIPAL AMOUNT: ____ DOLLARS

The CITY OF ESCONDIDO, a municipal corporation that is duly organized and existing under the general laws and Constitution of the State of California (the “City”), for value received, hereby promises to pay to the Registered Owner specified above or registered assigns (the “Registered Owner”), on the Maturity Date specified above (subject to any right of prior redemption hereinafter provided for), the Principal Amount specified above, in lawful money of the United States of America, and to pay interest thereon in like lawful money from the interest payment date next preceding the date of authentication of this Bond (unless: (i) this Bond is authenticated after the fifteenth day of the calendar month preceding an interest payment date, whether or not such day is a business day, and on or before the following interest payment date, in which event it shall bear interest from such interest payment date; or (ii) this Bond is authenticated on or before ____ 15, 202__, in which event it shall bear interest from the Original Issue Date identified above; provided, however, that if as of the date of authentication of this Bond, interest is in default on this Bond, this Bond shall bear interest from the interest payment date to which interest has previously been paid or made available for payment on this Bond), at the Interest Rate per annum specified above, payable on ____ 1, 202__ and each March 1 and September 1 thereafter, calculated on the basis of a 360-day year composed of twelve 30-day months. Principal hereof and premium, if any, upon early redemption hereof are payable by check of the Trustee upon presentation and surrender hereof at the Office (as defined in the hereinafter described Indenture) of The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”). Interest hereon is payable by check of the Trustee sent by first class mail on the applicable interest payment date to the Registered Owner hereof at the Registered Owner's address as it appears on the registration books of the Trustee as of the close of business on the fifteenth day of the month preceding each interest payment date (except that in the case of a Registered Owner of one million dollars ($1,000,000) or more in principal amount, such payment may, at such Registered Owner's option, be made by wire transfer of immediately available funds to an account in the United States in accordance with written instructions provided to the Trustee by such Registered Owner prior to the fifteenth (15th) day of the month preceding such interest payment date).

This Bond is not a debt of the State of California, or any of its political subdivisions (other than the City), and neither the State, nor any of its political subdivisions (other than the City), is liable hereon, nor in any event shall this Bond be payable out of any funds or properties of the City other than the Net Revenues (as such term is defined in the Indenture of Trust, dated as of December 1, 2021 (the "Indenture"), by and between the City and the Trustee) and other moneys pledged therefor under the Indenture. The obligation of the City to make payments in accordance with the Indenture is a limited obligation of the City as set forth in the Indenture and the City shall have no liability or obligation in connection herewith except with respect to such payments to be made pursuant to the Indenture. This Bond does not constitute an indebtedness of the City in contravention of any constitutional or statutory debt limitation or restriction.

This Bond is one of a duly authorized issue of bonds of the City designated as the "City of Escondido Wastewater Revenue Refunding Bonds, Series 2021A" (the "2021 Bonds"), of an aggregate principal amount of ____ Million ____ Hundred ____ Thousand Dollars ($_____), all of like tenor and date (except for such variation, if any, as may be required to designate varying numbers or interest rates) and all issued pursuant to the provisions of Articles 10 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California, and pursuant to the Indenture and the resolution authorizing the issuance of the 2021 Bonds. Reference is hereby made to the Indenture (copies of which are on file at the office of the City) and all supplements thereto for a description of the terms on which the 2021 Bonds are issued, the provisions with regard to the nature and extent of the Net Revenues, and the rights thereunder of the Owners of the 2021 Bonds and the rights, duties and immunities of the Trustee and the rights and obligations of the City hereunder, to all of the provisions of which the Registered Owner of this Bond, by acceptance hereof, assents and agrees. The 2021 Bonds have been issued in fully registered form without coupons in denominations of $5,000 or any integral multiple thereof.

The 2021 Bonds have been issued by the City for the purpose of refinancing certain capital improvements to the Wastewater System of the City.

This Bond and the interest, premium, if any, hereon and all other 2021 Bonds and the interest and premium, if any, thereon (to the extent set forth in the Indenture) are special obligations of the City, secured by a pledge and lien on the Revenues and any other amounts on deposit in certain funds and accounts created under the Indenture, and payable from the Net Revenues. As and to the extent set forth in the Indenture, all of the Revenues are exclusively and irrevocably pledged in accordance with the terms hereof and the provisions of the Indenture, to the payment of the principal of and interest and premium (if any) on this Bond.

The Indenture and the rights and obligations of the City and the Owners of the 2021 Bonds and the Trustee may be modified or amended from time to time and at any time with the written consent of the Owners of a majority in aggregate principal amount of all 2021 Bonds then

Outstanding, exclusive of Bonds disqualified as set forth in the Indenture, in the manner, to the extent and upon the terms provided in the Indenture, but no such modification or amendment shall: (i) extend the fixed maturity of any 2021 Bonds, or reduce the amount of principal thereof or premium (if any) thereon, or extend the time of payment, or change the method of computing the rate of interest thereon, or extend the time of payment of interest thereon, without the consent of the owner of each 2021 Bond so affected; or (ii) reduce the aforesaid percentage of 2021 Bonds the consent of the Owners of which is required to affect any such modification or amendment, or permit the creation of any lien on the Revenues and other assets pledged under the Indenture prior to or on a parity with the lien created by the Indenture except as permitted in the Indenture, or deprive the Owners of the 2021 Bonds of the lien created by the Indenture on such Revenues and other assets, except as expressly provided in the Indenture, without the consent of the Owners of all of the 2021 Bonds then Outstanding.

The Indenture and the rights and obligations of the City, of the Trustee and the Owners of the 2021 Bonds may also be modified or amended for certain purposes described more fully in the Indenture at any time in the manner, to the extent and upon the terms provided in the Indenture by a supplemental indenture, which the City and the Trustee may enter into without the consent of any 2021 Bond Owners, if the Trustee shall receive an Opinion of Bond Counsel to the effect that the provisions of such supplemental indenture will not materially adversely affect the interests of the Owners of the Outstanding 2021 Bonds.

The 2021 Bonds with stated maturities on or after September 1, 20__, are subject to redemption prior to their respective stated maturities, as a whole or in part on _____ 1, 20__, or any date thereafter, as directed by the City in a Written Request provided to the Trustee at least 35 days (or such lesser number of days acceptable to the Trustee in the sole discretion of the Trustee, such notice for the convenience of the Trustee) and by lot within each maturity in integral multiples of $5,000, at a Redemption Price equal to the principal amount thereof plus accrued interest thereon to the Redemption Date, without premium.

The 2021 Bonds with a stated maturity on September 1, 20__ are subject to mandatory sinking fund redemption prior to maturity, in part (by lot), on September 1, 20__ and each September 1 thereafter to maturity, in integral multiples of $5,000 at a Redemption Price equal to the principal amount thereof plus accrued interest to the Redemption Date, without premium, in accordance with the following schedule:

Redemption Date (September 1)	***Principal Amount***
20__	$
20__*	

* Maturity.

As provided in the Indenture, notice of redemption shall be mailed by the Trustee by first class mail at least 20 days but not more than 60 days prior to the date fixed for redemption to the respective Owners of any 2021 Bonds designated for redemption at their addresses appearing on the registration books of the Trustee, but neither the failure to receive such notice nor any defect in the notice or the mailing thereof shall affect the validity of the redemption.

If this Bond is called for redemption and payment is duly provided therefor as specified in the Indenture, interest shall cease to accrue hereon from and after the date fixed for redemption.

If an Event of Default, as defined in the Indenture, shall occur, the principal of all of the 2021 Bonds and the interest accrued thereon may be declared due and payable upon the conditions, in the manner and with the effect provided in the Indenture, but such declaration and its consequences may be rescinded and annulled as further provided in the Indenture.

This Bond is transferable by the Registered Owner hereof, in person or by his or her duly authorized attorney in writing, at the office of the Trustee but only in the manner, subject to the limitations and upon payment of the taxes and charges provided in the Indenture and upon surrender and cancellation of this Bond. Upon registration of such transfer, a new 2021 Bond or 2021 Bonds, of authorized denomination or denominations, for the same aggregate principal amount of the same maturity will be issued to the transferee in exchange therefor.

This Bond may be exchanged at said office of the Trustee for a like aggregate principal amount of Bonds of other authorized denominations of the same maturity, but only in the manner, subject to the limitations and upon payment of the taxes and charges provided in the Indenture.

The Trustee shall not be required to register the transfer or exchange of this Bond during the period in which the Trustee is selecting 2021 Bonds for redemption or if this Bond has been selected for redemption.

The City and the Trustee may treat the Registered Owner hereof as the absolute owner hereof for all purposes, and the City and the Trustee shall not be affected by any notice to the contrary.

It is hereby certified that all of the things, conditions and acts required to exist, to have happened or to have been performed precedent to and in the issuance of this Bond do exist, have happened or have been performed in due and regular time, form and manner as required by the Indenture and the laws of the State of California and that the amount of this Bond, together with all other indebtedness of the City, does not exceed any limit under any laws of the State of California, and is not in excess of the amount of 2021 Bonds permitted to be issued under the Indenture.

This Bond shall not be entitled to any benefit under the Indenture or become valid or obligatory for any purpose until the certificate of authentication hereon endorsed shall have been manually signed by the Trustee.

IN WITNESS WHEREOF, the City has caused this Bond to be executed in its name and on its behalf with the manual or facsimile signature of its City Manager as of this ___th day of December, 2021.

CITY OF ESCONDIDO

By: ________________________________
City Manager

ATTEST:

____

City Clerk

[FORM OF TRUSTEE'S CERTIFICATE OF AUTHENTICATION
TO APPEAR ON BONDS]

This is one of the Bonds described in the within-mentioned Indenture.

Dated: December __, 2021

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., as Trustee

By: ______________________________
Authorized Signatory

[FORM OF ASSIGNMENT]

For value received the undersigned hereby sells, assigns and transfers unto

____

____

____

(Name, Address and Tax Identification or
Social Security Number of Assignee)

the within registered Bond and hereby irrevocably constitute(s) and appoint(s) __________________ _________________________ attorney, to transfer the same on the registration books of the Trustee with full power of substitution in the premises.

Dated: _____________

____

Note: The signature(s) on this Assignment must correspond with the name(s) as written on the face of the within Bond in every particular without alteration or enlargement or any change whatsoever.

Signature Guaranteed:

____

Note: Signature guarantee shall be made by a guarantor institution participating in the Securities Transfer Agents Medallion Program or in such other guarantee program acceptable to the Trustee.

EXHIBIT B

DESCRIPTION OF 2012 PROJECT

The 2012 Project comprises the following capital improvements:

FINANCING OF 2012 NEW PROJECTS

COMPONENT	***CONTRACT COST***
Hale Avenue Resource Recovery Facility ("HARRF") Primary Building Upgrade	$ 5,000,000
HARRF Odor Control System Upgrade	3,500,000
HARRF Influent Pump Station Improvements	6,000,000
Phase III of HARRF Operations Building Expansion	2,000,000
West Side Lift Station Evaluation and Improvements	3,500,000
Recycled Water Easterly Main Extension	3,500,000
Recycled Water Easterly Main Tank and Pump Station Improvements	2,000,000
Total	**$ 25,500,000**

REFINANCING OF 2000 PROJECT

COMPONENT	***CONTRACT COST***
Hale Avenue Resource Recovery Facility Recycled Water Distribution System Project	$9,500,000

ESCROW AGREEMENT (2012 BONDS)

THIS ESCROW AGREEMENT (2012 BONDS), dated as of December 1, 2021 (the "**Agreement**"), by and among the City of Escondido (the "**City**"), the Escondido Joint Powers Financing Authority (the "**Authority**") and The Bank of New York Mellon Trust Company. N.A., as escrow agent (the "**Escrow Agent**") and as 2012 Trustee (as such term is defined herein), is entered into in accordance with resolutions of the City and the Authority adopted on ____ __, 2021 and an Indenture of Trust, dated as of February 1, 2012 (the "**2012 Indenture**"), by and among the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee (the "**2012 Trustee**"). This Agreement is entered into to refund all of the outstanding Escondido Joint Powers Financing Authority Revenue Bonds (Wastewater System Financing), Series 2012 (the "**2012 Bonds**").

RECITALS

A. Pursuant to the 2012 Indenture, the Authority has previously issued the 2012 Bonds in the initial aggregate principal amount of $27,390,000, of which $25,800,000 is currently outstanding.

B. The 2012 Bonds are payable from net revenues of the City's municipal wastewater system.

C. The City has determined to issue its City of Escondido Wastewater Revenue Refunding Bonds, Series 2021A (the "**2021 Bonds**"), a portion of the proceeds of which, together with other moneys as described in Section 1, will be applied to pay on March 1, 2022 (the "**Redemption Date**") the principal of the 2012 Bonds maturing after the Redemption Date, plus interest with respect thereto accrued through the Redemption Date, without premium.

D. The City will irrevocably deposit moneys with the Escrow Agent, which moneys will be used to purchase the securities that are described on Schedule A (the "**Federal Securities**") (as permitted by, in the manner prescribed by and all in accordance with the 2012 Indenture). Such Federal Securities satisfy the criteria for "Federal Securities" set forth in Section 10.03 of the 2012 Indenture, and the principal of and interest on such Federal Securities when paid will provide money which will be fully sufficient to pay and discharge the 2012 Bonds.

AGREEMENT

SECTION 1. Deposit of Moneys. The City will cause The Bank of New York Mellon Trust Company, N.A., as trustee for the 2021 Bonds, to transfer a portion of the proceeds of the 2021 Bonds in the amount of $______ on the date of issuance of the 2021 Bonds to the Escrow Agent for deposit in the Escrow Fund established hereunder. In addition, on the date of issuance of the 2021 Bonds, the Authority will cause the 2012 Trustee to transfer $_____ held in the ____ Fund established under the 2012 Indenture to the Escrow Agent for deposit in the Escrow Fund.

The Escrow Agent will hold such amounts in an irrevocable escrow separate and apart from other moneys of the City, the Authority and the Escrow Agent in a fund hereby created and established to be known as the "**Escrow Fund**" and to be applied solely as provided in this Agreement. The City and the Authority represent that the sum of the amounts set forth above are at least equal to an amount that is sufficient to purchase the Federal Securities listed on Schedule A, and to hold $___ uninvested as cash.

SECTION 2. Investment of Moneys. The Escrow Agent acknowledges receipt of the moneys described in Section 1 and agrees immediately to invest such moneys in the Federal Securities listed on Schedule A and to deposit such Federal Securities in the Escrow Fund. The Escrow Agent shall be entitled to rely upon the conclusion of Causey Demgen & Moore P.C. (the "**Verification Agent**") that the Federal Securities listed on Schedule A mature and bear interest payable in such amounts and at such times as, together with cash on deposit in the Escrow Fund, will be sufficient to pay, on the Redemption Date, the principal of the 2012 Bonds maturing after the Redemption Date, plus interest with respect thereto accrued through the Redemption Date, without premium.

SECTION 3. Investment of Any Remaining Moneys. At the written direction of the City, together with an unqualified opinion of Stradling Yocca Carlson & Rauth, A Professional Corporation, to the effect that reinvestment is permitted under the legal documents in effect with respect to the 2012 Bonds and will not have an adverse effect on the tax status of the 2012 Bonds, the Escrow Agent shall reinvest any other amount of principal and interest, or any portion thereof, received from the Federal Securities prior to the date on which such payment is required for the purposes set forth herein, in noncallable Federal Securities maturing not later than the date on which such payment or portion thereof is required for the purposes set forth in Section 5, at the written direction of the City, as verified in a report prepared by an independent certified public accountant or firm of certified public accountants of favorable national reputation experienced in the refunding of obligations of political subdivisions to the effect that the reinvestment described in said report will not adversely affect the sufficiency of the amounts of securities, investments and money in the Escrow Fund to pay, on the Redemption Date, the principal of the 2012 Bonds maturing after the Redemption Date, plus interest with respect thereto accrued through the Redemption Date, without premium. Any interest income resulting from investment or reinvestment of moneys pursuant to this Section which is not required for the purposes set forth in Section 5, as verified in the letter of the Verification Agent originally obtained by the City with respect to the refunding of the 2012 Bonds or in any other report prepared by an independent certified public accountant or firm of certified public accountants of favorable national reputation experienced in the refunding of obligations of political subdivisions, shall be paid to the City promptly upon the receipt of such interest income by the Escrow Agent. The determination of the City as to whether an accountant qualifies under this Agreement shall be conclusive.

SECTION 4. Substitution of Securities. Upon the written request of the City, and subject to the conditions and limitations that are set forth herein and applicable governmental rules and regulations, the Escrow Agent shall sell, redeem or otherwise dispose of the Federal Securities, provided that there are substituted therefor from the proceeds of the Federal Securities other Federal Securities, but only after the Authority or the City has obtained and delivered to the Escrow Agent: (i) an unqualified opinion of Stradling Yocca Carlson & Rauth, A Professional Corporation, to the effect that the substitution of securities is permitted under the legal documents in effect with respect to the 2012 Bonds and will not have an adverse effect on the tax status of the 2012 Bonds; and (ii) a report by a firm of independent certified public accountants to the effect that the reinvestment described in said report will not adversely affect the sufficiency of the amounts of securities, investments and money in the Escrow Fund to pay, on the Redemption Date, the principal of the 2012 Bonds maturing after the Redemption Date, plus interest with respect thereto accrued through the Redemption Date, without premium. The Escrow Agent shall not be liable or responsible for any loss resulting from any reinvestment made pursuant to this Agreement and in full compliance with the provisions hereof.

SECTION 5. Payment of 2012 Bonds.

(a) Payment. From the maturing principal of the Federal Securities and the investment income and other earnings thereon and other moneys on deposit in the Escrow Fund, the Escrow Agent shall transfer funds to the 2012 Trustee in an amount sufficient to enable the 2012 Trustee to pay, on the Redemption Date, the principal of the 2012 Bonds maturing after the Redemption Date, plus interest with respect thereto accrued through the Redemption Date, without premium, all as indicated on Schedule A.

(b) Irrevocable Instructions to Provide Notice. The notices required to be mailed pursuant to Sections 4.03 and Article X of the 2012 Indenture are substantially in the forms attached hereto as Exhibits A and B. The City and the Authority hereby irrevocably instruct the 2012 Trustee to mail: (i) a notice of redemption of the 2012 Bonds maturing after the Redemption Date substantially in the form attached hereto as Exhibit A at least 30 days prior to the Redemption Date to the parties described in and otherwise in accordance with Section 4.03 of the 2012 Indenture (including The Depository Trust Company and the Municipal Securities Rulemaking Board's Electronic Municipal Market Access System, maintained on the Internet at http://emma.msrb.org/); and (ii) a notice of defeasance of the 2012 Bonds in the form attached hereto as Exhibit B on the date of issuance of the 2021 Bonds to the parties described in and otherwise in accordance with Article X of the 2012 Indenture (including The Depository Trust Company and the Municipal Securities Rulemaking Board's Electronic Municipal Market Access System, maintained on the Internet at http://emma.msrb.org/), as required to provide for the payment and redemption of the 2012 Bonds in accordance with this Section.

(c) Unclaimed Moneys. Any moneys in the Escrow Fund which remain unclaimed after the Redemption Date shall be repaid by the Escrow Agent to the City.

(d) Priority of Payments. The owners of the 2012 Bonds shall have a first and exclusive lien on all moneys and securities in the Escrow Fund until such moneys and such securities are used and applied as provided in this Agreement.

(e) Termination of Obligation. As provided in the 2012 Indenture and the Installment Purchase Agreement, dated as of February 1, 2012 (the "**2012 IPA**"), by and between the City and the Authority, upon the deposit of moneys with the Escrow Agent in the Escrow Fund as set forth in Section 1 and the purchase of the Federal Securities as provided in Section 2: (i) the 2012 Bonds will be discharged in accordance with the 2012 Indenture; (ii) the tax status of the interest portion of the Series 2012 Installment Payments under the 2012 IPA will not be adversely affected; and (iii) the right, title and interest of the Authority in the 2012 IPA and the obligations of the City thereunder will cease, terminate and become void and be completely discharged and satisfied (except as set forth in 2012 IPA).

SECTION 6. Application of Certain Terms of the 2012 Indenture. All of the terms of the 2012 Indenture relating to the making of payments of principal of and interest on the 2012 Bonds and relating to the exchange or transfer of the 2012 Bonds are incorporated in this Agreement as if set forth in full herein. The procedures set forth in Section 8.01 of the 2012 Indenture relating to the resignation and removal and merger of the 2012 Trustee are also incorporated in this Agreement as if set forth in full herein and shall be the procedures to be followed with respect to any resignation or removal of the Escrow Agent hereunder.

SECTION 7. Performance of Duties. The Escrow Agent agrees to perform only the duties that are set forth herein and shall have no responsibility to take any action or omit to take any action that is not set forth herein.

SECTION 8. Escrow Agent's Authority to Make Investments. Except as provided in Section 2 hereof, the Escrow Agent shall have no power or duty to invest any funds that are held hereunder or to sell, transfer or otherwise dispose of the moneys or Federal Securities that are held hereunder.

SECTION 9. Indemnity. The City and the Authority hereby assume liability for, and hereby agree (whether or not any of the transactions contemplated hereby are consummated) to indemnify, protect, save and keep harmless the Escrow Agent and its respective successors, assigns, directors, officers, agents, employees and servants, from and against any and all liabilities, obligations, losses, damages, penalties, claims, actions, suits, costs, expenses and disbursements (including reasonable legal fees and disbursements) of whatsoever kind and nature which may be imposed on, incurred by or asserted against the Escrow Agent at any time (whether or not also indemnified against the same by the City, the Authority or any other person under any other agreement or instrument, but without double indemnity) in any way relating to or arising out of the execution, delivery and performance of this Agreement, the establishment hereunder of the Escrow Fund, the acceptance of the funds and securities deposited therein, the retention of the proceeds thereof and any payment, transfer or other application of moneys or securities by the Escrow Agent in accordance with the provisions of this Agreement; provided, however, that the City and the Authority shall not be required to indemnify the Escrow Agent against the Escrow Agent's own negligence or willful misconduct or the negligence or willful misconduct of the Escrow Agent's respective employees. In no event shall the City, the Authority or the Escrow Agent be liable to any person by reason of the transactions that are contemplated hereby other than to each other as set forth in this Section. The indemnities that are contained in this Section shall survive the termination of this Agreement and the resignation or removal of the Escrow Agent.

SECTION 10. Responsibilities of Escrow Agent. The Escrow Agent and its agents and servants shall not be held to any personal liability whatsoever, in tort, contract or otherwise, in connection with the execution and delivery of this Agreement, the establishment of the Escrow Fund, the acceptance of the moneys or securities deposited therein, the retention of the Federal Securities or the proceeds thereof, the sufficiency of the Federal Securities to pay the 2012 Bonds or any payment, transfer or other application of moneys or obligations by the Escrow Agent in accordance with the provisions of this Agreement or by reason of any non-negligent act, non-negligent omission or non-negligent error of the Escrow Agent that is made in good faith in the conduct of its duties. The recitals of fact that are contained herein shall be taken as the statements of the City and the Authority, and the Escrow Agent assumes no responsibility for the correctness thereof. The Escrow Agent makes no representation as to the sufficiency of the proceeds to accomplish the refunding of the 2012 Bonds or to the validity of this Agreement as to the City or the Authority and, except as otherwise provided herein, the Escrow Agent shall incur no liability in respect thereof. The Escrow Agent shall not be liable in connection with the performance of its duties under this Agreement except for its own negligence or willful misconduct, and the duties and obligations of the Escrow Agent shall be determined by the express provisions of this Agreement. The Escrow Agent may consult with counsel, who may or may not be counsel to the City or the Authority, and in reliance upon the written opinion of such counsel shall have full and complete authorization and protection in respect of any action taken, suffered or omitted by it in good faith in accordance therewith. Whenever the Escrow Agent shall deem it necessary or desirable that a matter be proved or established prior to taking, suffering, or omitting any action under this Agreement, such matter may be deemed to be conclusively established by a certificate signed by an officer of the City or the Authority. The Escrow Agent shall incur no liability for losses arising from any investment made pursuant to this Agreement.

No provision of this Agreement shall require the Escrow Agent to expend or risk its own funds or otherwise incur any financial liability in the performance or exercise of any of its duties hereunder, or in the exercise of its rights or powers.

The Escrow Agent may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents, attorneys, custodians or nominees appointed with due care, and shall not be responsible for any willful misconduct or negligence on the part of any agent, attorney, custodian or nominee so appointed.

The Escrow Agent shall have the right to accept and act upon instructions, including funds transfer instructions (“**Instructions**”) given pursuant to this Agreement and delivered using Electronic Means (“**Electronic Means**” shall mean the following communications methods: e-mail, facsimile transmission, secure electronic transmission containing applicable authorization codes, passwords and/or authentication keys issued by the Escrow Agent, or another method or system specified by the Escrow Agent as available for use in connection with its services hereunder); provided, however, that the City and the Authority shall provide to the Escrow Agent incumbency certificates listing officers with the authority to provide such Instructions (“**Authorized Officers**”) and containing specimen signatures of such Authorized Officers, which incumbency certificate shall be amended by the City or the Authority whenever a person is to be added or deleted from the listing. If the City or the Authority elects to give the Escrow Agent Instructions using Electronic Means and the Escrow Agent in its discretion elects to act upon such Instructions, the Escrow Agent’s understanding of such Instructions shall be deemed controlling. The City and the Authority understand and agree that the Escrow Agent cannot determine the identity of the actual sender of such Instructions and that the Escrow Agent shall conclusively presume that directions that purport to have been sent by an Authorized Officer listed on the incumbency certificate provided to the Escrow Agent have been sent by such Authorized Officer. The City and the Authority shall be responsible for ensuring that only Authorized Officers transmit such Instructions to the Escrow Agent and that the City, the Authority and all Authorized Officers are solely responsible to safeguard the use and confidentiality of applicable user and authorization codes, passwords and/or authentication keys upon receipt by the City and the Authority. The Escrow Agent shall not be liable for any losses, costs or expenses arising directly or indirectly from the Escrow Agent’s reliance upon and compliance with such Instructions notwithstanding the fact that such directions conflict or are inconsistent with a subsequent written instruction. The City and the Authority agree: (i) to assume all risks arising out of the use of Electronic Means to submit Instructions to the Escrow Agent, including without limitation the risk of the Escrow Agent acting on unauthorized Instructions, and the risk of interception and misuse by third parties; (ii) that they are fully informed of the protections and risks associated with the various methods of transmitting Instructions to the Escrow Agent and that there may be more secure methods of transmitting Instructions than the method(s) selected by the City or the Authority; (iii) that the security procedures (if any) to be followed in connection with its transmission of Instructions provide to it a commercially reasonable degree of protection in light of its particular needs and circumstances; and (iv) to notify the Escrow Agent immediately upon learning of any compromise or unauthorized use of the security procedures.

The Escrow Agent shall furnish the City with periodic cash transaction statements which include detail for all investment transactions effected by the Escrow Agent or brokers selected by the City or the Authority, provided that the Escrow Agent is not obligated to provide an accounting for any fund or account that: (a) has a balance of $0.00; and (b) has not had any activity since the last reporting date. Upon the City's election, such statements will be delivered via the Escrow Agent's online service and upon electing such service, paper statements will be provided only upon request. The City waives the right to receive brokerage confirmations of security transactions effected by the Escrow Agent as they occur, to the extent permitted by law. The City and the Authority further understand that trade confirmations for securities transactions effected by the Escrow Agent will be available upon request and at no additional cost and other trade confirmations may be obtained from the applicable broker.

If the Escrow Bank learns that the Department of the Treasury or the Bureau of Public Debt will not, for any reason, accept a subscription of securities that is to be submitted pursuant to this Agreement, the Escrow Bank shall promptly request alternative written investment instructions from the City with respect to escrowed funds which were to be invested in securities. The Escrow Bank shall follow such instructions and, upon the maturity of any such alternative investment, the Escrow Bank shall hold funds uninvested and without liability for interest until receipt of further written instructions from the City. In the absence of investment instructions from the City, the Escrow Bank shall not be responsible for the investment of such funds or interest thereon. The Escrow Bank may conclusively rely upon the City's selection of an alternative investment as a determination of the alternative investment's legality and suitability and shall not be liable for any losses related to the alternative investments or for compliance with any yield restriction applicable thereto.

SECTION 11. Amendments. This Agreement is made for the benefit of the City, the Authority and the owners from time to time of the 2012 Bonds and it shall not be repealed, revoked, altered or amended without the written consent of all such owners, the Escrow Agent, the Authority and the City; provided, however, that the City, the Authority and the Escrow Agent may, without the consent of, or notice to, such owners, amend this Agreement or enter into such agreements supplemental to this Agreement as shall not adversely affect the rights of such owners and as shall not be inconsistent with the terms and provisions of this Agreement or the 2012 Indenture, for any one or more of the following purposes: (i) to cure any ambiguity or formal defect or omission in this Agreement; (ii) to grant to, or confer upon, the Escrow Agent for the benefit of the owners of the 2012 Bonds any additional rights, remedies, powers or authority that may lawfully be granted to, or conferred upon, such owners or the Escrow Agent; and (iii) to include under this Agreement additional funds. The Escrow Agent shall be entitled to rely conclusively upon an unqualified opinion of Stradling Yocca Carlson & Rauth, A Professional Corporation, with respect to compliance with this Section, including the extent, if any, to which any change, modification, addition or elimination affects the rights of the owners of the various 2012 Bonds or that any instrument that is executed hereunder complies with the conditions and provisions of this Section.

SECTION 12. Notice to Rating Agencies. In the event that this agreement or any provision thereof is severed, amended or revoked, the Escrow Agent, upon written instructions from the City, shall provide written notice in the form provided by the City of such severance, amendment or revocation to the rating agencies then rating the 2012 Bonds.

SECTION 13. Term. This Agreement shall commence upon its execution and delivery and shall terminate on the later to occur of either: (i) the date upon which the 2012 Bonds have been paid in accordance with this Agreement; or (ii) the date upon which no unclaimed moneys remain on deposit with the Escrow Agent pursuant to Section 5(c) of this Agreement. Funds remaining in the Escrow Fund after payment in full of the 2012 Bonds shall be transferred to the City.

SECTION 14. Compensation. The Escrow Agent shall receive its reasonable fees and expenses as previously agreed to by the Escrow Agent, the Authority and the City, and any other reasonable fees and expenses of the Escrow Agent; provided, however, that under no circumstances shall the Escrow Agent be entitled to any lien or assert any lien whatsoever on any moneys or obligations in the Escrow Fund for the payment of fees and expenses for services that are rendered or expenses incurred by the Escrow Agent under this Agreement.

SECTION 15. Severability. If any one or more of the covenants or agreements provided in this Agreement on the part of the City, the Authority or the Escrow Agent to be performed should be determined by a court of competent jurisdiction to be contrary to law, such covenants or agreements shall be null and void, shall be deemed separate from the remaining covenants and agreements contained herein and shall in no way affect the validity of the remaining provisions of this Agreement.

SECTION 16. Counterparts. This Agreement may be executed in several counterparts, all or any of which shall be regarded for all purposes as an original but all of which shall constitute and be but one and the same instrument.

SECTION 17. Governing Law. THIS AGREEMENT SHALL BE CONSTRUED UNDER THE LAWS OF THE STATE OF CALIFORNIA.

SECTION 18. Holidays. If the date for making any payment or the last date for performance of any act or the exercising of any right, as provided in this Agreement, shall be a legal holiday or a day on which banking institutions in the city in which is located the office of the Escrow Agent are authorized by law to remain closed, such payment may be made or act performed or right exercised on the next succeeding day which is not a legal holiday or a day on which such banking institutions are authorized by law to remain closed, with the same force and effect as if done on the nominal date provided in this Agreement, and no interest shall accrue for the period from and after such nominal date.

SECTION 19. Assignment. This Agreement shall not be assigned by the Escrow Agent or any successor thereto without the prior written consent of the City and the Authority.

SECTION 20. Reorganization of Escrow Agent. Notwithstanding anything to the contrary contained in this Agreement, any company into which the Escrow Agent may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which the Escrow Agent is a party, or any company to which the Escrow Agent may sell or transfer all or substantially all of its corporate trust business, shall be the successor to the Escrow Agent without execution or filing of any paper or any paper or further act, if such company is eligible to serve as Escrow Agent.

SECTION 21. Insufficient Funds. If at any time the Escrow Agent has actual knowledge that the moneys and investments in the Escrow Fund, including the anticipated proceeds thereof and earnings thereon, will not be sufficient to make all payments required by this Agreement, the Escrow Agent shall notify the City in writing of the amount thereof and the reason therefor to the extent known to it. The Escrow Agent shall have no responsibility regarding any such deficiency.

SECTION 22. Notices. Any notice to or demand upon the Escrow Agent may be served or presented, and such demand may be made, at the principal corporate trust office of the Escrow Agent at 400 South Hope Street, Suite 500, Los Angeles, California 90071, Attention: Corporate Trust, Reference: City of Escondido 2021 Wastewater Bonds. Any notice to or demand upon the City or the Authority shall be deemed to have been sufficiently given or served for all purposes by being sent by facsimile or other electronic transmission, overnight mail or courier or mailed by registered or certified mail, and deposited, postage prepaid, in a post office letter box, addressed to the City or the Authority at 201 North Broadway, Escondido, California 92025, Attention: Director of Administrative Services (or such other address as may have been filed in writing by the City or the Authority with the Escrow Agent).

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their duly authorized officers as of the date first above written.

CITY OF ESCONDIDO

By: ______________________________
City Manager

ESCONDIDO JOINT POWERS FINANCING AUTHORITY

By: ______________________________
Chair

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., as Escrow Agent and 2012 Trustee

By: ______________________________
Authorized Officer

SCHEDULE A

FEDERAL SECURITIES

Moneys deposited in the Escrow Fund shall be invested as follows:

Security	***Maturity***	***Principal Amount***	***Interest Rate***
[__]	[February 28], 2022	$ [__]	[__]0%

The escrow requirements for the 2012 Bonds are as follows:

Period Ending	***Principal Paid***	***Principal Redeemed***	***Interest***	***Total***
March 1, 2022	$0.00	$25,800,000.00	$[__]	$[__]

EXHIBIT A

NOTICE OF FULL OPTIONAL REDEMPTION

ESCONDIDO JOINT POWERS FINANCING AUTHORITY
REVENUE BONDS (WASTEWATER SYSTEM FINANCING), SERIES 2012

BASE CUSIP 29634E

NOTICE IS HEREBY GIVEN to the owners of the above-captioned obligations (the "2012 Bonds"), which were issued pursuant to the Indenture of Trust, dated as of February 1, 2012 (the "2012 Indenture"), by and between the Escondido Joint Powers Financing Authority (the "Authority") and The Bank of New York Mellon Trust Company, N.A., as trustee (the "2012 Trustee"), that 2012 Bonds maturing on and after September 1, 2022 in the aggregate principal amount of $25,800,000 have been called for redemption on March 1, 2022 (the "Redemption Date"). The 2012 Bonds being refunded were originally issued on April 4, 2012 and are described in the following table.

Principal Payment Date (September 1)	***CUSIP®† (29634E)***	***Principal Amount***	***Interest Rate***	***Redemption Price***
2022	BX9	$ 195,000	4.000%	100%
2023	BY7	205,000	4.000	100
2024	BZ4	215,000	3.000	100
2025	CA8	220,000	3.250	100
2026	CB6	235,000	3.375	100
2028	CD2	2,375,000	5.000	100
2030	CF7	2,615,000	5.000	100
2031	CG5	1,410,000	4.000	100
2033	CH3	3,000,000	5.000	100
2036	CE0	3,575,000	5.000	100
2036	CJ9	1,500,000	4.250	100
2041	CK6	10,255,000	5.000	100
TOTAL		$25,800,000		

The 2012 Bonds will be payable on the Redemption Date at a Redemption Price of 100% of the principal amount thereof plus accrued interest thereon to such date (the "Redemption Price"). The Redemption Price of the 2012 Bonds will become due and payable on the Redemption Date. Interest with respect to the 2012 Bonds will cease to accrue and be payable from and after the Redemption Date, and such 2012 Bonds will be surrendered to the 2012 Trustee.

To receive payment on the Redemption Date, owners of the 2012 Bonds being refunded should present and to surrender said 2012 Bonds on the Redemption Date at the address of the 2012 Trustee set forth below:

† CUSIP® is a registered trademark of the American Bankers Association. CUSIP Global Services (CGS) is managed on behalf of the American Bankers Association by S&P Global Market Intelligence. Copyright© CUSIP Global Services. All rights reserved. CUSIP® data herein is provided by CUSIP Global Services. This data is not intended to create a database and does not serve in any way as a substitute for the CGS database. CUSIP® numbers are provided for convenience of reference only. Neither the Authority nor the City of Escondido or their agents or counsel assume responsibility for the accuracy of such numbers.

First Class/Registered/Certified	*Express Delivery Only*	*By Hand Only*
The Bank of New York Mellon Global Corporate Trust P.O. Box 396 East Syracuse, NY 13057	**The Bank of New York Mellon** Global Corporate Trust 111 Sanders Creek Parkway East Syracuse, NY 13057	**The Bank of New York Mellon** Global Corporate Trust Corporate Trust Window 101 Barclay Street, 1st Floor East New York, New York 10286

Additional information regarding the foregoing actions may be obtained from The Bank of New York Mellon Trust Company, N.A., Corporate Trust Department, Bondholder Relations, telephone number (800) 254-2826.

A form W-9 must be submitted with the 2012 Bonds being refunded. Failure to provide a completed form W-9 will result in 31% backup withholding pursuant to the Interest and Dividend Tax Compliance Act of 1983. Under the Jobs and Growth Tax Relief Reconciliation Act of 2003, 28% will be withheld if the tax identification number is not properly certified.

If the owner of any 2012 Bond being refunded fails to deliver such 2012 Bond to the 2012 Trustee on the Redemption Date, such 2012 Bond shall nevertheless be deemed redeemed on the Redemption Date and the owner of such 2012 Bond shall have no rights in respect thereof except to receive payment of the Redemption Price from funds held by the 2012 Trustee for such payment.

Note: *The City of Escondido, the Authority and the 2012 Trustee shall not be responsible for the selection or use of the CUSIP numbers selected, nor is any representation made as to their correctness in the notice or as printed on any 2012 Bond. They are included solely for the convenience of the holders.*

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., as 2012 Trustee

January 28, 2022

EXHIBIT B

NOTICE OF DEFEASANCE

ESCONDIDO JOINT POWERS FINANCING AUTHORITY
REVENUE BONDS (WASTEWATER SYSTEM FINANCING), SERIES 2012

BASE CUSIP 29634E

NOTICE IS HEREBY GIVEN to the owners of the above-captioned obligations (the “2012 Bonds”), which were issued pursuant to the Indenture of Trust, dated as of February 1, 2012 (the “2012 Indenture”), by and between the Escondido Joint Powers Financing Authority (the “Authority”) and The Bank of New York Mellon Trust Company, N.A., as trustee (the “2012 Trustee”), that the City of Escondido (the “City”) has caused to be deposited with The Bank of New York Mellon Trust Company, N.A., as escrow agent (the “Escrow Agent”), cash and federal securities, the principal of and interest on which when paid will provide an amount sufficient to pay on March 1, 2022 (the “Redemption Date”), the principal of the 2012 Bonds maturing after the Redemption Date, plus interest with respect thereto accrued through the Redemption Date, without premium. The 2012 Bonds were originally issued on April 4, 2012 and are described in the below table.

Principal Payment Date (September 1)	***CUSIP®† (29634E)***	***Principal Amount***	***Interest Rate***
2022	BX9	$ 195,000	4.000%
2023	BY7	205,000	4.000
2024	BZ4	215,000	3.000
2025	CA8	220,000	3.250
2026	CB6	235,000	3.375
2028	CD2	2,375,000	5.000
2030	CF7	2,615,000	5.000
2031	CG5	1,410,000	4.000
2033	CH3	3,000,000	5.000
2036	CE0	3,575,000	5.000
2036	CJ9	1,500,000	4.250
2041	CK6	10,255,000	5.000
TOTAL		$25,800,000	

In accordance with the 2012 Indenture and the Installment Purchase Agreement, dated as of February 1, 2012 (the “2012 IPA”), by and between the City and the Authority, upon the deposit of moneys with the Escrow Agent as described above: (i) the 2012 Bonds will be discharged in accordance with the 2012 Indenture; (ii) the tax status of the interest portion of the Series 2012 Installment Payments under the 2012 IPA will not be adversely affected; and (iii) the right, title and interest of the Authority in the 2012 IPA and the obligations of the City thereunder will cease,

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terminate and become void and be completely discharged and satisfied (except as set forth in 2012 IPA).

No representation is made as to the correctness of the CUSIP number either as printed on any 2012 Bond or as contained herein and any error in the CUSIP number shall not affect the validity of the proceedings for defeasance or redemption of the 2012 Bonds.

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., as 2012 Trustee

December __, 2021

$[PAR]
CITY OF ESCONDIDO
WASTEWATER [SYSTEM] REVENUE REFUNDING BONDS, SERIES 2021A

BOND PURCHASE CONTRACT

[Pricing Date]

City of Escondido
201 North Broadway
Escondido, California 92025

Ladies and Gentlemen:

Stifel, Nicolaus & Company, Incorporated (the "**Underwriter**") offers to enter into this Bond Purchase Contract (this "**Purchase Contract**") with the City of Escondido (the "**City**") for the purchase by the Underwriter of the City of Escondido Wastewater [System] Revenue Refunding Bonds, Series 2021A (the "**Bonds**"). This offer is made subject to the City's acceptance by execution of this Purchase Contract and delivery of the same to the Underwriter 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 Underwriter upon notice delivered to the City at any time prior to such acceptance. Upon the City's acceptance hereof, this Purchase Contract will be binding upon the City and the Underwriter.

The City acknowledges and agrees that: (i) the purchase and sale of the Bonds (as hereinafter defined) pursuant to this Purchase Contract is an arm's-length commercial transaction between the City and the Underwriter; (ii) in connection therewith and with the discussions, undertakings and procedures leading up to the consummation of such transaction, the Underwriter is and has been acting solely as principal and is not acting as agent or Municipal Advisor (as defined in Section 15B of the Securities Exchange Act of 1934, as amended (the "**Exchange Act**")), and has not assumed any advisory or fiduciary responsibility in favor of the City with respect to the offering of the Bonds or the process leading thereto (whether or not the Underwriter has advised or is currently advising the City on other matters); (iii) the only obligations the Underwriter has to the City with respect to the transaction contemplated hereby expressly are set forth in this Purchase Contract; (iv) the City has consulted its own legal, financial, accounting, tax and other advisors to the extent it has deemed appropriate; (v) the Underwriter has financial interests that differ from and may be adverse to those of the City; and (vi) the Underwriter has provided the City with certain disclosures required under the rules of the Municipal Securities Rulemaking Board (the "**MSRB**"). The City acknowledges and represents that it has engaged CSG Advisors, Incorporated (the "**Municipal Advisor**") as its municipal advisor and will rely on the financial advice of the Municipal Advisor with respect to the Bonds.

Capitalized terms used in this Purchase Contract and not otherwise defined herein will have the respective meanings set forth for such terms in the Indenture (as hereinafter defined).

Section 1. Purchase and Sale. Upon the terms and conditions and upon the basis of the representations set forth in this Purchase Contract, the Underwriter agrees to purchase from the City, and the City agrees to sell and deliver to the Underwriter, all (but not less than all) of the Bonds at a purchase price of $_______ (being an amount equal to the principal amount of the Bonds ($[PAR].00), *less* an underwriter's discount of $______). The obligation of the Underwriter to purchase, accept delivery of and pay for the Bonds will be conditioned on the sale and delivery of all of the Bonds by the City to the Underwriter at Closing (hereinafter defined).

Section 2. Bond Terms; Purpose; Security.

(a) Bond Terms and Authorization. The Bonds will be dated their date of delivery and will mature and bear interest as shown on Exhibit A. The Bonds will be as described in, and will be issued and secured under, an Indenture of Trust, dated as of December 1, 2021 (the "**Indenture**"), by and between the City and The Bank of New York Mellon Trust Company, N.A., as trustee (the "**Trustee**"). The Bonds are payable and subject to redemption as shown in Exhibit A.

The Bonds will be issued pursuant to Articles 10 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California, including but not limited to Section 53583, and the City Resolution (as hereinafter defined).

(b) Purpose. The City is issuing the Bonds to provide funds to: (i) refund all of the outstanding Escondido Joint Powers Financing Authority Revenue Bonds (Wastewater System Financing), Series 2012 (the "**2012 Bonds**") and (ii) pay costs incurred in connection with the issuance of the Bonds. The proceeds of the 2012 Bonds were used to finance certain capital improvements (the "**2012 Project**") to the City's wastewater system, as more particularly described in the Indenture (the "**Wastewater System**"). In connection with the refunding of all of the outstanding 2012 Bonds, the City, the Escondido Joint Powers Financing Authority (the "**Authority**"), and The Bank of New York Mellon Trust Company, N.A., as escrow agent and as trustee of the 2012 Bonds (in such capacities, the "**Escrow Agent**") will enter into an Escrow Agreement (2012 Bonds), dated as of December 1, 2021 (the "**Escrow Agreement**").

(c) Security. Under the Indenture, the Bonds will be secured by a pledge of Revenues (as defined therein) and will be payable from "**Net Revenues**" (as defined therein) of the Wastewater System which generally consists of gross revenues of the Wastewater System, less operation and maintenance costs of the Wastewater System, on a parity with the City's obligation to make debt service payments on the (i) City of Escondido Refunding Revenue Bonds (Wastewater System) Series 2015A and the City of Escondido Refunding Revenue Bonds (Wastewater System) Series 2015B (Taxable) (collectively, the "**2015 Bonds**"), (ii) five agreements with the State of California Water Resources Control Board (the "**SWRCB**"), namely the "Water Reclamation Project State Loan," the "Tertiary Treatment Facility State Loan," the "Blower State Loan," the "Recycled Water Easterly Main and Tanks Project Loan" and the "Brine Line Transmission Project Loan," and (iii) two agreements with the SWRCB, namely the "Recycled Water Easterly Agricultural System Loan" and the "MFRO Facility Loan," as more particularly described in the Indenture.

Section 3. Public Offering. The Underwriter agrees to make an initial bona fide public offering of all of the Bonds, at not in excess of the initial public offering yields or prices set forth on Exhibit A. Following the initial public offering of the Bonds, the offering prices may be changed from time to time by the Underwriter, provided that the Underwriter shall not change any of the principal amounts or the interest rates set forth on Exhibit A. The Bonds may be offered and sold to certain dealers at prices lower than such initial public offering prices. The Bonds are subject to redemption as set forth in Exhibit A.

Section 4. Official Statement; Continuing Disclosure. (a) The City has delivered to the Underwriter the Preliminary Official Statement dated [POS Date] (the "**Preliminary Official Statement**") and will deliver to the Underwriter a final official statement dated the date of this Purchase Contract (as amended and supplemented from time to time pursuant to Section 5(i) of this Purchase Contract, the "**Official Statement**"). Subsequent to its receipt of the City's 15c2-12 Certificate, in substantially the form attached hereto as Exhibit B, deeming the Preliminary Official Statement final for purposes of Rule 15c2-12 of the Securities and Exchange Commission, as amended ("**Rule 15c2-12**"), the Underwriter has distributed copies of the Preliminary Official Statement. The City hereby ratifies the use by the Underwriter of the Preliminary Official Statement and authorizes the Underwriter to use and distribute in printed and/or electronic format the Official Statement (including all information previously permitted to have been omitted by Rule 15c2-12, and any supplements and amendments thereto as have been approved by the City as evidenced by the execution and delivery of such document by an officer of the City), the Indenture, this Purchase Contract, the Continuing Disclosure Certificate (hereinafter defined), and all information contained therein, and all other documents, certificates and written statements furnished by the City to the Underwriter in connection with the transactions contemplated by this Purchase Contract, in connection with the offer and sale of the Bonds by the Underwriter.

The Underwriter hereby agrees to deliver a copy of the Official Statement to the MSRB through the Electronic Municipal Marketplace Access website of the MSRB on or before the date of the Closing and otherwise to comply with all applicable statutes and regulations in connection with the offering and sale of the Bonds, including, without limitation, MSRB Rule G-32 and Rule 15c2-12. The City agrees to deliver to the Underwriter as many copies of the Official Statement as the Underwriter will reasonably request as necessary to comply with paragraph (b)(4) of Rule 15c2-12. The City agrees to deliver the final Official Statement within seven business days after the execution hereof, or such earlier date identified by the Underwriter to be necessary to allow the Underwriter to meet its obligations under Rule 15c2-12 and Rule G-32 of the MSRB.

(b) The Underwriter agrees to: (1) provide the City with final pricing information on the Bonds on a timely basis prior to the Closing; and (2) take any and all other actions necessary to comply with applicable Securities and Exchange Commission rules and MSRB rules governing the offering, sale and delivery of the Bonds to ultimate purchasers.

(c) In connection with issuance of the Bonds, and in order to assist the Underwriter with complying with the provisions of Rule 15c2-12, the City will execute a Continuing Disclosure Certificate (the "**Continuing Disclosure Certificate**"), under which the City will undertake to provide certain financial and operating data as required by Rule 15c2-12. The form of the Continuing Disclosure Certificate is attached as an appendix to the Preliminary Official Statement and will be attached as an appendix to the final Official Statement.

Section 5. Representations, Warranties and Covenants of the City. The City hereby represents, warrants and agrees with the Underwriter that:

(a) The City is a general law city and municipal corporation that is duly organized and existing under and by virtue of the Constitution of the State of California (the "**State**") and has all necessary power and authority to adopt its resolution adopted on _______, 2021 (the "**City Resolution**"), to enter into and perform its duties under the Indenture, the Continuing Disclosure Certificate, the Escrow Agreement, and this Purchase Contract (the "**City Agreements**") and, when executed and delivered by the respective parties thereto, the City Agreements will constitute legal, valid and binding obligations of the City enforceable in accordance with their respective terms.

(b) The city council (the "**City Council**") of the City has taken official action by adopting the City Resolution by a majority of the members of the City Council at a meeting duly called, noticed and conducted, at which a quorum was present and acting throughout, authorizing the execution, delivery and due performance of the City Agreements and the Official Statement and the taking of any and all such action as may be required on the part of the City to carry out, give effect to and consummate the transactions contemplated hereby.

(c) By all necessary official action, the City has duly adopted the City Resolution, has duly authorized the preparation and delivery of the Preliminary Official Statement and the preparation, execution and delivery of the Official Statement, has duly authorized and approved the execution and delivery of, and the performance of its obligations under, the City Agreements, and the consummation by it of all other transactions contemplated by the City Resolution, the City Agreements, the Preliminary Official Statement and the Official Statement. When executed and delivered by the respective parties thereto, the City Agreements (assuming due authorization, execution and delivery by and enforceability against the other parties thereto) will be in full force and effect and each will constitute legal, valid and binding agreements or obligations of the City, enforceable in accordance with their respective terms, except as enforcement thereof may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws or equitable principles relating to or limiting creditors rights generally, the application of equitable principles, the exercise of judicial discretion and the limitations on legal remedies against public entities in the State.

(d) At the time of the City's acceptance hereof and at all times subsequent thereto up to and including the time of the Closing, the information and statements in the Official Statement (other than any information concerning The Depository Trust Company and the book-entry system for the Bonds or provided by the Underwriter) do not and will not contain any untrue statement of a material fact or omit to state a 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.

(e) As of the date hereof, there is no action, suit, proceeding or investigation before or by any court, public board or body pending against the City or, to the best knowledge of the City, threatened, wherein an unfavorable decision, ruling or finding would: (i) affect the creation, organization, existence or powers of the City, or the titles of its members or officers; (ii) in any way question or affect the validity or enforceability of City Agreements or the Bonds, or (iii) in any way question or affect the Purchase Contract or the transactions contemplated by the Purchase Contract, the Official Statement, or any other agreement or instrument to which the City is a party relating to the Bonds.

(f) There is no consent, approval, authorization or other order of, or filing or registration with, or certification by, any regulatory authority having jurisdiction over the City required for the execution and delivery of this Purchase Contract or the consummation by the City of the other transactions contemplated by the Official Statement or the City Agreements.

(g) Any certificate signed by any official of the City authorized to do so will be deemed a representation and warranty by the City to the Underwriter as to the statements made therein.

(h) Except as previously disclosed to the Underwriter, the City is not in default, and at no time has the City defaulted in any material respect, on any bond, note or other obligation for borrowed money or any agreement under which any such obligation is or was outstanding.

(i)

(1) Except as disclosed in the Official Statement or otherwise disclosed in writing to the Underwriter, there has not been any materially adverse change in the financial condition of the City since [June 30, 2021], and there has been no occurrence or circumstance or combination thereof that is reasonably expected to result in any such materially adverse change.

(2) If between the date of this Purchase Contract and the date which is 25 days following the End of the Underwriting Period, any event will occur which might or would cause the Official Statement, as then supplemented or amended, to contain any untrue statement of a material fact or to omit to state a 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, the City will immediately notify the Underwriter, and if, in the opinion of the Underwriter, such event requires the preparation and publication of a supplement or amendment to the Official Statement, the City will at its expense supplement or amend the Official Statement in a form and in a manner approved by the Underwriter. As used herein, the term "**End of the Underwriting Period**" means the later of such time as: (i) the Bonds are delivered to the Underwriter; or (ii) the Underwriter does not retain, directly or as a member of an underwriting syndicate, an unsold balance of the Bonds for sale to the public. Unless the Underwriter gives notice to the contrary, the End of the Underwriting Period shall be deemed to be the Closing Date (as described in Section 6 below). Any notice delivered pursuant to this provision shall be written notice delivered to the District at or prior to the Closing Date, and shall specify a date (other than the Closing Date) to be deemed the "End of the Underwriting Period."

(3) After the Closing, the City will not participate in the issuance of any amendment of or supplement to the Official Statement to which, after being furnished with a copy, the Underwriter reasonably objects in writing or which is disapproved by Underwriter's Counsel. If any event relating to or affecting the City occurs as a result of which it is necessary, in the opinion of the Underwriter, to amend or supplement the Official Statement in order to make the Official Statement not misleading in the light of the circumstances existing at the time it is delivered to a purchaser, the City will use its best efforts to assist the Underwriter in preparing (at the expense of the City for 90 days after the date of the Closing, and thereafter at the expense of the Underwriter) a reasonable number of copies of an amendment of or supplement to the Official Statement (in form and substance satisfactory to the Underwriter) which will amend or supplement the Official Statement so that it will not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances existing at the time the Official Statement is delivered to a purchaser, not misleading. For the purposes of this subsection, the City will furnish such information with respect to itself as the Underwriter may from time to time reasonably request.

(j) Except as disclosed in the Official Statement or otherwise disclosed in writing to the Underwriter, the City has not previously failed to comply in all material respects with any undertakings under Rule 15c2-12 in the past five years. The report of Lumesis, Inc. dated as of _______, 2021 (the "**Continuing Disclosure Due Diligence Report**") identifies all of the issues for which the City was obligated to provide continuing disclosure under Rule 15c2-12 during the past five years and all of the material event filings that were required with respect to such issues during the five-year period.

(k) The City does not need the consent of its auditor to include its comprehensive annual financial report for the fiscal year ended [June 30, 2021] as an appendix to the Official Statement.

(l) The City covenants with the Underwriter that the City will cooperate with the Underwriter (at the cost and written directions of the Underwriter), in qualifying the Bonds for offer and sale under the securities or Blue Sky laws of such jurisdiction of the United States as the Underwriter may reasonably request; provided, however, that the City shall not be required to consent to suit or to service of process, or to qualify to do business, in any jurisdiction. The City consents to the use by the Underwriter of the City Agreements, the Preliminary Official Statement and the Official Statement in the course of its compliance with the securities or Blue Sky laws of the various jurisdictions related to the offering and sale of the Bonds.

Section 6. The Closing. (a) At 8:00 A.M., California time, on [Closing Date], or on such earlier or later time or date as may be agreed upon by the Underwriter and the City (the "**Closing**"), the City will deliver the Bonds to the Underwriter, through the book-entry system of The Depository Trust Company ("**DTC**"). Prior to the Closing, the City will deliver, at the offices of Stradling Yocca Carlson & Rauth, a Professional Corporation ("**Bond Counsel**"), in Newport Beach, California, or such other place as is mutually agreed upon by the Underwriter and the City, the other documents described in this Purchase Contract. On the date of the Closing, the Underwriter will pay the purchase price of the Bonds as set forth in Section 1 of this Purchase Contract in immediately available funds to the order of the Trustee.

(b) The Bonds will be issued in fully registered form and will be prepared and delivered as one Bond for each maturity registered in the name of a nominee of DTC. It is anticipated that CUSIP identification numbers will be inserted on the Bonds, but neither the failure to provide such numbers nor any error with respect thereto will constitute a cause for failure or refusal by the Underwriter to accept delivery of the Bonds in accordance with the terms of this Purchase Contract.

Section 7. Conditions to Underwriter's Obligations. The Underwriter has entered into this Purchase Contract in reliance upon the representations and warranties of the City contained herein and to be contained in the documents and instruments to be delivered on the date of the Closing, and upon the performance by the City of its obligations to be performed hereunder and under such documents and instruments to be delivered at or prior to the date of the Closing. The Underwriter's obligations under this Purchase Contract are and will also be subject to the sale, issuance and delivery of the Bonds as well as the following conditions:

(a) The representations and warranties of the City contained in this Purchase Contract will be true and correct in all material respects on the date of this Purchase Contract and on and as of the date of the Closing as if made on the date of the Closing;

(b) As of the date of the Closing, the Official Statement may not have been amended, modified or supplemented, except in any case as may have been agreed to by the Underwriter;

(c) (i) As of the date of the Closing, the City Resolution, the Authority Resolution, and the City Agreements will be in full force and effect, and will not have been amended, modified or supplemented, except as may have been agreed to by the Underwriter; (ii) the City will perform or have performed all of its obligations required under or specified in the City Resolution and the City Agreements to be performed at or prior to the date of the Closing; and (iii) the Authority will perform or have performed all of its obligations required under or specified in the Authority Resolution and the Escrow Agreement to be performed at or prior to the date of the Closing;

(d) As of the date of the Closing, all necessary official action of the City relating to the City Agreements, the City Resolution, and the Official Statement, and all necessary official action of the Authority relating to the Escrow Agreement, will have been taken and will be in full force and effect and will not have been amended, modified or supplemented in any material respect, except as may have been agreed to by the City and Underwriter; and

(e) As of or prior to the date of the Closing, the Underwriter will have received each of the following documents:

(1) A certified copy of the City Resolution and the Authority Resolution.

(2) Duly executed copies of the City Agreements.

(3) The Preliminary Official Statement and the Official Statement, with the Official Statement duly executed on behalf of the City.

(4) An approving opinion of Bond Counsel, dated as of the Closing, as to the validity of the Bonds and the exclusion of interest on the Bonds from federal gross income and State income taxation addressed to the City substantially in the form attached as an appendix to the Official Statement, and a reliance letter with respect thereto addressed to the Underwriter.

(5) A supplemental opinion of Bond Counsel, addressed to the Underwriter, to the effect that:

(i) The Continuing Disclosure Certificate, the Escrow Agreement, and this Purchase Contract have been duly executed and delivered by City and are each valid and binding upon the City, subject to laws relating to bankruptcy, insolvency, reorganization or creditors' rights generally and to the application of equitable principles;

(ii) The Escrow Agreement has been duly executed and delivered by the Authority and is valid and binding upon the Authority, subject to laws relating to bankruptcy, insolvency, reorganization or creditors' rights generally and to the application of equitable principles;

(iii) The Bonds are exempt from registration pursuant to the Securities Act of 1933, as amended (the "**Securities Act**"), and the Indenture is exempt from qualification pursuant to the Trust Indenture Act of 1939, as amended; and

(iv) The statements contained in the Official Statement on the cover and under the headings ["INTRODUCTION," "PLAN OF FINANCE," "THE 2021 BONDS," "SECURITY FOR THE 2021 BONDS," "TAX MATTERS," in "APPENDIX B – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE" and "APPENDIX C – FORM OF OPINION OF BOND COUNSEL,"] insofar as such statements purport to describe certain provisions of the Bonds, the Indenture, and the Escrow Agreement, or to state legal conclusions and the opinion of Bond Counsel regarding the tax-exempt nature of the Bonds from Federal and State income taxes, present a fair and accurate summary of the provisions thereof.

(6) An opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, as disclosure counsel to the City, addressed to the Underwriter, to the effect that: During the course of our work on this matter, no facts have come to our attention that cause us to believe that the Preliminary Official Statement as of its date and the date of the pricing of the Bonds and the Official Statement as of its date and the Closing date (excluding from the Preliminary Official Statement and the Official Statement, the financial statements, any financial or statistical data, or forecasts, charts, numbers, estimates, projections, assumptions or expressions of opinion included in the Preliminary Official Statement and the Official Statement and the appendices to the Preliminary Official Statement and the Official Statement) contain any untrue statement of a material fact or omit 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.

(7) An opinion or opinions of the City Attorney, dated as of the Closing addressed to the City, the Trustee and the Underwriter, in form and substance acceptable to the Underwriter, to the effect that:

(i) The City is a municipal corporation and general law city duly organized and validly existing under the laws and the Constitution of the State of California. The City Council is the governing body of the City.

(ii) The City has all necessary power and authority to adopt the City Resolution, to enter into and perform its duties under the City Agreements, and, when executed and delivered by the respective parties thereto, the City Agreements will each constitute a legal, valid and binding obligation of the City enforceable in accordance with its respective terms, except as such enforcement may be limited by bankruptcy, moratorium and the exercise of equitable principles where equitable remedies are sought.

(iii) The City Resolution was duly adopted at a meeting of the City Council, which was 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 the City Resolution is in full force and effect and has not been modified, amended or rescinded since the date of its adoption.

(iv) The execution and delivery by the City of the City Agreements, the Official Statement and the other instruments contemplated by any of such documents to which the City is a party, and compliance with the provisions of each thereof, will not conflict with or constitute a breach of or default under any applicable law or administrative rule or regulation of the State, the United States or any department, division, agency or instrumentality of either thereof, or any applicable court or administrative decree or order or any loan agreement, note, resolution, indenture, contract, agreement or other instrument to which the City is a party or is otherwise subject or bound in a manner which could materially adversely affect the City's performance under the City Agreements.

(v) All approvals, consents, authorizations, elections and orders of or filings or registrations with any governmental authority, board, agency or commission having jurisdiction which would constitute a condition precedent to, or the absence of which could materially adversely affect, the performance by the City of its obligations under the City Agreements have been obtained and are in full force and effect.

(vi) To the best of the City Attorney's knowledge, after due inquiry, no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, public board or body, is pending or threatened in any way against the City (A) affecting the existence of the City or the titles of its City Council members or its officers to their respective offices, (B) seeking to restrain or to enjoin the issuance or sale of the Bonds, (C) in any way contesting or affecting the validity or enforceability of the City Resolution or the City Agreements, (D) in any way contesting the powers of the City to issue or sell the Bonds or its authority with respect to the City Resolution or the City Agreements, (E) in any way contesting or affecting any of the rights, powers, duties or obligations of the City with respect to the money or property pledged or to be pledged under the Indenture, or (F) in any way questioning the accuracy of the statements in the Preliminary Official Statement or the Official Statement.

(vii) The Authority is a joint exercise of powers authority organized and validly existing under the laws of the State. The Board of Directors of the Authority is the governing body of the Authority.

(viii) The Authority has all necessary power and authority to adopt its resolution adopted by the Board of Directors of the Authority on _____, 2021 (the "**Authority Resolution**"), and to enter into and perform its duties under the Escrow Agreement and, when executed and delivered by the parties thereto, the Escrow Agreement will constitute the legal, valid and binding obligation of the Authority enforceable in accordance with its terms, except as such enforcement may be limited by bankruptcy, moratorium and the exercise of equitable principles where equitable remedies are sought.

(ix) The Authority Resolution was duly adopted at a regular meeting of the Authority's Board of Directors, which was 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 the Authority Resolution is in full force and effect and has not been modified, amended or rescinded since the date of its adoption.

(x) To the best of the City Attorney's knowledge, after due inquiry, no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, public board or body, is pending or threatened in any way against the Authority (A) affecting the existence of the Authority or the titles of its Board members or its officers to their respective offices, or (B) in any way contesting or affecting the validity or enforceability of the Authority Resolution or the Escrow Agreement.

(xi) The execution and delivery by the Authority of the Escrow Agreement will not conflict with or constitute a breach of or default under any applicable law or administrative rule or regulation of the State, the United States or any department, division, agency or instrumentality of either thereof, or any applicable court or administrative decree or order or any loan agreement, note, resolution, indenture, contract, agreement or other instrument to which the Authority is a party or is otherwise subject or bound in a manner which would materially adversely affect the Authority's performance under the Escrow Agreement.

(xii) All approvals, consents, authorizations, elections and orders of or filings or registrations with any governmental authority, board, agency or commission having jurisdiction which would constitute a condition precedent to, or the absence of which would materially adversely affect, the performance by the Authority of its obligations under the Escrow Agreement have been obtained and are in full force and effect.

(8) A letter of Jones Hall, A Professional Law Corporation ("**Underwriter's Counsel**"), addressed to the Underwriter, in form and substance acceptable to the Underwriter.

(9) An executed certificate of the City, dated as of the date of the Preliminary Official Statement, in the form attached as Exhibit B.

(10) An executed closing certificate of the City, dated as of the Closing, in the form attached as Exhibit C.

(11) The opinion of counsel to The Bank of New York Mellon Trust Company, N.A. ("**BNY**"), dated as of the Closing, addressed to the City and the Underwriter to the effect that:

(i) BNY is a national banking association duly organized and validly existing under the laws of the jurisdiction of its organization, and has the corporate power to execute and deliver, and to perform its obligations under, the Indenture and the Escrow Agreement;

(ii) The Indenture and the Escrow Agreement have been duly authorized, executed and delivered by BNY, and, assuming due authorization, execution and delivery by the other parties thereto, the Indenture and the Escrow Agreement constitute the valid and legally binding agreements of BNY enforceable in accordance with their terms, subject to laws relating in bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally and the application of equitable principles if equitable remedies are sought;

(iii) The execution and delivery by BNY of the Indenture and the Escrow Agreement and compliance with the terms thereof will not conflict in any material respect with, or result in a violation or breach of, or constitute a default under, any material agreement or material instrument to which BNY is a party or by which it is bound, or any law or any rule, regulation, order or decree of any court or governmental agency or body having jurisdiction over BNY or any of its activities or properties (except that no representation, warranty or agreement need be made by such counsel with respect to any federal or State securities or blue sky laws or regulations); and

(iv) BNY has duly authenticated the Bonds.

(12) A certificate of BNY, dated as of the Closing, in the form attached as Exhibit D.

(13) A tax certificate duly signed on behalf of the City in form and substance acceptable to Bond Counsel and the Underwriter.

(14) A defeasance opinion of Bond Counsel, in form and substance acceptable to the Underwriter, relating to the 2012 Bonds.

(15) Evidence of required filings with the California Debt and Investment Advisory Commission.

(16) A copy of the executed Blanket Issuer Letter of Representations by and between the City and DTC relating to the book-entry system.

(17) Evidence that the Bonds have received the ratings described in the Official Statement.

(18) A copy of the Continuing Disclosure Due Diligence Report.

(19) A certificate of the Municipal Advisor, in substantially the form attached hereto as Exhibit E.

(20) A certificate confirming the satisfaction of the conditions to the issuance of the Bonds set forth in Section 6.14 of the Indenture of Trust, dated as of May 1, 2015, between the City and BNY, as trustee, relating to the 2015 Bonds.

(21) A verification report of Causey Demgen & Moore P.C., Denver, Colorado, confirming the sufficiency of the deposits in the escrow account established under the Escrow Agreement to defease and redeem the outstanding 2012 Bonds as provided in the Escrow Agreement.

(22) Such additional legal opinions, certificates, proceedings, instruments and other documents as the Underwriter or Bond Counsel may reasonably request to evidence compliance by the City with legal requirements, the truth and accuracy, as of the date of the Closing, of the representations of the City herein contained and of the Official Statement and the due performance or satisfaction by the City at or prior to such time of all agreements then to be performed and all conditions then to be satisfied by the City.

All of the opinions, letters, certificates, instruments and other documents mentioned in this Purchase Contract will be deemed to be in compliance with the provisions of this Purchase Contract if, but only if, they are in form and substance satisfactory to the Underwriter. If the City is unable to satisfy the conditions to the obligations of the Underwriter to purchase, to accept delivery of and to pay for the Bonds contained in this Purchase Contract or if the obligations of the Underwriter to purchase, to accept delivery of and to pay for the Bonds will be terminated for any reason permitted by this Purchase Contract, this Purchase Contract will terminate and neither the Underwriter nor the

City will be under further obligations hereunder, except that the respective obligations of the City and the Underwriter set forth in Section 11 of this Purchase Contract will continue in full force and effect.

Section 8. Conditions to City's Obligations. The performance by the City of its respective obligations under this Purchase Contract are conditioned upon: (i) the performance by the Underwriter of its obligations hereunder and (ii) receipt by the City of opinions addressed to the City, and receipt by the Underwriter of opinions addressed to the Underwriter, and the delivery of certificates being delivered on the date of the Closing by persons and entities other than the City.

Section 9. Establishment of Issue Price.

(a) The Underwriter agrees to assist the City in establishing the issue price of the Bonds and shall execute and deliver to the City at Closing an "issue price" or similar certificate, together with the supporting pricing wires or equivalent communications, substantially in the form attached hereto as Exhibit F, with such modifications as may be appropriate or necessary, in the reasonable judgment of the Underwriter, the City and Bond Counsel, to accurately reflect, as applicable, the sales price or prices or the initial offering price or prices to the public of the Bonds.

(b) Except as otherwise set forth in Exhibit A attached hereto, the City 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. At or promptly after the execution of this Purchase Contract, the Underwriter shall report to the City the price or prices at which it has sold to the public each maturity of Bonds. If at that time the 10% test has not been satisfied as to any maturity of the Bonds, the Underwriter agrees to promptly report to the City the prices at which it sells the unsold Bonds of that maturity to the public. That reporting obligation shall continue, whether or not the Closing has occurred, until either (i) the Underwriter has sold all Bonds of that maturity or (ii) the 10% test has been satisfied as to the Bonds of that maturity, provided that the Underwriter's reporting obligation after the date of the Closing may be at reasonable periodic intervals or otherwise upon request of the City or Bond Counsel. For purposes of this Section, if Bonds mature on the same date but have different interest rates, each separate CUSIP number within that maturity will be treated as a separate maturity of the Bonds.

(c) The Underwriter confirms that it has offered the Bonds to the public on or before the date of this Purchase Contract at the offering price or prices (the "**initial offering price**"), or at the corresponding yield or yields, set forth in Exhibit A attached hereto, except as otherwise set forth therein. Exhibit A also sets forth, as of the date of this Purchase Contract, the maturities, if any, of the Bonds for which the 10% test has not been satisfied and for which the City and the Underwriter agree that the restrictions set forth in the next sentence shall apply, which will allow the City 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 Bonds, the Underwriter will neither offer nor sell unsold Bonds of that maturity 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:

(1) the close of the fifth (5^{th}) business day after the sale date; or

(2) the date on which the Underwriter has sold at least 10% of that maturity of the Bonds to the public at a price that is no higher than the initial offering price to the public.

The Underwriter will advise the City promptly after the close of the fifth (5th) business day after the sale date whether it has sold 10% of that maturity of the Bonds to the public at a price that is no higher than the initial offering price to the public.

(d) The Underwriter confirms that:

(i) any selling group agreement and any third-party distribution 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 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 has occurred, until either all Bonds of that maturity allocated to it have been sold or it is notified by the Underwriter that the 10% test has been satisfied as to the Bonds of that maturity, provided that the reporting obligation after the date of the Closing may be at reasonable periodic intervals or otherwise upon request of the Underwriter, and (ii) to comply with the hold-the-offering-price rule, if applicable, if and for so long as directed by the Underwriter,

(B) to promptly notify the Underwriter 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), and

(C) to acknowledge that, unless otherwise advised by the dealer or broker-dealer, the Underwriter shall assume that each order submitted by the dealer or broker-dealer is a sale to the public.

(ii) any 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 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 has occurred, until either all Bonds of that maturity allocated to it have been sold or it is notified by the Underwriter or the dealer that the 10% test has been satisfied as to the Bonds of that maturity, provided that the reporting obligation after the date of the Closing may be at reasonable periodic intervals or otherwise upon request of the Underwriter or the dealer, and (B) comply with the hold-the-offering-price rule, if applicable, if and for so long as directed by the Underwriter or the dealer and as set forth in the related pricing wires.

(e) The City acknowledges that, in making the representations set forth in this section, the Underwriter will rely on (i) 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 (ii) in the event that a third-party distribution agreement 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 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 City further acknowledges that the Underwriter shall not be liable for the failure 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 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.

(f) The Underwriter acknowledges 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 City (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 Purchase Contract by all parties.

Section 10. Termination Events. The Underwriter will have the right to terminate the Underwriter's obligations under this Purchase Contract to purchase, to accept delivery of and to pay for the Bonds by notifying the City of its election to do so if, after the execution hereof and prior to the Closing, any of the following events occurs:

(a) the marketability of the Bonds or the market price thereof, in the opinion of the Underwriter, has been materially and adversely affected by any decision issued by a court of the United States (including the United States Tax Court) or of the State, by any ruling or regulation (final, temporary or proposed) issued by or on behalf of the Department of the Treasury of the United States, the Internal Revenue Service, or other governmental agency of the United States, or any governmental agency of the State, or by a tentative decision or announcement by any member of the House Ways and Means Committee, the Senate Finance

Committee, or the Conference Committee with respect to contemplated legislation or by legislation enacted by, pending in, or favorably reported to either the House of Representatives or either House of the Legislature of the State, or formally proposed to the Congress of the United States by the President of the United States or to the Legislature of the State by the Governor of the State in an executive communication, affecting the tax status of the City, its property or income, its bonds (including the Bonds) or the interest thereon or any tax exemption granted or authorized by the Internal Revenue Code of 1986, as amended;

(b) the United States becomes engaged in hostilities that result in a declaration of war or a national emergency, or any other outbreak of hostilities occurs, or a local, national or international calamity or crisis occurs, financial or otherwise, the effect of such outbreak, calamity or crisis being such as, in the reasonable opinion of the Underwriter, would affect materially and adversely the ability of the Underwriter to market the Bonds;

(c) there occurs a general suspension of trading on the New York Stock Exchange or other major exchange shall be in force, or minimum or maximum prices for trading shall have been fixed and be in force, or maximum ranges for prices for securities shall have been required and be in force on any such exchange, whether by virtue of determination by that exchange or by order of the SEC or any other governmental authority having jurisdiction;

(d) a stop order, ruling, regulation or official statement by, or on behalf of, the Securities and Exchange Commission is issued or made to the effect that the issuance, offering or sale of the Bonds is or would be in violation of any provision of the Securities Act of 1933, as then in effect, or of the Securities Exchange Act of 1934, as then in effect, or of the Trust Indenture Act of 1939, as then in effect;

(e) legislation is enacted by the House of Representatives or the Senate of the Congress of the United States of America, or a decision by a court of the United States of America is rendered, or a ruling or regulation by or on behalf of the Securities and Exchange Commission or other governmental agency having jurisdiction of the subject matter is made or proposed to the effect that the obligations of the general character of the Bonds, including the Bonds, are not exempt from registration, qualification or other similar requirements of the Securities Act of 1933, as then in effect, or of the Trust Indenture Act of 1939, as then in effect;

(f) in the reasonable judgment of the Underwriter, the market price of the Bonds, or the market price generally of obligations of the general character of the Bonds, might be materially and adversely affected because additional material restrictions not in force as of the date hereof is imposed upon trading in securities generally by any governmental authority or by any national securities exchange;

(g) the Comptroller of the Currency, The New York Stock Exchange, or other national securities exchange, or any governmental authority, imposes, as to the Bonds or obligations of the general character of the Bonds, any material restrictions not now in force, or increase materially those now in force, with respect to the extension of credit by, or the charge to the net capital requirements of, or financial responsibility requirements of the Underwriter;

(h) a general banking moratorium is established by federal, New York or State authorities;

(i) any legislation, ordinance, rule or regulation is introduced in or be enacted by any governmental body, department or agency in the State or a decision of a court of competent jurisdiction within the State is rendered, which, in the opinion of the Underwriter, after consultation with the City, materially adversely affects the market price of the Bonds;

(j) any federal or State court, authority or regulatory body takes action materially and adversely affecting the payment or receipt of the principal and interest on the Bonds;

(k) any withdrawal, downgrading or placement on credit watch negative of any underlying rating of any securities of the City by a national municipal bond rating agency that, in the opinion of the Underwriter, adversely affects the market price of the Bonds;

(l) an event occurs which in the reasonable opinion of the Underwriter requires a supplement or amendment to the Official Statement and: (i) the City refuses to prepare and furnish such supplement or amendment; or (ii) in the reasonable judgment of the Underwriter, the occurrence of such event materially and adversely affects the marketability of the Bonds or the ability of the Underwriter to enforce contracts for the sale of the Bonds;

(m) additional material restrictions that are not in force as of the date hereof shall have been imposed upon trading in securities generally by any domestic governmental authority or by any domestic national securities exchange, which are material to the marketability of the Bonds;

(n) the commencement of any action, suit or proceeding that is described in Section 5(e); or

(o) any change, which in the reasonable opinion of the Underwriter, materially adversely affects the marketability of the Bonds or, the financial condition of the City.

Section 11. Payment of Expenses. (a) The Underwriter will be under no obligation to pay, and the City will pay the following expenses incident to the performance of the City's obligations hereunder:

(i) the fees and disbursements of the City's municipal advisor and of Bond Counsel and Disclosure Counsel;

(ii) the cost of printing and delivering the Bonds, the Preliminary Official Statement and the Official Statement (and any amendment or supplement prepared pursuant to Sections 5(i) of this Purchase Contract);

(iii) the fees and disbursements of accountants, advisers and of any other experts or consultants retained by the City; and

(iv) any other expenses and costs of the City incident to the performance of its obligations in connection with the authorization, issuance and sale of the Bonds, including out-of-pocket expenses and regulatory expenses, and any other expenses agreed to by the parties.

(b) The City will be under no obligation to pay, and the Underwriter will pay, any fees of the California Debt and Investment Advisory Commission, the cost of obtaining CUSIP numbers, the cost of preparation of any “blue sky” or legal investment memoranda and this Purchase Contract; and all other expenses incurred by the Underwriter in connection with its public offering and distribution of the Bonds (except those specifically enumerated in paragraph (a) of this section), including the fees and disbursements of Underwriter’s Counsel, meals, transportation and lodging (but not entertainment expenses), and any advertising expenses in connection with the public offering of the Bonds.

Section 12. Notices. Any notice or other communication to be given to the City under this Purchase Contract may be given by delivering the same in writing to the City, at the address set forth on the first page of this Purchase Contract, and any notice or other communication to be given to the Underwriter under this Purchase Contract may be given by delivering the same in writing to Stifel, Nicolaus & Company, Incorporated, One Montgomery Street, 35th Floor, San Francisco, California 94104, Attention: Sara Brown.

Section 13. Survival of Representations, Warranties, Agreements. All of the City’s representations, warranties and agreements contained in this Purchase Contract will remain operative and in full force and effect regardless of: (a) any investigations made by or on behalf of the Underwriter; or (b) delivery of and payment for the Bonds pursuant to this Purchase Contract. The agreements contained in this Section and in Section 11 will survive any termination of this Purchase Contract.

Section 14. Benefit; No Assignment. This Purchase Contract is made solely for the benefit of the City and the Underwriter (including its successors and assigns), and no other person will acquire or have any right hereunder or by virtue hereof. The rights and obligations created by this Purchase Contract are not subject to assignment by the Underwriter or the City without the prior written consent of the other parties hereto.

Section 15. Severability. In the event that any provision of this Purchase Contract is held invalid or unenforceable by any court of competent jurisdiction, such holding will not invalidate or render unenforceable any other provision of this Purchase Contract.

Section 16. Counterparts. This Purchase Contract may be executed in any number of counterparts, all of which taken together will constitute one agreement, and any of the parties hereto may execute the Purchase Contract by signing any such counterpart.

Section 17. Governing Law. This Purchase Contract will be governed by the laws of the State.

Section 18. Effectiveness. This Purchase Contract will become effective upon the execution of the acceptance hereof by an authorized officer of the City, and will be valid and enforceable as of the time of such acceptance.

Very truly yours,

STIFEL, NICOLAUS & COMPANY,
INCORPORATED, as Underwriter

By: ___________________________________
Authorized Officer

Accepted:

CITY OF ESCONDIDO

By: ___________________________________
Authorized Representative

Time of Execution: ________________

EXHIBIT A

MATURITY SCHEDULE

Maturity (September 1)	Principal Amount	Interest Rate	Yield	Price	10% Test Satisfied*	10% Test Not Satisfied	Subject to Hold-The-Offering-Price Rule

T: Term Bond.
C: Priced to optional redemption date of March 1, 20__, at par.
* At the time of execution of this Purchase Contract and assuming orders are confirmed immediately after the execution of this Purchase Contract.

REDEMPTION

Optional Redemption. The 2021 Bonds with stated maturities on or after March 1, 20__, are subject to redemption prior to their respective stated maturities, as a whole or in part on _____ 1, 20__, or any date thereafter, as directed by the City in a Written Request provided to the Trustee at least 35 days (or such lesser number of days acceptable to the Trustee in the sole discretion of the Trustee, such notice for the convenience of the Trustee) and by lot within each maturity in integral multiples of $5,000, at a Redemption Price equal to the principal amount thereof plus accrued interest thereon to the Redemption Date, without premium.

Mandatory Sinking Fund Redemption. The 2021 Bonds with a stated maturity on September 1, 20__ are subject to mandatory sinking fund redemption prior to maturity, in part (by lot), on September 1, 20__ and each September 1 thereafter to maturity, in integral multiples of $5,000 at a Redemption Price equal to the principal amount thereof plus accrued interest to the Redemption Date, without premium, in accordance with the following schedule:

Redemption Date (September 1)	***Principal Amount***
20__	$
20__*	

* Maturity.

EXHIBIT B

CITY OF ESCONDIDO
WASTEWATER [SYSTEM] REVENUE REFUNDING BONDS, SERIES 2021A

<u>15c2-12 CERTIFICATE</u>

The undersigned hereby certifies and represents that he or she is the duly appointed and acting representative of the City of Escondido (the "City"), and as such is duly authorized to execute and deliver this Certificate and further hereby certifies and confirms on behalf of the City as follows:

(1) This Certificate is delivered in connection with the offering and sale of the bonds captioned above (the "Bonds"), in order to enable the underwriter of the Bonds to comply with Securities and Exchange Commission Rule 15c2-12 under the Securities Exchange Act of 1934, as amended (the "Rule").

(2) In connection with the offering and sale of the Bonds, there has been prepared a Preliminary Official Statement, setting forth information concerning the Bonds and the City (the "Preliminary Official Statement").

(3) As used herein, "Permitted Omissions" means the offering price(s), interest rate(s), selling compensation, aggregate principal amount, principal amount per maturity, delivery dates, ratings and other terms of the Bonds depending on such matters, all with respect to the Bonds.

(4) The Preliminary Official Statement is, except for the Permitted Omissions, deemed final within the meaning of Rule 15c2-12, and the information therein is accurate and complete except for the Permitted Omissions.

Dated: ______________, 2021

CITY OF ESCONDIDO

By:_______________________________
Authorized Officer

EXHIBIT C

$[PAR]
CITY OF ESCONDIDO
WASTEWATER [SYSTEM] REVENUE REFUNDING BONDS, SERIES 2021A

CLOSING CERTIFICATE OF THE CITY

The undersigned hereby certifies and represents that he or she is the duly appointed and acting representative of the City of Escondido (the "City"), and is duly authorized to execute and deliver this Certificate and further hereby certifies and reconfirms on behalf of the City as follows:

(i) The representations, warranties and covenants of the City contained in the Bond Purchase Contract dated [Pricing Date], between the City and Stifel, Nicolaus & Company, Incorporated, as underwriter (the "Purchase Contract"), are true and correct and in all material respects on and as of the date of the Closing with the same effect as if made on the date of the Closing.

(ii) The City Resolution is in full force and effect at the date of the Closing and has not been amended, modified or supplemented.

(iii) The City has complied with all the agreements and satisfied all the conditions on its part to be performed or satisfied on or prior to the date of the Closing.

(iv) Subsequent to the date of the Official Statement and on or prior to the date of such certificate, there has been no material adverse change in the condition (financial or otherwise) of the City, whether or not arising in the ordinary course of operations, as described in the Official Statement.

(v) The Preliminary Official Statement as of its date and the date of the Purchase Contract and the Official Statement as of its date and the date of the Closing (other than any information it contains concerning The Depository Trust Company and the book-entry system for the Bonds or provided by the Underwriter) do not contain any untrue or misleading statement of a material fact and do not omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they are made, not misleading.

Capitalized terms used but not defined herein have the meanings given in the Purchase Contract.

Dated: [Closing Date]

CITY OF ESCONDIDO

By:______________________________
Authorized Officer

EXHIBIT D

$[PAR]
CITY OF ESCONDIDO
WASTEWATER [SYSTEM] REVENUE REFUNDING BONDS, SERIES 2021A

CLOSING CERTIFICATE OF
THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A.

The undersigned hereby certifies and represents that he or she is the duly appointed and acting representative of The Bank of New York Mellon Trust Company, N.A. ("BNY"), and is duly authorized to execute and deliver this Certificate and further hereby certifies and reconfirms on behalf of BNY as follows:

(i) BNY has all necessary power to enter into the Indenture of Trust, dated as of December 1, 2021, by and between the City of Escondido (the "City") and BNY, as trustee (the "Indenture") and (ii) the Escrow Agreement (2012 Bonds), dated as of December 1, 2021 (the "Escrow Agreement"), by and among the Oceanside Public Financing Authority, the City and BNY, as escrow agent and trustee, relating to the 2012 Bonds (collectively, the "Documents");

(ii) The Agreements have been duly authorized, executed and delivered by BNY, and the Agreements constitute the legal, valid and binding obligations of BNY enforceable in accordance with their respective terms, except as enforcement thereof may be limited by bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally and by the application of equitable principles, if equitable remedies are sought;

(iii) No consent, approval, authorization or other action by any governmental or regulatory authority having jurisdiction over BNY that has not been obtained is or will be required for the execution and delivery of the Agreements or the performance by BNY of its duties and obligations thereunder;

(iv) The execution and delivery by BNY of the Agreements and compliance with the terms thereof will not conflict in any material respect with, or result in a violation or breach of, or constitute a default under, any material agreement or material instrument to which BNY is a party or by which it is bound, or any law or any rule, regulation, order or decree of any court or governmental agency or body having jurisdiction over BNY or any of its activities or properties (except that no representation, warranty or agreement need be made by such counsel with respect to any federal or State securities or blue sky laws or regulations); and

(v) To the knowledge of BNY, there is no action, suit, proceeding or investigation, at law or in equity, before or by any court or governmental agency, public board or body pending, or threatened against BNY which in the reasonable judgment of BNY would affect the existence of BNY or in any way contesting or affecting the validity or enforceability of the Agreements or contesting the powers of BNY or its authority to enter into and perform its obligations thereunder.

Capitalized terms used but not defined herein have the meanings given in the Bond Purchase Contract dated [Pricing Date], between the City and Stifel, Nicolaus & Company, Incorporated, as underwriter.

Dated: [Closing Date]

THE BANK OF NEW YORK MELLON
TRUST COMPANY, N.A., as Trustee

By:______________________________
Authorized Officer

EXHIBIT E

$[PAR]
CITY OF ESCONDIDO
WASTEWATER [SYSTEM] REVENUE REFUNDING BONDS, SERIES 2021A

CERTIFICATE OF MUNICIPAL ADVISOR

The undersigned hereby states and certifies:

(i) that the undersigned is an authorized officer of CSG Advisors, Incorporated (the "Municipal Advisor"), which has acted as municipal advisor to the City of Escondido (the "City") in connection with the issuance of the above-referenced bonds (the "Bonds"), and as such, is familiar with the facts herein certified and is authorized and qualified to certify the same;

(ii) that the Municipal Advisor has reviewed the Preliminary Official Statement dated[POS Date] (the "Preliminary Official Statement") and the final Official Statement dated [Pricing Date] (the "Official Statement") relating to the Bonds; and

(iii) that nothing has come to the attention of the Municipal Advisor which would lead it to believe that the Preliminary Official Statement as of the date of the pricing of the Bonds or its date or the Official Statement as of its date or the date hereof contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made therein, in light of the circumstances under which they were made, not misleading.

Dated: [Closing Date]

CSG ADVISORS, INCORPORATED,
as Municipal Advisor

By: ___________________________________
Authorized Officer

EXHIBIT F

$[PAR]
CITY OF ESCONDIDO
WASTEWATER [SYSTEM] REVENUE REFUNDING BONDS, SERIES 2021A

FORM OF ISSUE PRICE CERTIFICATE

The undersigned, Stifel, Nicolaus & Company, Incorporated ("Stifel"), hereby certifies as set forth below with respect to the sale and issuance of the above-captioned obligations (the "Bonds").

1. ***Bond Purchase Agreement.*** On [Pricing Date] (the "Sale Date"), Stifel and the Issuer executed a Bond Purchase Contract(the "Purchase Contract") in connection with the sale of the Bonds. Stifel has not modified the Purchase Agreement since its execution on the Sale Date.

2. ***Price.***

   (a) As of the date of this Certificate, for each [Maturity] [[of the General Rule Maturities] of the Bonds, the first price at which at least 10% of each such Maturity of the Bonds was sold to the Public (the "10% Test") was the respective price for such Maturity listed in **Schedule A** attached hereto.

   (b) [Stifel offered the Hold-the-Offering-Price Maturities 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**.

   (c) As set forth in the Bond Purchase Agreement, Stifel 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 retail distribution agreement shall contain the agreement of each broker-dealer who is a party to the retail 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.]

   (d) [** With respect to each of the General Rule Maturities of the Bonds:

      (1) As of the date of this Certificate, Stifel has not sold at least 10% of the Bonds of these Maturities at any single price.

      (2) As of the date of this Certificate, Stifel reasonably expects that the first sale to the Public of Bonds of these Maturities will be at or below the respective price or prices listed on the attached **Schedule A** as the "Reasonably Expected Sale Prices for Undersold Maturities."

(3) Stifel will provide actual sales information (substantially similar to the information contained on **Schedule B**) as to the price at which the first 10% of each such Maturity (i.e., the Undersold Maturity or Maturities) is sold to the Public.

(4) On the date the 10% Test is satisfied with respect to all Maturities of the Bonds, Stifel will execute a supplemental certificate substantially in the form attached hereto as **Schedule C** with respect to any remaining Maturities for which the 10% Test has not been satisfied as of the Closing Date.**]

3. ***Defined Terms.***

(a) *"General Rule Maturities"* means those Maturities of the Bonds listed in Schedule A hereto as the "General Rule Maturities."

(b) *"Hold-the-Offering-Price Maturities"* means those Maturities of the Bonds listed in Schedule A hereto as the "Hold-the-Offering-Price Maturities."

(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 Stifel has 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.

(d) *"Issuer"* means the City of Escondido.

(e) *"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, are treated as separate Maturities.

(f) *"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. The term "related party" for purposes of this certificate generally means any two or more persons who have greater than 50 percent common ownership, directly or indirectly.

(g) *"Underwriter"* means (i) any person that agrees pursuant to a written contract with the Issuer (or with the lead Underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the Public, and (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (i) 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 retail distribution agreement participating in the initial sale of the Bonds to the Public).

4. The representations set forth in this certificate are limited to factual matters only. Nothing in this certificate represents Stifel's interpretation of any laws, including specifically Sections 103 and 148 of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations thereunder. The undersigned understands that the foregoing information will be relied upon by the Issuer with respect to certain of the representations set forth in the Tax Certificate of the Issuer dated [Closing Date] and with respect to compliance with the federal income tax rules affecting the Bonds, and by Bond Counsel, in connection with rendering its opinion that the interest on the Bonds is

excluded from gross income for federal income tax purposes, the preparation of the Internal Revenue Service Form 8038-G, and other federal income tax advice that it may give to the Issuer from time to time relating to the Bonds.

STIFEL, NICOLAUS & COMPANY, INCORPORATED

By:____
Managing Director

By:____
Director

Dated: [Closing Date]

SCHEDULE A
TO
ISSUE PRICE CERTIFICATE

[Schedules to be updated at pricing in the event there are Hold-the-Offering-Price-Maturities]

Actual Sales Information as of Closing Date

Maturity/CUSIP	Coupon	Date Sold	Time Sold	Par Amount	Sale Price

[Reasonably Expected Sales Prices for Undersold Maturities as of Closing Date**

Maturity/CUSIP	Coupon	Par Amount	Offering Prices

****]**

[**SCHEDULE B
TO
ISSUE PRICE CERTIFICATE

Actual Sales for Undersold Maturities as of the Closing Date

Maturity/CUSIP	**Date Sold**	**Time Sold**	**Par Amount**	**Sale Price**

**]

[**SCHEDULE C
TO
ISSUE PRICE CERTIFICATE

SUPPLEMENTAL ISSUE PRICE CERTIFICATE OF UNDERWRITER

$[PAR]
CITY OF ESCONDIDO
WASTEWATER [SYSTEM] REVENUE REFUNDING BONDS, SERIES 2021A

The undersigned, Stifel, Nicolaus & Company, Incorporated ("Stifel"), hereby certifies as set forth below with respect to the sale and issuance of the above-captioned obligations (the "Bonds").

1. ***Issue Price.***

(a) Stifel sold at least 10% of the **_______** Maturities of the Bonds to the Public at the price or prices shown on the Issue Price Certificate dated as of the Closing Date (the "10% Test"). With respect to each of the **______** Maturities of the Bonds, Stifel had not satisfied the 10% Test as of the Closing Date (the "Undersold Maturities").

(b) As of the date of this Supplemental Certificate, Stifel has satisfied the 10% Test with respect to the Undersold Maturities. The first price or prices at which at least 10% of each such Undersold Maturity was sold to the Public are the respective prices listed on **Exhibit A** attached hereto.

2. ***Defined Terms.***

(a) *"Issuer"* means the City of Escondido.

(b) *"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, are treated as separate Maturities.

(c) *"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. The term "related party" for purposes of this certificate generally means any two or more persons who have greater than 50 percent common ownership, directly or indirectly.

(d) *"Underwriter"* means (1) any person that agrees pursuant to a written contract with the Issuer (or with the lead Underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the Public, and (2) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (1) 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 retail distribution agreement participating in the initial sale of the Bonds to the Public).

3. The representations set forth in this certificate are limited to factual matters only. Nothing in this certificate represents Stifel's interpretation of any laws, including specifically Sections 103 and 148 of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations thereunder.

The undersigned understands that the foregoing information will be relied upon by the Issuer with respect to certain of the representations set forth in the Tax Certificate of the Issuer dated [Closing Date] and with respect to compliance with the federal income tax rules affecting the Bonds, and by Bond Counsel, in connection with rendering its opinion that the interest on the Bonds is excluded from gross income for federal income tax purposes, the preparation of the Internal Revenue Service Form 8038-G, and other federal income tax advice that it may give to the Issuer from time to time relating to the Bonds.

STIFEL, NICOLAUS & COMPANY, INCORPORATED

By:____
[Title]

By:____
[Title]

Dated: [Closing Date]

EXHIBIT A
TO
SUPPLEMENTAL ISSUE PRICE CERTIFICATE**]

PRELIMINARY OFFICIAL STATEMENT DATED _____ __, 2021

NEW ISSUE – BOOK-ENTRY ONLY

RATING: S&P: "__"
See the caption "RATING"

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described in this Official Statement, interest on the 2021 Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals. In the further opinion of Bond Counsel, interest on the 2021 Bonds is exempt from State of California personal income tax. See the caption "TAX MATTERS."

$_____*

CITY OF ESCONDIDO
WASTEWATER REVENUE REFUNDING BONDS, SERIES 2021A

Dated: Date of Issuance **Due: September 1, as set forth on the inside front cover page**

The 2021 Bonds are being issued in fully registered form and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York. Purchasers of the 2021 Bonds will not receive securities representing their beneficial ownership in the 2021 Bonds purchased. Interest on the 2021 Bonds is payable on September 1, 2022 and each March 1 and September 1 thereafter, until their maturity or earlier redemption. The principal of and interest on the 2021 Bonds are payable by the Trustee to Cede & Co. and such interest and principal payments are to be disbursed to the Beneficial Owners of the 2021 Bonds through their nominees.

The 2021 Bonds are subject to optional and mandatory sinking fund redemption as more fully described in this Official Statement. See the caption "THE 2021 BONDS—Redemption of the 2021 Bonds."

The 2021 Bonds are being issued to provide moneys: (i) to refund all of the outstanding Escondido Joint Powers Financing Authority Revenue Bonds (Wastewater System Financing), Series 2012; and (ii) to pay costs of issuance of the 2021 Bonds, all as more fully described in this Official Statement.

The 2021 Bonds are being issued pursuant to the Indenture of Trust, dated as of December 1, 2021, by and between the City and The Bank of New York Mellon Trust Company, N.A., as trustee. The 2021 Bonds are limited obligations of the City payable solely from Net Revenues, which consist of Revenues of the City's Wastewater System remaining after the payment of Operation and Maintenance Costs, and from amounts on deposit in certain funds and accounts created under the Indenture.

No debt service reserve fund or account has been established in connection with the issuance of the 2021 Bonds.

The obligation of the City to pay the 2021 Bonds from Net Revenues is on a parity with the obligation of the City to make payments on: (i) certain Contracts and Bonds which are currently outstanding in the aggregate principal amount of $22,404,442; and (ii) certain Contracts upon which the City has not yet drawn, but under which the City may borrow up to a maximum principal amount of $49,300,000, including a grant component totaling $5,000,000. The City may incur additional obligations payable from Net Revenues on a parity with the obligation to pay principal of and interest on the 2021 Bonds in the future, subject to the terms and conditions of the Indenture, as more fully described in this Official Statement.

THE OBLIGATION OF THE CITY TO PAY PRINCIPAL OF AND INTEREST ON THE 2021 BONDS PURSUANT TO THE INDENTURE DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE GENERAL CREDIT OR TAXING POWER OF THE CITY IS PLEDGED. THE OBLIGATION OF THE CITY TO PAY PRINCIPAL OF AND INTEREST ON THE 2021 BONDS IS A SPECIAL OBLIGATION OF THE CITY PAYABLE SOLELY FROM NET REVENUES, AND DOES NOT CONSTITUTE A DEBT OF THE CITY OR OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF IN CONTRAVENTION OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE. INVESTORS ARE ADVISED TO READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION.

MATURITY SCHEDULE – See Inside Front Cover Page

The 2021 Bonds are offered when, as and if issued and received by the Underwriter, subject to the approval of the valid, legal and binding nature of the 2021 Bonds by Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the City by Stradling Yocca Carlson & Rauth, a Professional Corporation, as Disclosure Counsel, and by the City Attorney, for the Underwriter by its counsel, Jones Hall, A Professional Law Corporation, and for the Trustee by its counsel. It is anticipated that the 2021 Bonds will be available for delivery through the facilities of The Depository Trust Company on or about December __, 2021.

STIFEL

Dated: _____ __, 2021

* *Preliminary; subject to change.*

$_____*
CITY OF ESCONDIDO
WASTEWATER REVENUE REFUNDING BONDS, SERIES 2021A

MATURITY SCHEDULE

BASE CUSIP®† 296343

Maturity Date (September 1)	*Principal Amount*	*Interest Rate*	*Yield*	*Price*	*CUSIP®† Suffix*
20__	$	%	%		

$_____ ___% Term 2021 Bonds due September 1, 20__, Yield: ___%, Price: ___, CUSIP®† Suffix ___

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* *Preliminary; subject to change.*
† *CUSIP® is a registered trademark of the American Bankers Association. CUSIP Global Services (CGS) is managed on behalf of the American Bankers Association by S&P Global Market Intelligence. Copyright© CUSIP Global Services. All rights reserved. CUSIP® data herein is provided by CUSIP Global Services. This data is not intended to create a database and does not serve in any way as a substitute for the CGS database. CUSIP® numbers are provided for convenience of reference only. None of the City, the Underwriter or their agents or counsel assume responsibility for the accuracy of such numbers.*

CITY OF ESCONDIDO
COUNTY OF SAN DIEGO
STATE OF CALIFORNIA

Paul “Mac” McNamara, *Mayor*
Michael Morasco, *Deputy Mayor and Council Member, District 4*
Consuelo Martinez, *Council Member*, *District 1*
Tin Inscoe, *Council Member*, *District 2*
Joe Garcia, *Council Member*, *District 3*

STAFF

Sean McGlynn, *City Manager*
Christopher W. McKinney, *Deputy City Manager and Director of Utilities*
Christina Holmes, *Director of Finance*
Michael McGuinness, Esq., *City Attorney*

SPECIAL SERVICES

Bond Counsel and Disclosure Counsel

Stradling Yocca Carlson & Rauth,
a Professional Corporation
Newport Beach, California

Municipal Advisor

CSG Advisors Incorporated
San Francisco, California

Trustee/Escrow Agent

The Bank of New York Mellon Trust Company, N.A.
Los Angeles, California

Verification Agent

Causey Demgen & Moore P.C.
Denver, Colorado

No dealer, broker, salesperson or other person has been authorized by the City or the Underwriter to give any information or to make any representations other than those contained in this Official Statement in connection with the offering made hereby and, if given or made, such other information or representations must not be relied upon as having been authorized by the City or the Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the 2021 Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the 2021 Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as a representation of facts.

The Underwriter has provided the following sentence for inclusion in this Official Statement:

> The Underwriter has reviewed the information in this Official Statement in accordance with, and as a part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

The information set forth herein has been obtained from official sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Underwriter. The information and expression of opinions herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2021 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 UNDERWRITER MAY OFFER AND SELL THE 2021 BONDS TO CERTAIN DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENT AND OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

CERTAIN STATEMENTS CONTAINED IN THIS OFFICIAL STATEMENT REFLECT NOT HISTORICAL FACTS BUT FORECASTS AND “FORWARD-LOOKING STATEMENTS.” NO ASSURANCE CAN BE GIVEN THAT THE FUTURE RESULTS DISCUSSED HEREIN WILL BE ACHIEVED, AND ACTUAL RESULTS MAY DIFFER MATERIALLY FROM THE FORECASTS DESCRIBED HEREIN. IN THIS RESPECT, THE WORDS “ESTIMATE,” “PROJECT,” “ANTICIPATE,” “EXPECT,” “INTEND,” “BELIEVE” AND SIMILAR EXPRESSIONS ARE INTENDED TO IDENTIFY FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995, SECTION 21E OF THE UNITED STATES SECURITIES EXCHANGE ACT OF 1934, AS AMENDED, AND SECTION 27A OF THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED. ALL PROJECTIONS, FORECASTS, ASSUMPTIONS, EXPRESSIONS OF OPINIONS, ESTIMATES AND OTHER FORWARD-LOOKING STATEMENTS ARE EXPRESSLY QUALIFIED IN THEIR ENTIRETY BY THE CAUTIONARY STATEMENTS SET FORTH IN THIS OFFICIAL STATEMENT.

The 2021 Bonds have not been registered under the Securities Act of 1933, as amended, in reliance upon an exemption contained in such act. The 2021 Bonds have not been registered or qualified under the securities laws of any state. The Indenture has not been qualified under the Trust Indenture Act of 1939, as amended, in reliance upon an exemption contained in such act.

The City maintains a website. However, the information presented there is for informational purposes only, is not part of this Official Statement and must not be relied upon in making an investment decision with respect to the 2021 Bonds.

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(continued)

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SUMMARY STATEMENT

This Summary Statement is subject in all respects to the more complete information contained in this Official Statement, and the offering of the 2021 Bonds to potential investors is made only by means of the entire Official Statement. Capitalized terms that are used and not otherwise defined in this Summary Statement have the meanings ascribed to them in this Official Statement.

Purpose. The 2021 Bonds are being issued to provide moneys: (i) to refund all of the outstanding Escondido Joint Powers Financing Authority Revenue Bonds (Wastewater System Financing), Series 2012; and (ii) to pay costs of issuance of the 2021 Bonds, all as more fully described herein. See the caption "PLAN OF FINANCE."

Security for the 2021 Bonds. The 2021 Bonds are limited obligations of the City payable solely from Net Revenues, which consist of Revenues of the City's Wastewater System remaining after the payment of Operation and Maintenance Costs, and from amounts on deposit in certain funds and accounts created under the Indenture.

THE OBLIGATION OF THE CITY TO PAY PRINCIPAL OF AND INTEREST ON THE 2021 BONDS PURSUANT TO THE INDENTURE DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE GENERAL CREDIT OR TAXING POWER OF THE CITY IS PLEDGED. THE OBLIGATION OF THE CITY TO PAY PRINCIPAL OF AND INTEREST ON THE 2021 BONDS IS A SPECIAL OBLIGATION OF THE CITY PAYABLE SOLELY FROM NET REVENUES, AND DOES NOT CONSTITUTE A DEBT OF THE CITY OR OF THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF IN CONTRAVENTION OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

See the caption "SECURITY FOR THE 2021 BONDS."

Rate Covenant. The City will, to the fullest extent permitted by law, fix and prescribe, at the commencement of each Fiscal Year, rates and charges for the Wastewater Service which are reasonably expected, at the commencement of such Fiscal Year, to be at least sufficient to yield during each Fiscal Year Net Revenues equal to 115% of the Debt Service and any amounts required to be paid to the provider of a reserve fund surety bond, if any, in such Fiscal Year.

Outstanding Parity Obligations. The obligation of the City to pay the 2021 Bonds from Net Revenues is on a parity with the obligation of the City to make payments on: (i) certain Contracts and Bonds which are currently outstanding in the aggregate principal amount of $22,404,442; and (ii) certain Contracts upon which the City has not yet drawn, but under which the City may borrow up to a maximum principal amount of $49,300,000.

Additional Contracts and Bonds. The Indenture permits the City to execute additional Contracts or to issue additional Bonds on a parity with the obligation to pay principal of and interest on the 2021 Bonds, provided that certain conditions are satisfied as described herein. See the caption "SECURITY FOR THE 2021 BONDS—Additional Indebtedness." The Indenture also permits the City to execute or issue obligations payable on a subordinate basis to the 2021 Bonds.

No Reserve Fund. No debt service reserve fund or account has been established in connection with the issuance of the 2021 Bonds.

Redemption. The 2021 Bonds are subject to optional and mandatory sinking fund redemption prior to maturity as described herein. See the caption "THE 2021 BONDS—Redemption of the 2021 Bonds."

The City and the Wastewater System. The City was incorporated in 1888 under the general laws of the State of California. The City is located in the County of San Diego, in a long valley surrounded by coastal mountains approximately eighteen miles inland and thirty miles north of downtown San Diego. The City has a land area of approximately 37 square miles and an estimated population of 151,688 people as of January 1, 2021. Land use in the City is primarily residential, with areas of commercial and industrial development and areas devoted to agriculture. The City provides a wide range of services, such as public works (including water and wastewater services), police and fire, library, economic development, parks and recreation and land and building development.

The City provides wastewater service to approximately 24,554 single family residential, 21,646 multifamily residential, 2,618 business and 5 agricultural connections as of June 30, 2021. The Wastewater System service area covers approximately 34 square miles and includes approximately 90% of the geographic area of the City and one small subdivision located outside of City limits. The City is the sole provider of sanitary sewer collection service within its service area and maintains approximately 367 miles of sewer pipelines and 11 pumping stations.

The Hale Avenue Resource Recovery Facility is the City's principal wastewater treatment facility. The Hale Avenue Resource Recovery Facility is a standard activated sludge treatment plant with a rated capacity of 18 million gallons per day of which 12.7 million gallons per day is owned by the City. The Hale Avenue Resource Recovery Facility also includes facilities for the tertiary treatment of wastewater, which allows the City to produce up to 9 million gallons of recycled water per day from treated wastewater for various City landscape irrigation customers, including golf courses, school fields, City parks and green belts.

Revenues from both wastewater service and recycled water sales are pledged to repayment of the 2021 Bonds.

$_____*
CITY OF ESCONDIDO
WASTEWATER REVENUE REFUNDING BONDS, SERIES 2021A

INTRODUCTION

This Official Statement, including the front cover page, the inside front cover page and all appendices, provides certain information concerning the sale and delivery of the City of Escondido Wastewater Revenue Refunding Bonds, Series 2021A (the "**2021 Bonds**"). The 2021 Bonds are being issued pursuant to Articles 10 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California and an Indenture of Trust, dated as of December 1, 2021 (the "**Indenture**"), by and between the City of Escondido (the "**City**") and The Bank of New York Mellon Trust Company, N.A., Los Angeles, California, as trustee (the "**Trustee**").

The 2021 Bonds are being issued to provide moneys: (i) to refund all of the outstanding Escondido Joint Powers Financing Authority Revenue Bonds (Wastewater System Financing), Series 2012 (the "**2012 Bonds**"); and (ii) to pay costs of issuance of the 2021 Bonds. See the caption "PLAN OF FINANCE."

The 2021 Bonds are limited obligations of the City payable solely from Net Revenues, which consist of Revenues of the City's municipal wastewater system and recycled water system (collectively, the "**Wastewater System**") remaining after the payment of Operation and Maintenance Costs of the Wastewater System, as such terms are defined in Appendix B, and from amounts on deposit in certain funds and accounts created under the Indenture.

The obligation of the City to pay the 2021 Bonds from Net Revenues is on a parity with the obligation of the City to make payments on:

(i) the City of Escondido Refunding Revenue Bonds (Wastewater System) Series 2015A and Series 2015B (Taxable), which are currently outstanding in the total aggregate principal amount of $9,080,000 (the "**2015 Bonds**");

(ii) five agreements with the State of California Water Resources Control Board (the "**SWRCB**"), namely the "**Water Reclamation Project State Loan**," the "**Tertiary Treatment Facility State Loan**," the "**Blower State Loan**," the "**Recycled Water Easterly Main and Tanks Project Loan**" and the "**Brine Line Transmission Project Loan**," which are currently outstanding in the total principal amount of $13,324,442; and

(ii) two agreements with the SWRCB, namely the "**Recycled Water Easterly Agriculture Distribution System Loan**" and the "**MFRO Facility Loan**," upon which the City has not yet drawn, but under which the City may draw up to a maximum principal amount of $49,300,000, including a grant component totaling $5,000,000.

The City may incur additional obligations payable on a parity with the obligation to pay principal of and interest on the 2021 Bonds in the future as described under the caption "SECURITY FOR THE 2021 BONDS—Additional Indebtedness."

The 2021 Bonds are subject to optional and mandatory sinking fund redemption prior to maturity as described herein. See the caption "THE 2021 BONDS—Redemption of the 2021 Bonds."

The summaries and references to the Indenture and all documents, statutes, reports and other instruments that are referred to herein do not purport to be complete, comprehensive or definitive, and each such summary or reference is qualified in its entirety by reference to the full Indenture or the respective document, statute,

* *Preliminary; subject to change.*

report or instrument, copies of which are available for inspection at the offices of the City in Escondido, California or from the Trustee upon request and payment of duplication cost. The capitalization of any word that is not conventionally capitalized or otherwise defined herein indicates that such word is defined in the Indenture and, as used herein, has the meaning that is given to it in the Indenture. See Appendix B for a summary of the Indenture. Unless otherwise indicated, all financial and statistical information herein has been provided by the City.

The City regularly prepares a variety of reports, including audits, budgets and related documents. Any registered owner of the 2021 Bonds may obtain a copy of such reports, as available, from the Trustee or the City. Additional information regarding the Official Statement may be obtained by contacting the Trustee or the City of Escondido, 201 North Broadway, Escondido, California 92025, Attention: Finance Department.

The City has also undertaken to provide annual reports and notice of certain enumerated events to the Municipal Securities Rulemaking Board's Electronic Municipal Market Access System ("**EMMA**") pursuant to a continuing disclosure certificate. See the caption "CONTINUING DISCLOSURE" and Appendix E.

PLAN OF FINANCE

The Refunding Plan

The 2012 Bonds, which are currently outstanding in the aggregate principal amount of $25,800,000, were issued pursuant to an Indenture of Trust, dated as of February 1, 2012 (the "**2012 Indenture**"), by and between the Escondido Joint Powers Financing Authority (the "**Authority**") and The Bank of New York Mellon Trust Company, N.A., as trustee (the "**2012 Trustee**"). The 2012 Bonds are payable from installment payments payable by the City to the Authority under an Installment Purchase Agreement, dated as of February 1, 2012 (the "**2012 Installment Purchase Agreement**"), by and between the City and the Authority.

The City plans to apply a portion of the proceeds of the 2021 Bonds, together with City moneys, to defease the outstanding 2012 Bonds as of the date of issuance of the 2021 Bonds, and to redeem the 2012 Bonds in full on March 1, 2022. The 2012 Bonds are described in the following table.

Principal Payment Date (September 1)	***CUSIP®[†] (29634E)***	***Principal Amount***	***Interest Rate***	***Redemption Price***
2022	BX9	$ 195,000	4.000%	100%
2023	BY7	205,000	4.000	100
2024	BZ4	215,000	3.000	100
2025	CA8	220,000	3.250	100
2026	CB6	235,000	3.375	100
2028	CD2	2,375,000	5.000	100
2030	CF7	2,615,000	5.000	100
2031	CG5	1,410,000	4.000	100
2033	CH3	3,000,000	5.000	100
2036	CE0	3,575,000	5.000	100
2036	CJ9	1,500,000	4.250	100
2041	CK6	10,255,000	5.000	100
TOTAL		$25,800,000		

[†] *CUSIP® is a registered trademark of the American Bankers Association. CUSIP Global Services (CGS) is managed on behalf of the American Bankers Association by S&P Global Market Intelligence. Copyright© CUSIP Global Services. All rights reserved. CUSIP® data herein is provided by CUSIP Global Services. This data is not intended to create a database and does not serve in any way as a substitute for the CGS database. CUSIP® numbers are provided for convenience of reference only. None of the Authority, the City, the Underwriter or their agents or counsel assume responsibility for the accuracy of such numbers.*

Under an Escrow Agreement (2012 Bonds), dated as of December 1, 2021 (the "**2012 Escrow Agreement**"), by and among the City, the Authority and the 2012 Trustee, the City will deliver a portion of the proceeds of the 2021 Bonds to the 2012 Trustee for deposit in the escrow fund established under the 2012 Escrow Agreement (the "**2012 Escrow Fund**"). The 2012 Trustee will invest a portion of the amounts so deposited in the 2012 Escrow Fund in Federal Securities (as described in the 2012 Escrow Agreement). From the maturing principal of the Federal Securities and related investment income and any uninvested moneys on deposit in the 2012 Escrow Fund, the 2012 Trustee will pay on March 1, 2022 the principal of the 2012 Bonds maturing after such date, plus interest accrued to such date, without premium (the "**2012 Bonds Redemption Price**").

Sufficiency of the deposits in the 2012 Escrow Fund for such purposes will be verified by Causey Demgen & Moore P.C., Denver, Colorado (the "**Verification Agent**"), and the Verification Agent will deliver a report on the mathematical accuracy of certain computations based upon certain information and assertions provided to it by the Underwriter relating to the adequacy of the moneys deposited in the 2012 Escrow Fund to pay the 2012 Bonds Redemption Price. Assuming the accuracy of such computations, as a result of the deposit and application of funds as provided in the 2012 Escrow Agreement, the 2012 Bonds will be defeased pursuant to the provisions of the 2012 Indenture as of the date of issuance of the 2021 Bonds.

The amounts held by the 2012 Trustee in the 2012 Escrow Fund are pledged solely to the payment of the 2012 Bonds and will not be available for the payments on the 2021 Bonds.

Estimated Sources And Uses Of Funds

The following table sets forth the estimated sources and uses of funds relating to the 2021 Bonds:

Sources(1):	
Principal Amount	$
Other Moneys(2)	
Total Sources	$
Uses(1):	
Transfer to 2012 Trustee for Deposit in 2012 Escrow Fund	$
Costs of Issuance(2)	
Total Uses	$

(1) All amounts rounded to the nearest dollar. Totals may not add due to rounding.
(2) Reflects moneys held in funds and accounts established under the 2012 Indenture and other City moneys.
(3) Includes Underwriter's discount and certain legal, municipal advisory, rating agency, printing and other financing-related costs.
Source: Underwriter.

THE 2021 BONDS

General Provisions

The 2021 Bonds will be issued in the aggregate principal amount of $_____.* The 2021 Bonds will be dated as of their date of initial issuance, will bear interest from such date at the rates per annum set forth on the inside front cover page hereof, payable on September 1, 2022 and each March 1 and September 1 thereafter (each, an "**Interest Payment Date**"), and will mature on the dates set forth on the inside front cover page hereof. Interest on the 2021 Bonds will be computed on the basis of a 360 day year composed of twelve 30 day months.

* *Preliminary; subject to change.*

The 2021 Bonds will be issued only in fully registered form and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("**DTC**"). DTC will act as securities depository for the 2021 Bonds. Ownership interests in the 2021 Bonds may be purchased in book-entry form, in any integral multiple of $5,000. See the caption "—Book-Entry Only System" below and Appendix D.

In the event that the book-entry only system that is described below is discontinued, the principal of and redemption premium (if any) on the 2021 Bonds are payable by check of the Trustee upon presentation and surrender thereof at maturity or upon prior redemption at the office of the Trustee in Los Angeles, California (the "**Office of the Trustee**"). Interest on the 2021 Bonds is payable on each Interest Payment Date to the person whose name appears on the registration books maintained by the Trustee (the "**Registration Books**") as the Owner thereof as of the close of business on the fifteenth day of the calendar month preceding the Interest Payment Date (the "**Record Date**"), such interest to be paid by check of the Trustee sent by first class mail on the applicable Interest Payment Date to the Owner at such Owner's address as it appears on the Registration Books. An Owner of $1,000,000 or more in principal amount of 2021 Bonds may, at such Owner's option, be paid by wire transfer of immediately available funds to an account in the United States in accordance with written instructions provided to the Trustee by such Owner prior to the applicable Record Date. The principal of and interest and premium, if any, on the 2021 Bonds will be payable in lawful money of the United States.

Each 2021 Bond will bear interest from the Interest Payment Date next preceding the date of authentication thereof unless: (a) it is authenticated after a Record Date and on or before the following Interest Payment Date, in which event it will bear interest from such Interest Payment Date; or (b) unless it is authenticated on or before August 15, 2022, in which event it will bear interest from its date of issuance; provided, however, that if, as of the date of authentication of any 2021 Bond, interest thereon is in default, such 2021 Bond will bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon.

Transfers and Exchanges Upon Termination of Book-Entry Only System

In the event that the book-entry system that is described herein is discontinued, the 2021 Bonds will be printed and delivered as provided in the Indenture. Thereafter, any 2021 Bond may, in accordance with its terms, be transferred on the Registration Books by the person in whose name it is registered, in person or by his or her duly authorized attorney, upon surrender of such 2021 Bond at the Office of the Trustee for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form acceptable to the Trustee. The Trustee is not required to register the transfer of any 2021 Bond during the period in which the Trustee is selecting 2021 Bonds for redemption and any 2021 Bond that has been selected for redemption.

Whenever any 2021 Bond or 2021 Bonds are surrendered for transfer, the City will execute and the Trustee will authenticate and deliver a new 2021 Bond or 2021 Bonds of authorized denomination or denominations for a like aggregate principal amount of the same maturity. The Trustee will require the 2021 Bond Owner requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer. Following any transfer of 2021 Bonds, the Trustee will cancel and destroy the 2021 Bonds that it has received.

The 2021 Bonds may be exchanged at the Office of the Trustee for a like aggregate principal amount of other authorized denominations of the same maturity. The Trustee is not required to exchange any 2021 Bond during the period in which the Trustee is selecting 2021 Bonds for redemption and any 2021 Bond that has been selected for redemption. The Trustee will require the 2021 Bond Owner requesting such exchange to pay any tax or other governmental charge required to be paid with respect to such exchange. Following any exchange of 2021 Bonds, the Trustee will cancel and destroy the 2021 Bonds that it has received.

Prior to any transfer of the 2021 Bonds outside the book-entry system (including, but not limited to, the initial transfer outside the book-entry system) the transferor will provide or cause to be provided to the Trustee all information necessary to allow the Trustee to comply with any applicable tax reporting obligations, including without limitation any cost basis reporting obligations under Internal Revenue Code Section 6045, as amended. The Trustee will conclusively rely on the information provided to it and has no responsibility to verify or ensure the accuracy of such information.

Redemption of the 2021 Bonds

Optional Redemption. The 2021 Bonds with stated maturities on or after March 1, 20__, are subject to redemption prior to their respective stated maturities, as a whole or in part on _____ 1, 20__, or any date thereafter, as directed by the City in a Written Request provided to the Trustee at least 35 days (or such lesser number of days acceptable to the Trustee in the sole discretion of the Trustee, such notice for the convenience of the Trustee) and by lot within each maturity in integral multiples of $5,000, at a Redemption Price equal to the principal amount thereof plus accrued interest thereon to the Redemption Date, without premium.

Mandatory Sinking Fund Redemption. The 2021 Bonds with a stated maturity on September 1, 20__ are subject to mandatory sinking fund redemption prior to maturity, in part (by lot), on September 1, 20__ and each September 1 thereafter to maturity, in integral multiples of $5,000 at a Redemption Price equal to the principal amount thereof plus accrued interest to the Redemption Date, without premium, in accordance with the following schedule:

Redemption Date (September 1)	***Principal Amount***
20__	$
20__*	

* Maturity.

Notice of Redemption

Notice of redemption will be sent electronically or mailed by first class mail at least 20 days but not more than 60 days before any Redemption Date, to the respective Owners of any 2021 Bonds designated for redemption at their addresses appearing on the Registration Books, to the Securities Depositories and to the Information Services. Each notice of redemption will state the date of notice, the Redemption Date, the place or places of redemption, the Redemption Price, will designate the maturities, CUSIP numbers, if any, and, in the case of 2021 Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice will also state that on the Redemption Date there will become due and payable on each of said 2021 Bonds or parts thereof designated for redemption the Redemption Price thereof or of said specified portion of the principal thereof in the case of a 2021 Bond to be redeemed in part only, together with interest accrued thereon to the Redemption Date, and that (provided that moneys for redemption have been deposited with the Trustee) from and after such Redemption Date interest thereon will cease to accrue, and will require that such 2021 Bonds be then surrendered to the Trustee. Neither the failure to receive such notice nor any defect in the notice or the mailing thereof will affect the validity of the redemption of any 2021 Bond. Notice of redemption of 2021 Bonds will be given by the Trustee, at the expense of the City, for and on behalf of the City.

With respect to any notice of optional redemption of 2021 Bonds, such notice may state that such redemption will be conditional upon the receipt by the Trustee on or prior to the date fixed for such redemption of moneys sufficient to pay the principal of, premium, if any, and interest on such 2021 Bonds to be redeemed and that, if such moneys have not been so received, said notice will be of no force and effect and the Trustee will not be required to redeem such 2021 Bonds. In the event that such notice of redemption contains such a condition and such moneys are not so received, the redemption will not be made, and the Trustee will within a reasonable time thereafter give notice, in the manner in which the notice of redemption was given, that such moneys were not so received.

Book-Entry Only System

One fully-registered 2021 Bond of each maturity will be issued in the principal amount of the 2021 Bonds of such maturity. Such 2021 Bond will be registered in the name of Cede & Co. and will be deposited with DTC. As long as the ownership of the 2021 Bonds is registered in the name of Cede & Co., the term "**Owner**" as used in this Official Statement will refer to Cede & Co. and not to the actual purchasers of the 2021 Bonds (the "**Beneficial Owners**").

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, the 2021 Bonds will be printed and delivered and will be governed by the provisions of the Indenture with respect to payment of principal and interest and rights of exchange and transfer. See the caption "—Transfers and Exchanges Upon Termination of Book-Entry Only System."

The City cannot and does not give any assurances that DTC Participants or others will distribute payments of principal of and interest on the 2021 Bonds received by DTC or its Nominee as the registered Owner, or any redemption or other notices, to the Beneficial Owners (as such term is defined in Appendix D), or that they will do so on a timely basis, or that DTC will service and act in the manner described in this Official Statement. See Appendix D for additional information concerning DTC.

DEBT SERVICE PAYMENT SCHEDULE

Set forth below is an annualized schedule of principal of and interest on the 2021 Bonds for the period ending June 30 in each of the years indicated, assuming no optional redemptions of the 2021 Bonds.

Period Ending June 30	*Parity Obligation Debt Service*[(1)]	*2021 Bonds Principal*	*2021 Bonds Interest*	*2021 Bonds Debt Service*	*Total Debt Service*
2022	$ [__	$	$	$	$
2023					
2024					
2025					
2026					
2027					
2028					
2029					
2030					
2031					
2032					
2033					
2034					
2035					
2036					
2037					
2038					
2039					
2040					
2041					
2042					
2043					
2044					
2045					
2046					
2047					
2048					
2049					
2050					
2051					
2052					
2053					
2054	__]				
TOTAL	$	$	$	$	$

(1) Reflects debt service on: (i) the 2015 Bonds, the Water Reclamation Project State Loan, the Tertiary Treatment Facility State Loan, the Blower State Loan, the Recycled Water Easterly Main and Tanks Project Loan and the Brine Line Transmission Project Loan; (ii) the Recycled Water Easterly Agriculture Distribution System Loan, assuming that the City borrows the maximum available principal amount of $2,690,000 (excluding a grant component); and (iii) the MFRO Facility Loan, assuming that the City borrows the maximum available principal amount of $41,610,000 (excluding a grant component). See the caption "THE CITY—Outstanding Parity Obligations."

Source: Underwriter.

SECURITY FOR THE 2021 BONDS

Limited Obligations Payable From Net Revenues

General. The City is obligated to make payments of principal of and interest on the 2021 Bonds solely from Net Revenues. The term "**Net Revenues**" means, for any period, the Revenues of the Wastewater System for such period less the Operation and Maintenance Costs of the Wastewater System for such period. See Appendix B for detailed definitions of "Revenues" and "Operation and Maintenance Costs." When held by the Trustee in any funds or accounts established under the Indenture, Net Revenues will include all interest or realized gain derived from the investment of amounts in any of such funds or accounts.

THE OBLIGATION OF THE CITY TO PAY PRINCIPAL OF AND INTEREST ON THE 2021 BONDS PURSUANT TO THE INDENTURE DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE GENERAL CREDIT OR TAXING POWER OF THE CITY IS PLEDGED. THE OBLIGATION OF THE CITY TO PAY PRINCIPAL OF AND INTEREST ON THE 2021 BONDS IS A SPECIAL OBLIGATION OF THE CITY PAYABLE SOLELY FROM NET REVENUES, AND DOES NOT CONSTITUTE A DEBT OF THE CITY OR OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF IN CONTRAVENTION OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

Pledge and Assignment; Revenue Fund. All of the Revenues, all amounts held in the Revenue Fund, and any other amounts (including proceeds of the sale of the 2021 Bonds) held in any fund or account established pursuant to the Indenture (other than the Costs of Issuance Fund and the Rebate Fund) have been irrevocably pledged to secure the payment of the principal of and interest, and the premium, if any, on the 2021 Bonds in accordance with their terms and the provisions of the Indenture, and the Revenues may not be used for any other purpose while the 2021 Bonds remain Outstanding; provided that out of the Revenues there may be apportioned such sums for such purposes as are expressly permitted in the Indenture. Said pledge, together with the pledge created by all other parity Contracts and Bonds (as such terms are defined in Appendix B), constitutes a first lien on and security interest on Revenues and, subject to application of Revenues and all amounts on deposit therein as permitted herein, the Revenue Fund and other funds and accounts created under the Indenture for the payment of the principal of and interest, and the premium, if any, on the 2021 Bonds and all Contracts and Debt Service on Bonds in accordance with the terms of the Indenture, and will attach, be perfected and be valid and binding from and after the Closing Date, without any physical delivery thereof or further act and will be valid and binding against all parties having claims of any kind in tort, contract or otherwise against the City, irrespective of whether such parties have notice of the Indenture.

In order to carry out and effectuate the pledge and lien contained in the Indenture, the City has agreed and covenanted that all Revenues will be received by the City in trust under the Indenture and will be deposited when and as received in the Revenue Fund, which fund the City has agreed and covenanted to maintain and to hold separate and apart from other funds so long as the 2021 Bonds and any Contracts or Debt Service on Bonds remain unpaid. Moneys in the Revenue Fund will be used and applied by the City as provided in the Indenture. All moneys in the Revenue Fund will be held in trust and will be applied, used and withdrawn for the purposes set forth below.

The City will, from the moneys in the Revenue Fund, pay all Operation and Maintenance Costs (including amounts reasonably required to be set aside in contingency reserves for Operation and Maintenance Costs, the payment of which is not then immediately required) as such Operation and Maintenance Costs become due and payable. All remaining moneys in the Revenue Fund will be set aside by the City at the following times for the transfer to the following respective special funds in the following order of priority:

(i) <u>Interest and Principal Payments</u>. Not later than the Business Day prior to each Interest Payment Date, the City will, from the moneys in the Revenue Fund, transfer to the Trustee for deposit in the Payment Fund or the Redemption Fund the payments of interest and principal or mandatory sinking fund payments, as applicable, on the 2021 Bonds due and payable on such Interest Payment Date. The City will also, from the moneys in the Revenue Fund, transfer to the applicable trustee for deposit in the respective payment fund, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, any other Debt Service in accordance with the provisions of any Bond or Contract.

(ii) Reserve Funds. After making the payments, allocations or transfers provided for in clause (i) above, the City will, from the remaining moneys in the Revenue Fund, thereafter, without preference or priority and in the event of any insufficiency of such moneys ratably without any discrimination or preference, transfer to the applicable trustee for such reserve funds and/or accounts, if any, as may have been established in connection with Bonds or Contracts, that sum, if any, necessary to restore such funds or accounts to an amount equal to the reserve requirement applicable to such Bonds or Contracts, as applicable.

(iii) Subordinate Obligations. After making the payments, allocations or transfers provided for in clauses (i) and (ii) above, the City will, from the remaining moneys in the Revenue Fund, thereafter, without preference or priority and in the event of any insufficiency of such moneys ratably without any discrimination or preference, transfer to the applicable trustee for deposit in the respective payment fund, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, any debt service on obligations which are payable from Net Revenues on a subordinate basis to Bonds and Contracts.

(iv) Surplus. Moneys on deposit in the Revenue Fund on any date when the City reasonably expects such moneys will not be needed for the payment of Operation and Maintenance Costs or any of the purposes described in clauses (i), (ii) or (iii) above may be expended by the City at any time for any purpose permitted by law.

(v) Investments. All moneys held by the City in the Revenue Fund will be invested in Permitted Investments and the investment earnings thereon will remain on deposit in such fund, except as otherwise provided herein.

Allocation of Revenues. There has been established with the Trustee the Payment Fund, which the Trustee has covenanted to maintain and hold in trust separate and apart from other funds held by it so long as any principal of and interest on the 2021 Bonds remain unpaid. Except as directed in the Indenture, all payments of interest and principal on the 2021 Bonds received by the Trustee as described above under the subcaption "—Pledge and Assignment; Revenue Fund" will be promptly deposited by the Trustee upon receipt thereof into the Payment Fund; except that all moneys received by the Trustee and required under the Indenture to be deposited in the Redemption Fund will be promptly deposited therein. All payments of interest and principal on the 2021 Bonds deposited with the Trustee will be held, disbursed, allocated and applied by the Trustee only as provided in the Indenture. The Trustee will also establish and hold an Interest Account and a Principal Account within the Payment Fund.

The Trustee will transfer from the Payment Fund and deposit into the following respective accounts, the following amounts in the following order of priority and at the following times, the requirements of each such account (including the making up of any deficiencies in any such account resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account subsequent in priority:

(a) Not later than the Business Day preceding each Interest Payment Date, the Trustee will deposit in the Interest Account that sum, if any, required to cause the aggregate amount on deposit in the Interest Account to be at least equal to the amount of interest becoming due and payable on such date on all 2021 Bonds then Outstanding. No deposit need be made into the Interest Account so long as there is in such fund moneys sufficient to pay the interest becoming due and payable on such date on all 2021 Bonds then Outstanding.

All amounts in the Interest Account will be used and withdrawn by the Trustee solely for the purpose of paying interest on the 2021 Bonds as it becomes due and payable (including accrued interest on any 2021 Bonds purchased or accelerated prior to maturity pursuant to the Indenture).

(b) Not later than the Business Day preceding each date on which the principal or mandatory sinking fund payments of the 2021 Bonds become due and payable under the Indenture, the Trustee will deposit in the Principal Account or the Redemption Fund, as applicable, that sum, if any, required to cause the aggregate amount on deposit in the Principal Account or the Redemption Fund, as applicable, to equal the principal or mandatory sinking fund payment amount of the 2021 Bonds coming due and payable on such date. No deposit need be made into the Principal Account or the Redemption Fund, as applicable, so long as there is in such account or fund moneys sufficient to pay the principal becoming due and payable on such date on all 2021 Bonds then Outstanding.

All amounts in the Principal Account will be used and withdrawn by the Trustee solely to pay the principal amount of the 2021 Bonds at maturity, purchase or acceleration; provided, however, that at any time prior to selection for redemption of any such 2021 Bonds, upon written direction of the City, the Trustee will apply such amounts to the purchase of 2021 Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as directed pursuant to a Written Request of the City, except that the purchase price (exclusive of accrued interest) may not exceed the Redemption Price then applicable to the 2021 Bonds.

Rate Covenant

The City will, to the fullest extent permitted by law, fix and prescribe, at the commencement of each Fiscal Year, rates and charges for the Wastewater Service which are reasonably expected, at the commencement of such Fiscal Year, to be at least sufficient to yield during each Fiscal Year Net Revenues equal to 115% of the Debt Service and any amounts required to be paid to the provider of a reserve fund surety bond, if any, in 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 shall not reduce the rates and charges then in effect unless the Net Revenues from such reduced rates and charges will at all times be sufficient to meet the requirements of this section.

To the extent that the covenant with respect to rates and charges in connection with any Bonds or Contracts differs from the foregoing covenant, the City will also comply with the covenant with respect to rates and charges in connection with such Bonds or Contracts.

Additional Indebtedness

The City may at any time execute any Contract or issue any Bonds, as the case may be, in accordance with the Indenture; provided that:

(a) The Net Revenues for any consecutive twelve calendar month period during the eighteen calendar month period preceding the date of adoption by the City Council of the City of the resolution authorizing the issuance of such Bonds or the date of the execution of such Contract, as the case may be, as evidenced by both a calculation prepared by the City and a special report prepared by an Independent Certified Public Accountant or an Independent Financial Consultant on such calculation on file with the City, produce a sum equal to at least 115% of the Debt Service for such twelve month period; and

(b) The Net Revenues for any consecutive twelve calendar month period during the eighteen calendar month period preceding the date of the execution of such Contract or the date of adoption by the City Council of the City of the resolution authorizing the issuance of such Bonds, as the case may be, including adjustments to give effect as of the first day of such twelve month period to increases or decreases in rates and charges for the Wastewater Service approved and in effect as of the date of calculation, as evidenced by both a calculation prepared by the City and a special report prepared by an Independent Certified Public Accountant or an Independent Financial Consultant on such calculation on file with the City, produce a sum equal to at least 115% of the sum of: (1) the Debt Service for such twelve month period; plus (2) the Debt Service which would have accrued on any Contracts executed or Bonds issued since the end of such twelve month period, assuming that such Contracts had been executed or Bonds had been issued at the beginning of such twelve month period;

plus (3) the Debt Service which would have accrued had such proposed additional Contract been executed or such proposed additional Bonds been issued at the beginning of such twelve month period.

Notwithstanding the foregoing, Contracts executed or Bonds to refund Bonds or Contracts may be delivered without satisfying the conditions set forth above if aggregate Debt Service after such Contracts are executed or Bonds are issued is not greater than aggregate Debt Service would have been prior to the execution of such Contracts or the issuance of such Bonds.

Furthermore, notwithstanding the foregoing, the City may at any time issue evidence of indebtedness or incur other obligations for any lawful purpose that are payable from and secured by a lien on Revenues or money in the Revenue Fund as may from time to time be deposited therein on a basis that is subordinate to the 2021 Bonds.

No Reserve Fund

No debt service reserve fund or account has been established in connection with the issuance of the 2021 Bonds.

THE CITY

General

The City was incorporated in 1888 under the general laws of the State of California (the "**State**"). The City has a land area of approximately 37 square miles and an estimated population of 151,688 people as of January 1, 2021. Land use in the City is primarily residential, with areas of commercial and industrial development and areas devoted to agriculture. See the caption "—Land Use and Service Area." The City provides a wide range of services, such as public works (including water and wastewater services), police and fire, library, economic development, parks and recreation and land and building development. See the caption "WASTEWATER SYSTEM FINANCIAL INFORMATION—General Fund Structural Deficit" for a discussion of a structural deficit within the City's General Fund, primarily as a result of the costs of providing police and fire services.

The City is located in the County of San Diego (the "**County**"), in a long valley surrounded by coastal mountains approximately eighteen miles inland and thirty miles north of downtown San Diego. The City is situated at the confluence of Interstate 15 and State Route 78. With its location near the confluence of these freeways, the City has access to major employment centers and tourist destinations in southern California. The City has diversified from its origins as an agricultural center for the surrounding citrus and avocado farms. Today, more than 175 industrial firms are located in the City.

The City provides wastewater service to approximately 24,554 single family residential, 21,646 multifamily residential, 2,618 business and 5 agricultural connections as of June 30, 2021. The Wastewater System service area covers approximately 34 square miles and includes approximately 90% of the geographic area of the City and one small subdivision located outside of City limits. A small number of customers within City limits receive wastewater service from Vallecitos Water District. The City is the sole provider of sanitary sewer collection service within its service area and maintains approximately 367 miles of sewer pipelines and 11 pumping stations.

The Hale Avenue Resource Recovery Facility (the "**HARRF**") is the City's principal wastewater treatment facility. The HARRF is a standard activated sludge treatment plant with a rated capacity of 18 million gallons per day ("**MGD**"), of which 12.7 MGD is owned by the City. See the captions "THE WASTEWATER SYSTEM—Hale Avenue Resource Recovery Facility" and "THE WASTEWATER SYSTEM—Sewage Disposal Agreement."

The HARRF also includes facilities for the tertiary treatment of wastewater, which allows the City to produce up to 9 MGD of recycled water from treated wastewater at the HARRF for various City landscape irrigation customers, including golf courses, school fields, City parks and green belts. Recycled water deliveries offset higher cost purchases of imported potable water and represent an additional reliable source of local water supply.

Revenues from both wastewater service and recycled water sales are pledged to repayment of the 2021 Bonds.

Land Use and Service Area

The Wastewater System provides wastewater service to approximately 90% of the geographic area of the City and a portion of the community of Rancho Bernardo, a neighborhood in the City of San Diego. The service area is largely built out and encompasses single family and multifamily residences as well as areas of commercial, industrial and agricultural land uses. The combined population within the Escondido/Rancho Bernardo Wastewater System service area is currently estimated at approximately 184,413 people.

Governance and Management

General. The City is governed by a Mayor, who is elected at large, and a four-member City Council, the members of which are elected by district for staggered four year terms. The current Mayor and City Council members and the expiration dates of their terms are set forth below.

CITY OF ESCONDIDO
Mayor and City Council Members

Name and Title	***Expiration of Term***
Paul “Mac” McNamara, Mayor	December 2022
Michael Morasco, Deputy Mayor and Council Member, District 4	December 2024
Consuelo Martinez, Council Member, District 1	December 2022
Tina Inscoe, Council Member, District 2	December 2022
Joe Garcia, Council Member, District 3	December 2024

The City Manager, who is appointed by the City Council, serves as the City’s chief executive officer and is responsible for overseeing the daily operations of City departments. The City Manager serves as an advisor to the City Council on policy matters impacting the community and the City’s organization, supports the informational and policymaking needs of the City Council, implements City Council decisions and prepares, manages and implements the annual budgets for the City as well as the City’s Capital Improvement Program.

Sean McGlynn has served as the City Manager since June 2021. Prior to coming to the City, Mr. McGlynn served as the City Manager of Santa Rosa, California and as the Deputy City Manager of El Paso, Texas. Mr. McGlynn obtained a Bachelor’s degree in History from the University of Pittsburgh and a Master’s degree in Theater from the University of California, Los Angeles. Mr. McGlynn is a member of the International City/County Management Association.

Other key personnel responsible for management of the Wastewater System include the Deputy City Manager/Director of Utilities and Director of Finance.

Christopher W. McKinney is the Deputy City Manager and Director of Utilities of the City. Mr. McKinney has been with the City since 2011. Mr. McKinney previously served as Deputy Director of Wastewater Treatment and Disposal in the Public Utilities Department of the City of San Diego beginning in 2009 and as the Asset Management Coordinator of the Metropolitan Wastewater Department of the City of San Diego from 2007 to 2009. Mr. McKinney started his career with the City of San Diego as an electrical engineer in 2002. Mr. McKinney obtained Bachelor's and Master of Engineering degrees in Electrical Engineering and Computer Science from the Massachusetts Institute of Technology and a Candidate in Philosophy degree in Electrical and Computer Engineering from the University of California San Diego. Mr. McKinney is a Registered Professional Electrical Engineer in California.

Christina Holmes is the Director of Finance of the City. Ms. Holmes has been with the City since 2010. She has served in several management positions in the City's Finance Department, including Revenue Manager and Assistant Director of Finance. Prior to coming to the City, Ms. Holmes served as an Audit Supervisor specializing in financial statement and compliance audits for various cities and agencies throughout the State. Ms. Holmes obtained a Bachelor's degree in Business Administration with an emphasis in Accounting from Biola University and has held a Certified Public Accountant's license since 2011. Ms. Holmes is a member of the Government Finance Officers Association and the California Society of Municipal Finance Officers.

Management Policies. The City has adopted several policies that are designed to ensure the prudent and effective management of City operations, including an investment policy, a budgetary and financial policy, a fund balance policy and a debt management policy. Further information about each such policy is set forth below.

Investment Policy. The City invests its funds in accordance with the City's investment policy (the "**Investment Policy**"), which was most recently amended in May 2020. The Investment Policy sets forth the policies and procedures that are applicable to the investment of City funds and designates eligible investments. The Investment Policy also sets forth stated objectives, including the assurance of the safety of invested funds by limiting credit and market risks, the maintenance of sufficient liquidity, compliance with law and the attainment of the best yield or returns on investments. Funds are invested in the following order of priority:

- Safety of Principal;
- Liquidity; and
- Yield.

The City Council has delegated the authority to invest funds of the City to the City Treasurer, who must invest City funds in accordance with the prudent person standard under California Civil Code § 2261 *et seq*.

The Investment Policy provides a number of permitted investment categories, including: (i) the State of California Local Agency Investment Fund; (ii) the San Diego County Investment Pool for local agencies; (iii) United States Treasury securities and other federal government securities; (iv) FDIC-insured or negotiable certificates of deposit (limited to 30% of the portfolio); (v) banker's acceptances (limited to 180-day maturities and 30% of the portfolio); (vi) commercial paper meeting certain rating requirements (limited to 270-day maturities and 25% of the portfolio); (vii) money market mutual funds (limited to 20% of the portfolio); and (viii) municipal securities meeting certain rating requirements.

As of June 30, 2021, the City had a total of $206,611,765 in permitted investments under the Investment Policy. Of such amounts, approximately 20% were allocated to the Wastewater System.

The City Treasurer is required to provide a quarterly report to the City Manager and the City Council detailing the City's investments, dates of maturity, amounts invested, current market value, rate of interest and other such information as may be required by the City Council. For additional information relating to the Investment Policy, see Note 3 to the City's audited financial statements set forth in Appendix A.

Budgetary and Financial Policy. The City's budgetary and financial policy, which is updated annually as part of the City's budget, includes the following elements: (i) each annual budget must be structurally balanced for each Fiscal Year, although revenues may be applied to one-time items such as capital costs; (ii) each annual budget must include a minimum General Fund financial projection of three years; (iii) mid-Fiscal

Year budget changes should be minimized; (iv) one-time revenues should not be applied to ongoing costs; (v) capital project funding should also reflect ongoing operating costs associated with new capital projects; (vi) staff will provide the City Council with a fiscal analysis of each matter before the City Council which could impact City finances; (vii) the City will periodically assess the condition of the City's capital assets; and (viii) the City will review its financial and budgetary policies at least once every three years. See the caption "WASTEWATER SYSTEM FINANCIAL INFORMATION—General Fund Structural Deficit" for a discussion of a structural deficit within the City's General Fund, primarily as a result of the costs of providing police and fire services. In compliance with the budgetary and financial policy, the City anticipates applying one-time funding to balance its budget while such structural deficit remains a concern.

In addition, the City's budgetary and financial policy establishes a target reserve amount of 25% of General Fund operating revenues, which is available to fund one-time unanticipated costs or to cover operating deficits. As of June 30, 2021, the reserve balance is $17,392,319, which constitutes approximately 16% of General Fund operating revenues.

On February 14, 2018, the City Council authorized the establishment of an irrevocable pension benefit funding trust (the "**Section 115 Trust**") to assist in ensuring the long-term sustainability of pension benefits. The Section 115 Trust was initially funded with a deposit of $1,984,000 from the previously established Pension Rate Smoothing Reserve. As of June 30, 2021, the balance in the Section 115 Trust was $15,301,704. See the caption "WASTEWATER SYSTEM FINANCIAL INFORMATION—Employee Benefits—Pension Obligations."

Fund Balance Policy. Under the City's fund balance policy, which was adopted in 2015: (i) a City Council decision to withdraw money from the City's reserve funds (discussed above under the subcaption "—Budgetary and Financial Policy") must include a method for replenishing the reserve funds and the time period to do so; (ii) committed fund balances in special revenue funds may be used only for the purposes set forth in the fund balance policy; and (iii) the Finance Director is authorized to assign moneys held in the City's assigned funds.

Debt Management Policy. The City's debt management policy addresses the matters that are required by California Government Code § 8855(i), including: (i) the purposes for which debt proceeds may be used; (ii) the types of debt that may be issued; (iii) the relationship of the debt to, and integration with, the City's capital improvement program or budget; (iv) policy goals related to the City's planning goals and objectives; and (v) the internal control procedures which ensure that the proceeds of each debt issuance are directed to their intended use. The debt management policy also includes policies and procedures governing the City's continuing disclosure compliance. See the caption "CONTINUING DISCLOSURE."

Employees

As of June 30, 2021, the City had approximately 739 full-time equivalent employees, of whom approximately 73 worked solely on behalf of the Wastewater System and 11 worked in Environmental Programs. Certain employees of the Utilities Department are represented by the Escondido City Employees Association (the "**ECEA**") and the Maintenance and Operations Bargaining Unit, Teamsters Local 911 (the "**M&O Unit**"). Relations between the City and the ECEA and M&O Unit are governed by memoranda of understanding. The City recently completed negotiating new memoranda of understanding with the ECEA and the M&O Unit both of which expire on June 30, 2023. Certain management, supervisory and professional employees are unrepresented. The City has never experienced a strike, slowdown or work stoppage.

Budget Process

The City prepares and adopts a budget for each Fiscal Year which includes proposed expenditures and the means of financing such expenditures. The City's budget cycle begins in or about December of each year, when Budget Division staff meet with City departments to discuss guidelines, assumptions and priorities for the next Fiscal Year. Beginning in January of each year, departments develop and submit their budget requests for the next Fiscal Year and meet with Finance Department staff to discuss such requests. In or about March of each year, once the Budget Division agrees that department requests are consistent with budget direction and policy, such requests are summarized and presented to the City Manager. In or about May of each year, the City Manager submits a preliminary proposed budget to the City Council for the Fiscal Year commencing the following July 1. Prior to June 30 of each year, public hearings are conducted to obtain public comments and the budget is legally enacted through the passage of a resolution.

The City Manager is authorized to transfer budgeted amounts between line items within a department or activity provided that the total appropriation does not exceed the budgeted amount. Any other budget amendments require authorization by the City Council. The City Manager and affected department heads are mutually responsible for controlling expenditures within budgeted appropriations.

The City Council adopted the Fiscal Year 2022 budget on June 9, 2021.

See the caption "WASTEWATER SYSTEM FINANCIAL INFORMATION—General Fund Structural Deficit" for a discussion of a structural deficit within the City's General Fund.

City Insurance

The City maintains liability insurance coverage through the California State Association of Counties-Excess Insurance Authority ("**CSAC-EIA**"), a joint exercise of powers authority. The City is insured for amounts up to $50,000,000.

The City is self-insured for workers' compensation liabilities up to $500,000, but has purchased outside insurance coverage for individual claims in excess of $500,000 up to a maximum of $5,000,000 per claim through CSAC-EIA, with additional reinsurance of $300,000,000 per occurrence.

The City purchases risk, replacement cost value property insurance coverage through CSAC-EIA. The City is one of 109 members insured by a pooled policy with a shared limit of $600,000,000. The City has a deductible of $10,000 per loss. Certain Wastewater System pipelines are not covered by property insurance. The City does not carry earthquake coverage for the majority of its assets.

See the captions "THE WASTEWATER SYSTEM—Seismic Considerations" and "CERTAIN RISKS TO BONDHOLDERS—Natural Disasters."

The City has not settled any claims that exceeded its insurance coverages in the past three years.

The City can provide no assurance that it will maintain the above insurance coverage amounts while the Bonds are outstanding. See Appendix B under the caption "COVENANTS OF THE CITY—Insurance" for a description of insurance coverages that are required to be maintained while the 2021 Bonds are outstanding.

Outstanding Parity Obligations

The City has incurred certain obligations that are payable from Net Revenues on a parity with the 2021 Bonds, as summarized in the below table.

CITY OF ESCONDIDO WASTEWATER SYSTEM
Parity Obligations

Obligation	*Outstanding Principal Amount*	*Maximum Available Principal Amount of Undrawn Obligations*	*Final Maturity*
2015 Bonds	$ 9,080,000	$ N/A	09/01/2026
Water Reclamation Project State Loan	1,975,444	N/A	04/01/2023
Tertiary Treatment Facility State Loan	1,482,260	N/A	04/01/2023
Blower State Loan	372,642	N/A	12/30/2024
Recycled Water Easterly Main and Tanks Project Loan	4,607,926	N/A	02/01/2051
Brine Line Transmission Project Loan	4,886,170	N/A	10/23/2049
Recycled Water Easterly Agriculture Distribution System Loan	0[(1)]	4,300,000[(1)]	07/03/2053[(3)]
MFRO Facility Loan	0[(2)]	45,000,000[(2)]	03/31/2053[(3)]
Total	$22,404,442	$49,300,000	

(1) The City has not yet drawn any amounts under this loan, but the maximum amount available is $4,300,000, which includes a $1,610,000 grant component.
(2) The City has not yet drawn any amounts under this loan, but the maximum amount available is $45,000,000, which includes a $3,390,000 grant component.
(3) Payment schedule not yet finalized. Reflects anticipated final maturity date. Subject to change.
Source: City.

The above table does not include information with respect to the 2012 Bonds, which are being refunded from proceeds of the 2021 Bonds. See the caption "PLAN OF FINANCE—The Refunding Plan."

Further information with respect to the above-described parity obligations is set forth below.

2015 Bonds. The City issued the 2015 Bonds to refinance certain capital improvements of the Wastewater System. The 2015 Bonds are currently outstanding in the aggregate principal amount of $9,080,000 and have a final maturity on September 1, 2026. The City is obligated to pay principal of and interest on the 2015 Bonds from Net Revenues of the Wastewater System on a parity with the obligation of the City to pay principal of and interest on the 2021 Bonds.

HARRF/Tertiary Treatment Facility State Loans. In 1999, the City entered into a revolving loan contract with the SWRCB to finance the construction of a tertiary treatment facility for the HARRF and a delivery system for recycled water. The project was financed in several phases, of which two remain outstanding: the "Water Reclamation Project State Loan" and the "Tertiary Treatment Facility State Loan").

The Water Reclamation Project State Loan is currently outstanding in the aggregate principal amount of $1,975,444 and is payable in annual installments of $987,722, without interest. The final payment under the Water Reclamation Project State Loan is payable on April 1, 2023. The obligation of the City to make payments on the Water Reclamation Project State Loan is payable from Net Revenues on a parity with the obligation of the City to pay principal of and interest on the 2021 Bonds.

The Tertiary Treatment Facility State Loan is currently outstanding in the aggregate principal amount of $1,482,260 and is payable in annual installments of $741,130, without interest. The final payment under the Tertiary Treatment Facility State Loan is payable on April 1, 2023. The obligation of the City to make payments on the Tertiary Treatment Facility State Loan is payable from Net Revenues on a parity with the obligation of the City to pay principal of and interest on the 2021 Bonds.

Blower State Loan. In 1999, the City entered into the Blower State Loan with the SWRCB to finance the acquisition of a large automated aeration blower to replace certain capital facilities at the HARRF. The Blower State Loan is currently outstanding in the aggregate principal amount of $372,642 and is payable in annual installments of $98,817. The final payment under the Blower State Loan is payable on December 30, 2024. The obligation of the City to make payments on the Blower State Loan is payable from Net Revenues on a parity with the obligation of the City to pay principal of and interest on the 2021 Bonds.

Recycled Water Easterly Main and Tanks Project Loan. In 2017, the City entered into the Recycled Water Easterly Main and Tanks Project Loan to finance the construction of a transmission pipeline to the HARRF. The Recycled Water Easterly Main and Tanks Project Loan is currently outstanding in the aggregate principal amount of $4,607,926 and is payable in annual installments of $238,814. The final payment under the Recycled Water Easterly Main and Tanks Project Loan is payable on February 1, 2051. The obligation of the City to make payments on the Recycled Water Easterly Main and Tanks Project Loan is payable from Net Revenues on a parity with the obligation of the City to pay principal of and interest on the 2021 Bonds.

Brine Line Transmission Project Loan. In 2017, the City entered into the Brine Line Transmission Project Loan to finance the construction of a brine transmission pipeline to the HARRF, as discussed under the caption "THE WASTEWATER SYSTEM—Largest Wastewater System Customers—Power Generating Facility." The Brine Line Transmission Project Loan is currently outstanding in the aggregate principal amount of $4,886,170 and is payable in annual installments of $217,751. The final payment under the Brine Line Transmission Project Loan is payable on October 23, 2049. The obligation of the City to make payments on the Brine Line Transmission Project Loan is payable from Net Revenues on a parity with the obligation of the City to pay principal of and interest on the 2021 Bonds.

Recycled Water Easterly Agriculture Distribution System Loan. In 2021, the City entered into the Recycled Water Easterly Agriculture Distribution System Loan to finance the construction of a 2.2 mile long, 8" to 20" diameter recycled water distribution pipeline to serve agricultural customers of the City. The City has not yet made any draws under the Recycled Water Easterly Agriculture Distribution System Loan, but expects to make an initial draw in late 2021, with the final draw expected to be made in or about late 2022. The maximum amount available under the Recycled Water Easterly Agriculture Distribution System Loan is $4,300,000, including a grant component of $1,610,000. When drawn in full, the Recycled Water Easterly Agriculture Distribution System Loan is expected to be payable in annual installments of $110,428 beginning in or about late 2023. The final payment under the Recycled Water Easterly Agriculture Distribution System Loan is expected to be payable on July 3, 2053. The obligation of the City to make payments on the Recycled Water Easterly Agriculture Distribution System Loan will be payable from Net Revenues on a parity with the obligation of the City to pay principal of and interest on the 2021 Bonds.

MFRO Facility Loan. In 2021, the City entered into the MFRO Facility Loan to finance the construction of a membrane filtration reverse osmosis facility. The City has not yet made any draws under the MFRO Facility Loan, but expects to make an initial draw in late 2021, with the final draw expected to be made in or about mid-2023. The maximum amount available under the MFRO Facility Loan is $45,000,000, including a grant component of $3,390,000. When drawn in full, the MFRO Facility Loan is expected to be payable in annual installments of $1,594,202 beginning in or about mid-2024. The final payment under the MFRO Facility Loan is expected to be payable on March 31, 2053. The obligation of the City to make payments on the MFRO Facility Loan will be payable from Net Revenues on a parity with the obligation of the City to pay principal of and interest on the 2021 Bonds.

See the caption "WASTEWATER SYSTEM FINANCIAL INFORMATION OF THE CITY—Projected Operating Results and Debt Service Coverage."

Seismic Considerations

The City is located in a seismically active region. A safety report for parts of the City's municipal water system states that there are four known earthquake fault zones located approximately 10 miles to 60 miles from portions of the Wastewater System. There is potential for destructive ground shaking during the occurrence of a major seismic event. In addition, land along fault lines may be subject to liquefaction during the occurrence of such an event. In the event of a severe earthquake, there may be significant damage to both property and infrastructure within the City, including the Wastewater System. The City has an emergency operations center that would be activated under such circumstances.

Newer Wastewater System facilities are designed to withstand earthquakes with minimal damage, as earthquake loads are taken into consideration in the design of project structures. The City has also undertaken a vulnerability assessment of critical Wastewater System facilities. The vulnerability assessment ranks Wastewater System infrastructure by importance, builds redundancy into existing operations and includes contingency plans in the event of damage to City assets and succession plans for critical staff. The impact of lesser magnitude events is expected by the City to be temporary, localized and repairable. The Wastewater System has never sustained major damage to its facilities or experienced extended incidences of service interruptions as a result of seismic disturbances.

The City does not maintain earthquake insurance on Wastewater System facilities. See the captions "—City Insurance" and "CERTAIN RISKS TO BONDHOLDERS—Natural Disasters."

COVID-19 Outbreak

The spread of the novel strains of coronavirus collectively called SARS-CoV-2, which cause the disease known as COVID-19 ("**COVID-19**"), and local, State and federal actions in response to COVID-19, have impacted the City's operations and finances. In response to the increasing number of COVID-19 infections and fatalities, health officials and experts recommended, and some governments mandated, a variety of responses ranging from travel bans and social distancing practices to complete shutdowns of certain services and facilities. The World Health Organization has declared the COVID-19 outbreak to be a pandemic and, on March 4, 2020, as part of the State's response to address the outbreak, the Governor declared a state of emergency. On March 13, 2020, the President declared a national emergency, freeing up funding for federal assistance to state and local governments. Many school districts across the State temporarily closed some or all school campuses (including schools within the City) in response to local and State directives or guidance.

On March 19, 2020, the Governor issued Executive Order N-33-20, a mandatory Statewide shelter-in-place order applicable to all non-essential services. Certain aspects of the shelter-in-place directives were extended indefinitely until indicators for modifying the stay-at-home order were met. The County also declared a state of emergency in response to the COVID-19 outbreak. On May 4, 2020, the Governor issued an executive order informing local health jurisdictions and industry sectors that they could gradually re-open under new modifications and guidance provided by the State. A phased re-opening of various sectors was underway since mid-2020 in accordance with a four-stage re-opening plan that ended with a full reopening of the economy on June 15, 2021. Although pursuant to the re-opening plan certain restrictions on activities were eased, restrictions were also re-imposed in various jurisdictions (including Los Angeles County to the northwest of the City) as local conditions warranted, and such restrictions may be renewed as the pandemic continues.

On March 27, 2020, the President signed the $2.2 trillion Coronavirus Aid, Relief, and Economic Stabilization Act (the "**CARES Act**") which provides, among other measures, $150 billion in financial aid to states, tribal governments and local governments to provide emergency assistance to those most significantly impacted by COVID-19. Under the CARES Act, local governments are eligible for reimbursement of certain costs which were expended to address the impacts of the pandemic. The City received a total reimbursement of $4.6 million under the CARES Act. The funds received by the City under the CARES Act are not available for payment of the 2021 Bonds and cannot be used to backfill any City revenue losses related to COVID-19.

On December 27, 2020, the President signed the $900 billion Coronavirus Response and Relief Supplemental Appropriations Act. Although the act did not provide additional financial assistance to state and local governments, it did extend the deadline (to October 2021) for them to use unspent funds that were previously approved under the CARES Act.

On March 11, 2021, the President signed the American Rescue Plan Act of 2021 (the "**ARP Act**"), a $1.9 trillion economic stimulus package designed to help the United States' economy recover from the adverse impacts of the COVID-19 pandemic. The ARP Act includes approximately $350 billion in aid to state and local governments such as the City, consisting of both direct funding from the United States Department of Treasury and program moneys that will flow from other federal agencies. Half of the aid to state and local governments was distributed in spring 2021, with the other half following in 2022. The City has been allocated a total of approximately $38.8 million, of which approximately half was received in July 2021. This funding is available for a broad range of uses, including responding directly to the health emergency, addressing its negative economic impacts with assistance to households and small businesses, restoring government services that were reduced in response to pandemic-related revenue losses and making certain necessary infrastructure improvements.

The City Council adopted a preliminary spending plan for the ARP Act funds on September 29, 2021, approving projects that total approximately $28 million and setting aside approximately $10 million to be appropriated at a future date. The proposed projects include: (i) resources to support the public health response to the pandemic ($5.4 million); (ii) funding to promote and stimulate economic growth and address negative economic impacts caused by the public health emergency ($17.1 million); (iii) replacement of lost revenue ($6.0 million); and (iv) a broadband study ($150,000). The recommended projects are expected to provide long-term benefits to those impacted by the pandemic citywide and make strategic investments in the City's infrastructure to connect the community by improving access to schools, parks, and commerce.

The effects of the COVID-19 outbreak and governmental actions responsive to it have altered the behavior of businesses and people in a manner that has had significant negative impacts on global and local economies. In addition, financial markets in the United States and globally have experienced significant volatility attributed to COVID-19 concerns. Volatility in the financial markets caused the California Public Employees Retirement System's ("**CalPERS**") earnings to fall below its investment targets in Fiscal Year 2020, which could result in increases in the City's unfunded pension liability and future pension costs commencing in Fiscal Year 2023, although the City notes that CalPERS investment earnings exceeded 21% in Fiscal Year 2021. See the caption "WASTEWATER SYSTEM FINANCIAL INFORMATION—Employee Benefits—Pension Obligations." The outbreak resulted in increased pressure on State finances as budgetary resources were directed towards containing the pandemic and tax revenues sharply declined in early 2020. Identified cases of COVID-19 and deaths attributable to the COVID-19 outbreak continue to occur throughout the United States, including the County.

Potential impacts to the City associated with the COVID-19 outbreak include, but are not limited to, increasing costs and challenges to the public health system in and around the City, cancellations of public events and disruption of the regional and local economy, with corresponding decreases in the City's revenues, including as a result of reduced need for wastewater services (particularly among commercial and hotel establishments).

In addition, the Governor has suspended utility service shutoffs (including for the Wastewater System) through December 31, 2021, and the City will not seek to collect late fees or penalties. Although no service charges are being forgiven, the City's accounts receivable amount has increased as a result of the foregoing policy. See the caption "THE WASTEWATER SYSTEM—Collection Procedures."

In response to the COVID-19 outbreak, the City declared the Wastewater System to be an essential service, modified its operations to implement remote work opportunities for employees and provide City services online, closed many City facilities to the public, cancelled many programs, rentals and community events and deferred several non-essential capital improvement projects. With improvements in local case rates, the City has phased in the resumption of normal operations and activities while complying with public health orders and California Occupational Safety and Health Administration COVID-19 Prevention Plan mandates. Large gatherings of City personnel at any one time were prohibited for much of 2020 and early 2021 per health officer orders and on-site personnel wore masks and practiced social distancing while working. City Council and other board meetings occurred via teleconference, and public comment and participation for City Council meetings was also conducted via teleconference and electronic means. The City has not experienced and does not at this time foresee a future negative impact on the execution of City services as a result of the COVID-19 outbreak. The City has worked diligently to provide its employees with personal protective equipment and voluntary access to vaccinations. To date, there has been no evidence of employee-to-employee transmission or contraction of COVID-19 from members of the public in the course of an employee's work. However, there can be no assurance that absences of employees or City leadership due to COVID-19 will not adversely impact City operations.

The City also moved Wastewater System employees to multiple locations in order to prevent large gatherings of personnel at any one time and maintain their health and the operations of the Wastewater System. In addition, on-site personnel are wearing masks and practicing social distancing while working.

The COVID-19 outbreak is ongoing, and the duration and severity of the outbreak and the economic and other actions that may be taken by governmental authorities to contain the outbreak or to treat its impact are uncertain. The ultimate impact of COVID-19 on the operations and finances of the City and the Wastewater System is unknown. The City reports that Fiscal Year 2020 and 2021 Wastewater System revenues and expenses were not materially affected by the COVID-19 outbreak. The City's customer base is primarily residential and its wastewater rate structure consists of variable and fixed rate components, which partially mitigates the effect of any reduced wastewater service use by non-residential customers. See the captions "THE WASTEWATER SYSTEM—Historical Wastewater System Connections" and "THE WASTEWATER SYSTEM—Wastewater System Rates and Charges." To date, the City has not experienced and does not at this time foresee a future negative impact on Wastewater System operations as a result of the COVID-19 outbreak.

The projected Wastewater System operating results which are set forth under the caption "WASTEWATER SYSTEM FINANCIAL INFORMATION—Projected Operating Results and Debt Service Coverage" include the following assumptions based on the trends that the City has seen since the beginning of the outbreak: (i) projected water sales for Fiscal Year 2022 are assumed to remain Fiscal Year 2019 levels (prior to the onset of the pandemic) to account for decreased commercial water usage since the implementation of stay-at-home orders; and (ii) Wastewater System revenues for Fiscal Year 2021 were assumed to be reduced by approximately $135,000 to account for increased delinquencies and write-offs. The City does not expect to write off (and has not budgeted for the writeoff of) material amounts in Fiscal Year 2022 as a result of the suspension of water service shutoffs through December 31, 2021.

The City continues to actively monitor Wastewater System usage, payment delinquencies, revenues and expenditures so that any further impacts of the COVID-19 pandemic can be anticipated. However, the City has not experienced and does not at this time foresee a future negative financial impact on Wastewater System operations as a result of the COVID-19 outbreak, nor does the City expect that the outbreak will have a material adverse effect on the City's ability to repay the 2021 Bonds.

THE WASTEWATER SYSTEM

General

The City provides wastewater service to approximately 24,554 single family residential, 21,646 multifamily residential, 2,618 business and 5 agricultural connections as of June 30, 2021. The Wastewater System service area covers approximately 34 square miles and includes approximately 90% of the geographic area of the City and one small subdivision located outside of City limits. The City is the sole provider of sanitary sewer collection service within its service area and maintains approximately 367 miles of sewer pipelines and 11 pumping stations.

The HARRF is the City's principal wastewater treatment facility. The HARRF is a standard activated sludge treatment plant with a rated capacity of 18 MGD, of which 12.7 MGD is owned by the City. See the captions "—Hale Avenue Resource Recovery Facility" and "—Sewage Disposal Agreement."

The HARRF also includes facilities for the tertiary treatment of wastewater, which allows the City to distribute up to 9 MGD of recycled water from treated wastewater at the HARRF for various City landscape irrigation customers, including golf courses, school fields, City parks and green belts. Recycled water deliveries offset higher cost purchases of imported potable water and represent an additional reliable source of local water supply.

Revenues from both wastewater service and recycled water sales are pledged to repayment of the 2021 Bonds.

Hale Avenue Resource Recovery Facility

The HARRF was constructed in 1959 with an original capacity of 1.0 MGD. Major expansions occurred in 1965 (to 3.0 MGD), 1973 (to 11.0 MGD), 1981 (to 16.5 MGD), 1989 (to 17.5 MGD), 1998 and 2000, when tertiary treatment processes (at an average capacity of 3 to 4 MGD) were added and the HARRF's secondary treatment capacity was expanded to 18 MGD.

Treatment at the HARRF consists of physical, biological and chemical methods, which include screening, sedimentation, chemical precipitation and biological processes. 12.7 MGD of the HARRF's capacity is owned by the City and 5.0 MGD, with an option for an additional 0.3 MGD, of the total capacity is currently owned by the City of San Diego and serves the Rancho Bernardo community south of the City. See the caption "—Sewage Disposal Agreement."

The Wastewater System's average daily flow was approximately 10.3 MGD in Fiscal Year 2021, and Rancho Bernardo contributed approximately another 2.3 MGD, for a total HARRF average daily flow of approximately 12.6 MGD in Fiscal Year 2021. Peak wet weather records indicate that the maximum daily throughput was 27.3 MGD.

Untreated wastewater is conveyed to the HARRF from both the Wastewater System and from the City of San Diego's Pump Station 77 in Rancho Bernardo. The City's wastewater flows enter the plant by gravity through three primary interceptors measuring 18, 27 and 42 inches in diameter. Wastewater from Rancho Bernardo is pumped to the HARRF for treatment through approximately 5 miles of 24 inch force main.

Wastewater is treated in several stages. In the pre-treatment stage, raw wastewater is routed through a screening process, which removes large inorganic material, and a grit removal process, which removes small inorganic material. Such material is washed, disinfected and disposed of in landfills. After pre-treatment, the influent enters the primary clarifiers where gravity is used to settle solids to produce primary effluent. The solids are pumped to the primary digesters where they are broken down by anaerobic organisms. The primary effluent then enters the secondary treatment stage. The secondary system consists of conventional activated sludge aeration and clarification. Primary effluent is oxidized and consumed by a cultivated aerobic bio-mass and forms "mixed liquor." The mixed liquor (liquid in the aeration tanks) flows into the secondary clarifiers where gravity is used to separate the water (secondary effluent) from the biosolids. Secondary effluent is then pumped through the outfall described in the following paragraph for ultimate disposal. Excess secondary biosolids are pumped to the digesters, where they are mixed with primary sludge and treated for a minimum of 15 days. The volatile (organic content) mass of the combined biosolids are reduced to a stable state and transferred to the centrifuges for dewatering. The concentrated biosolids are disposed of via land application offsite and the water is returned to the HARRF. A portion of secondary effluent is sent to the tertiary treatment process where filters further remove remaining particles. Flow is then disinfected with chlorine application or ultraviolet light to produce recycled water that meets the standards set forth in Chapter 3 of Division 4 of Title 22 of the California Code of Regulations ("**Title 22 Recycled Water**"). See the caption "—Recycled Water System."

The HARRF's effluent is discharged to the Pacific Ocean via a 14 mile long land pipeline that connects to the San Elijo Ocean Outfall, an 8,000 foot ocean pipeline near the San Elijo Lagoon in north San Diego County. The effluent exits the outfall pipeline approximately 1.5 miles offshore through diffuser ports 110 feet deep in the Pacific Ocean. The San Elijo Joint Powers Authority owns and operates the San Elijo Ocean Outfall and the San Elijo Pollution Control Facility. The City leases 79% of the estimated 23.25 MGD of ocean outfall capacity from the San Elijo Joint Powers Authority pursuant to a lease that continues indefinitely unless terminated by either party. A pressure regulating station is located at the lower end of the Escondido Land Outfall to control flow so that the total flow does not cause the pressure to exceed the pressure limitation of the reinforced concrete pipe portion of the San Elijo Ocean Outfall. The City sends its dewatered solids to Yuma, Arizona for use as a soil amendment.

Sewage Disposal Agreement

As discussed under the caption "—Hale Avenue Resource Recovery Facility," 5.0 MGD (with an option for an additional 0.3 MGD) of the total capacity of the HARRF is currently owned by the City of San Diego and serves the Rancho Bernardo community south of the City. The City does not bill Wastewater System users located in the City of San Diego directly. Pursuant to the terms of a Sewage Disposal Agreement dated April 12, 1972, by and between the City and the City of San Diego (as amended, the "**Sewage Disposal Agreement**"), the City of San Diego is obligated to pay the City in each Fiscal Year an amount equal to the City of San Diego's pro rata share (based on wastewater flows) of the total Operation and Maintenance Costs and certain capital costs of those Wastewater System facilities which are utilized by the City of San Diego. Prior to each Fiscal Year the City is required to estimate and notify the City of San Diego of its share of such Operation and Maintenance Costs and capital costs and the City of San Diego is obligated to pay such amounts in quarterly installments, billed in arrears. The first quarterly installment each Fiscal Year is adjusted either upward or downward to reflect the actual expenses and flows for the previous Fiscal Year. The City treats the moneys received from the City of San Diego as Revenues pledged to payment of the 2015 Bonds. See the caption "WASTEWATER SYSTEM FINANCIAL INFORMATION—Historical Operating Results and Debt Service Coverage."

In Fiscal Year 2020, the last year for which the City's full annual billing of the City of San Diego has been received, the City received a total of $2,499,874 from the City of San Diego, and for Fiscal Year 2021, the latest year for which such information is available, the City budgeted the City of San Diego's share of Operation and Maintenance Costs to be $2,800,000. In the event that service to the City of San Diego is interrupted, the City of San Diego may discontinue its payments for the period of such interruption.

The Sewage Disposal Agreement expires in 2023 and may be extended for additional five year terms at the City of San Diego's option. There can be no assurance that the term of the Sewage Disposal Agreement will be extended after 2023 or that any such extension will include similar provisions, and the likely impact of such an extension on Net Revenues is uncertain at this time.

Environmental Compliance

The present discharge requirements for the HARRF's treatment facilities are established by the Regional Water Quality Control Board, San Diego Region (the "**Regional Board**"), which administers and enforces all federal and State discharge requirements. The Regional Board administers regulations promulgated under the National Pollutant Discharge Elimination System ("**NPDES**") by the United States Environmental Protection Agency and Division 7 of the California Water Code and regulations adopted thereunder. The City presently holds two discharge permits – Waste Discharge Order No. R9-2010-0032, which governs the discharge of reclaimed water, and Waste Discharge Order No. R9-2018-0002, which governs the discharge of secondary treated effluent. The City's Waste Discharge Orders were adopted by the Regional Board on July 14, 2010 and

September 8, 2010, respectively. Waste Discharge Order No. R9-2010-0032 has no expiration date and Waste Discharge Order No. R9-2018-0002 expires on May 31, 2023. The City is operating in compliance with the terms of the Waste Discharge Orders.

The City previously held an NPDES permit to provide for a discharge of brine from the power generating facility that is described under the caption "—Largest Wastewater System Customers—Power Generating Facility" directly to the Escondido Land Outfall. The Regional Board has transferred responsibility for this permit to San Diego Gas & Electric ("**SDGE**"), which owns and operates the power generating facility. The permit allows SDGE to discharge to the City's brine system and defines the water quality requirements for such discharge. The brine flows to the HARRF, where it may be temporarily stored before discharge into the secondary effluent outfall. See the caption "—Hale Avenue Resource Recovery Facility."

During heavy rains in 1995 and 1996, the capacity of the San Elijo Ocean Outfall was exceeded. To avoid damage to the pipeline, treated secondary effluent was pumped to Escondido Creek during the storms. The Regional Board issued a cease and desist order with respect to pumping to Escondido Creek. The cease and desist order permitted the City to continue operating the HARRF so long as a remedial plan was adopted by May 1998 and placed into operation by 2002. The City embarked on an ambitious plan for improvements to the HARRF, including adding a tertiary treatment stage to the plant process and upgrading the secondary treatment processes by, among other things, installing sophisticated electronic controls, all as described above. The Escondido Creek was improved to provide flood protection at the HARRF and capacity for discharge of recycled water.

The City was issued NPDES permit Number R9-2003-0394 for Intermittent Wet Weather Discharge to Escondido Creek on December 10, 2003, which allowed the City to discharge stormwater overflows treated in the HARRF secondary treatment facility to Escondido Creek in accordance with the terms thereof. The Intermittent Wet Weather Discharge permit effectively canceled the cease and desist order described in the preceding paragraph. The Intermittent Wet Weather Discharge Permit was replaced by NPDES permit R9-2015-0026 effective August 1, 2015. NPDES permit R9-2015-0026 has also since expired (on July 31, 2020) with the City's application for renewal still pending. Although the City is able to discharge stormwater overflows under the expired permit, the City anticipates that the completion of a membrane filtration reverse osmosis facility (as discussed under the caption "—Recycled Water System") in or about 2023 will make it unnecessary for the permit to be renewed. The City is in discussions with Regional Board with respect to this matter, but it does not expect the abandonment of the permit renewal application to have a material adverse effect on the operation or finances of the Wastewater System.

On May 2, 2006, the SWRCB issued General Waste Discharge Requirements for Sanitary Sewer Systems, Water Quality Order No. 2006-0003 (the "**General Order**"). The General Order requires public agencies that own sanitary sewer systems comprised of more than one mile of pipes or sewer lines to develop sanitary sewer management plans and report all sanitary sewer overflows. The City is currently enrolled under the General Order and has a certified sanitary sewer management plan.

Recycled Water System

The San Elijo Joint Powers Authority does not expect to be able to increase the capacity of the San Elijo Ocean Outfall (as discussed under the caption "—General") or to construct an additional outfall in the foreseeable future because of the significant costs and environmental constraints placed upon ocean outfall pipelines. For this reason, the City anticipates that it will need to produce increasing amounts of Title 22 Recycled Water through the wastewater treatment process that is described under the caption "—Hale Avenue Resource Recovery Facility" in order to accommodate future growth within the Wastewater System's service area.

In 2004, the City commenced distribution of recycled water produced at the HARRF. Currently, approximately 2.39 MGD is provided to the recycled water users. The HARRF's recycled water system is permitted to produce up to 9 MGD of recycled water from the HARRF for various City landscape irrigation customers, including golf courses, school fields, City parks, green belts and agricultural customers. In Fiscal Year 2021, the HARRF delivered 2,753 acre feet of recycled water to 23 customers. Of the HARRF's 18 MGD capacity, 9 MGD is designed for the production of recycled water. Recycled water deliveries offset higher cost purchases of imported potable water and represent an additional reliable source of local water supply. Improvements to the HARRF since its inception include upgrades that allow manufacture of "tertiary treated water" for unrestricted irrigation use, 18 miles of new distribution system pipelines and the construction of a two million gallon reservoir.

The recycled water system includes or will include the following components, among others:

- Recycled Water Main Easterly Extension – This project consists of a 24" recycled water main along Escondido Creek between the crossings of Broadway and Citrus Avenue. It represents an expansion of the recycled water system to serve additional large agricultural customers. This project is complete and was financed from proceeds of the 2012 Installment Purchase Agreement.

- Recycled Water Main and Tanks – This project consists of the installation of a 24" recycled water main from Citrus Avenue and Escondido Creek Channel to the Hogback Tank, the conversion of Hogback Tank from potable to recycled water and the construction of a new potable water storage tank. It extended the Recycled Water Main Easterly Extension to serve additional large agricultural customers. This project is complete and was financed from proceeds of the 2012 Installment Purchase Agreement and an agreement with the SWRCB, as discussed under the caption "THE CITY—Outstanding Parity Obligations—Recycled Water Easterly Main and Tanks Project Loan."

- Recycled Water Easterly Agricultural Distribution System – This project consists of the construction of a 2.2 mile long, 8" to 20" diameter recycled water distribution pipeline to serve agricultural customers of the City. This project is currently under construction and is being financed from proceeds of an agreement with the SWRCB, as discussed under the caption "THE CITY—Outstanding Parity Obligations—Recycled Water Easterly Agriculture Distribution System Loan." The project is expected to be completed in or about late 2022.

- Membrane Filtration/Reverse Osmosis Facility – This project consists of the construction of a membrane filtration reverse osmosis facility. It will increase the City's capacity to produce Title 22 Recycled Water and enable the City to avoid discharges of stormwater overflows into Escondido Creek upon its expected completion in 2023. See the caption "—Environmental Compliance." This project is currently under construction and is being financed from proceeds of an agreement with the SWRCB, as discussed under the caption "THE CITY—Outstanding Parity Obligations—MFRO Facility Loan." The project is expected to be completed in or about mid-2023.

See the caption "—Projected Wastewater System Capital Improvements" for a discussion of additional expected capital improvements to the recycled water system.

Historical Wastewater System Connections

The following table shows historical billed connections to the Wastewater System for the five most recent Fiscal Years. As described under the caption "—General," the majority of the City's accounts are residential, with the City providing wastewater service to approximately 24,554 single family residential, 21,646 multifamily residential, 2,618 business and 5 agricultural connections as of June 30, 2021.

TABLE 1
CITY OF ESCONDIDO WASTEWATER SYSTEM
Historical Wastewater System Connections

Fiscal Year	*Wastewater*	*Recycled Water*	*% Increase/(Decrease)*[(1)]
2017	47,466	36	N/A%
2018	48,092	36	1.32
2019	48,466	35	0.78
2020	48,695	36	0.47
2021	48,823	36	0.26

(1) Represents the percentage change in total wastewater and recycled water connections.
Source: City.

Historical Wastewater System Usage

The following table shows the historical volume of wastewater treated by the Wastewater System for the five most recent Fiscal Years, including wastewater that is attributable to the Rancho Bernardo community in the City of San Diego. See the caption "—Sewage Disposal Agreement."

TABLE 2
CITY OF ESCONDIDO WASTEWATER SYSTEM
Historical Wastewater System Daily Average Flow

Fiscal Year	*Daily Average Flow (MGD)*	*% Increase/(Decrease)*
2017	12.6	N/A%
2018	12.3	(2.38)
2019	13.4	8.94
2020	13.9	3.73
2021	12.6	(9.35)[(1)]

(1) Decrease from Fiscal Year 2020 reflects unusually wet conditions in winter 2019-20 followed by unusually dry conditions in winter 2020-21, as well as efforts by the City to reduce inflow and infiltration into the Wastewater System.
Source: City.

Wastewater System usage is affected by a number of factors, including but not limited to the number of connections to the Wastewater System and water conservation efforts.

Historical Recycled Water Sales

The following table shows the historical volume of recycled water sales for the five most recent Fiscal Years. The Wastewater System's largest recycled water customer, accounting for an average of approximately 81% of recycled water sales (based on acre feet sold) for the Fiscal Years shown in the table below, is Rincon Del Diablo Municipal Water District ("**Rincon MWD**"). See the caption "—Largest Customers—Power Generating Facility" for a description of the City's recycled water sales agreement with Rincon MWD and SDGE. In the Fiscal Years shown in the table below, the City sold an average of approximately 2,224 acre feet of recycled water per year to Rincon MWD and an average of approximately 508 acre feet of recycled water per year to other customers.

TABLE 3
CITY OF ESCONDIDO WASTEWATER SYSTEM
Historical Recycled Water Sales

Fiscal Year	*Recycled Water Sales (Acre Feet)*	*% Increase/(Decrease)*
2017	3,121	N/A%
2018	3,316	6.25
2019	2,270	(31.54)[(1)]
2020	2,201	(3.04)
2021	2,753	25.08

(1) Decrease in Fiscal Year 2019 reflects more rain in winter 2019 compared to winter 2018. As shown in the "Recycled Water Revenues" column of Table 4 below, despite the reduction in recycled water sales, recycled water revenues increased in Fiscal Year 2019 as a result of a rate increase.
Source: City.

Recycled water sales are affected by a number of factors, including but not limited to the amount of winter precipitation received.

Historical Wastewater System Service Charge Revenues

The following table shows historical service charge revenues of the Wastewater System for the five most recent Fiscal Years. As further described under the caption "—Largest Customers—Power Generating Facility," approximately 77% of recycled water sales revenues for Fiscal Year 2021 (based on unaudited actual results to date) was from sales to Rincon MWD, the Wastewater System's largest recycled water customer.

TABLE 4
CITY OF ESCONDIDO WASTEWATER SYSTEM
Historical Wastewater System Service Charge Revenues

Fiscal Year	*Wastewater Service Charge Revenues*	*Recycled Water Revenues*	*Total*	*% Increase/ (Decrease)*
2017	$30,391,537	$3,775,065	$34,166,602	N/A%
2018	31,232,433	3,231,643	34,464,076	0.87
2019	32,490,336	3,290,218	35,780,554	3.82
2020	32,251,130	3,249,679	35,500,809	(0.78)
2021[(1)]	32,932,900	3,641,378	36,574,278	3.02

(1) Reflects unaudited actual Fiscal Year 2021 results based on available information to date.
Source: City.

Wastewater service charge revenues and recycled water revenues are affected by a number of factors, including the number of connections, precipitation levels, rates and charges and drought conditions. See the captions "—Historical Wastewater System Connections," "—Wastewater System Rates and Charges" and "CERTAIN RISKS TO BONDHOLDERS—Drought Declarations."

Largest Wastewater System Customers

General. The following table sets forth the ten largest wastewater service customers of the Wastewater System as of June 30, 2021, as determined by the amount of their respective payments.

TABLE 5
CITY OF ESCONDIDO WASTEWATER SYSTEM
Largest Wastewater Service Customers

Customer Type	***Wastewater Service Charge Revenues***[(1)]	***% of Total***
1. Multifamily Residential	$ 210,148	0.64%
2. Multifamily Residential	128,302	0.39
3. Multifamily Residential	119,995	0.36
4. Multifamily Residential	117,257	0.36
5. Multifamily Residential	114,963	0.35
6. Multifamily Residential	108,677	0.33
7. Multifamily Residential	108,160	0.33
8. Multifamily Residential	106,245	0.32
9. Multifamily Residential	105,890	0.32
10. Multifamily Residential	94,909	0.29
TOP TEN TOTAL	$ 1,214,546	3.69%
TOTAL SYSTEM	$32,932,900	100.00%

(1) Reflects unaudited actual Fiscal Year 2021 results based on available information to date.
Source: City.

These customers accounted for approximately 3.69% of Wastewater System Revenues from wastewater service charges (excluding recycled water sales revenues), based on unaudited actual results, for Fiscal Year 2021 ($32,932,900).

Power Generating Facility. The City, Rincon MWD and SDGE, as assignee of Palomar Energy, LLC ("**Palomar Energy**"), a wholly-owned subsidiary of Sempra Energy Resources ("**Sempra**"), have entered into a Recycled Water Service Agreement, dated March 26, 2003 (as amended, the "**Recycled Water Service Agreement**"), pursuant to which the City agreed to construct certain facilities that enable the City to deliver Title 22 Recycled Water and to receive brine discharge from a 550 megawatt natural gas-fired combined-cycle power generating facility (the "**PEP**") that was constructed by Palomar Energy in the City. Pursuant to the terms of the Recycled Water Service Agreement, the City delivers recycled water to Rincon MWD and Rincon MWD delivers the recycled water to the PEP, which is located within Rincon MWD's water service area. The PEP, as part of the energy generation process, uses the recycled water as a coolant and discharges the resulting brine back to Rincon MWD, which delivers the brine to the City for ultimate discharge through the San Elijo Ocean Outfall. See the caption "—Hale Avenue Resource Recovery Facility." Pursuant to the terms of the Recycled Water Service Agreement, SDGE is required to pay a base capacity charge, an additional capacity charge and a commodity charge on a take or pay basis. Such payments are paid monthly to Rincon MWD, which in turn pays the City pursuant to the Recycled Water Service Agreement. The Recycled Water Service Agreement has an initial term of 20 years from June 15, 2005.

SDGE's use of recycled water supplied by the City (through Rincon MWD) under the Recycled Water Service Agreement accounted for approximately $2,529,459 in Revenues in Fiscal Year 2020 (the latest year for which complete information is available), consisting of approximately $1,048,716 in commodity charges, approximately $801,672 in base capacity charges and approximately $679,070 in additional capacity charges.

Pursuant to the Recycled Water Services Agreement, these rates escalate in connection with rate increases for potable water. See the caption "—Wastewater System Rates and Charges."

A byproduct of the PEP is the generation of brine wastes generated from the cooling water treatment systems. Historically, this brine waste would be disposed of in the Wastewater System; however, in order to enhance the quality of the City's recycled water, the brine is collected and conveyed to the HARRF in a separate collection system that was constructed at the expense of Palomar Energy and owned and maintained by the City. This procedure allows the City to bypass the secondary and tertiary treatment processes and discharge the brine directly into the Escondido Land Outfall that is described under the caption "—Hale Avenue Resource Recovery Facility" for ultimate disposal to the Pacific Ocean. The separate brine collection system, which was constructed in conjunction with the PEP, consists of approximately 2,500 feet of 12-inch brine pipeline and storage areas for brine, secondary effluent and recycled water for distribution in the system, replacement of the flood control channel at the HARRF and construction of an emergency raw water connection pipeline.

SDGE may terminate the Recycled Water Service Agreement upon written notice to the City and Rincon MWD and the payment of an amount equal to the net present value of $6,000,000 as of June 15, 2005, using a discount equal to the interest rate on debt of the City between June 15, 2005 and December 15, 2005. The City or Rincon MWD may terminate the Recycled Water Service Agreement with 30 days written notice to SDGE in the event of SDGE's nonpayment under or other breach of the Recycled Water Service Agreement.

Neither SDGE nor Sempra have participated in the preparation of this Official Statement, and neither SDGE nor Sempra is obligated to pay debt service on the 2021 Bonds or to provide any continuing disclosure with respect to the Recycled Water Service Agreement or otherwise. The Recycled Water Service Agreement is not pledged as security for the 2021 Bonds, and its enforcement is subject to the City's (and Rincon MWD's) performance of its obligations thereunder. Moreover, the Recycled Water Service Agreement may be amended by the parties at any time, and remedies thereunder may be limited by bankruptcy, equitable principles and general limitations on remedies against public agencies or public utilities. There can be no assurance that Revenues from the Recycled Water Service Agreement will equal the amounts that are projected in this Official Statement.

Sempra is a New York Stock Exchange listed company. Copies of Sempra's most recent filings are available at the Securities and Exchange Commission's website at www.sec.gov. Such information is not incorporated by reference herein.

See the caption "—Environmental Compliance" for a discussion of an NPDES permit held by SDGE in connection with the PEP in accordance with regulations of the Regional Board.

Wastewater System Rates and Charges

General. The City has the power to establish rates and charges as needed to operate the Wastewater System. The City's Wastewater System rates are not subject to review or approval by the California Public Utilities Commission or any other agency. However, the City is required to comply with the notice, hearing and majority protest provisions of Article XIIID of the State Constitution, which is popularly known as Proposition 218. See the caption "CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES—Proposition 218" for a discussion of limitations on the rate setting authority of the City under Proposition 218. The City determines the adequacy of the Wastewater System rate structure after full consideration of expected operations, maintenance and capital costs.

In 2017, after a public hearing as required under Proposition 218, the City Council adopted a comprehensive rate plan for the Wastewater System, including Wastewater System rate increases effective on March 1 of each year from 2017 through 2021. The City has retained a consultant that is currently conducting a rate study to assess the need for future Wastewater System rate increases. The study is expected to be concluded in early 2022 and staff expects the City Council to consider Wastewater System rate increases commencing March 1, 2023 at a public hearing to be scheduled in 2022.

The projected operating results which are set forth under the caption "WASTEWATER SYSTEM FINANCIAL INFORMATION—Projected Operating Results and Debt Service Coverage" reflect Wastewater System rate increases averaging approximately 1% per annum commencing March 1, 2023 which have not yet been adopted. All rate adjustments are subject to City Council approval after a public hearing in accordance with Proposition 218 and there can be no assurance that Wastewater System rates will be increased as projected herein. In the event that the City Council does not adopt such rate increases as currently contemplated, Wastewater System operating results could be materially different from the projections in this Official Statement.

The City is subject to certain covenants with respect to the 2021 Bonds which require the City to set Wastewater System rates and charges in amounts that it expects to be sufficient to pay the 2020 Bonds from Net Revenues. See the caption "SECURITY FOR THE 2021 BONDS—Rate Covenant."

Rates and Charges. The City adopts rates and charges for the Wastewater System by City Council action on an annual basis. Under the current rate structure, residential users are typically billed both a flat monthly fee and a service charge based on wastewater flow. Wastewater flow is calculated using indoor (non-landscaping) water usage, which is estimated at 80% of the average monthly winter (December to March) water usage per customer the previous year for single family and multi-family residences, and 100% of water usage for mobile homes. As discussed under the caption "CERTAIN RISKS TO BONDHOLDERS—Drought Declarations," lower winter water usage by residential users in response to drought conditions could result in reduced residential flows and, consequently, lower wastewater service charge revenues in future Fiscal Years.

For rate purposes, wastewater flow is capped at 10,000 gallons per month for single family residences and 8,000 gallons per month for multi-family residences and mobile homes. Commercial and industrial users are typically billed according to wastewater flow alone. Aside from charges to SDGE described above under the caption "—Largest Customers—Power Generating Facility," the City's Wastewater System rates and charges include a service charge (including a stormwater component) and an energy surcharge.

A schedule of current Wastewater System rates is set forth below.

TABLE 6
CITY OF ESCONDIDO WASTEWATER SYSTEM
Wastewater Service Rates and Charges

Customer Class	***Unit***	***Fixed $/mo***	***Other $/unit***	***Wastewater Flow $/ 1,000 gal*******	***Biochemical Oxygen Demand $/lb***	***Total Suspended Solids $/lb***
Single Family Residential*	per unit/month	$25.90	$ -	$ 5.14	$ -	$ -
Multi-Family Dwelling*	per dwelling unit/month	25.90	-	4.20	-	-
Mobile Homes***	per mobile home/month	25.90	-	2.58	-	-
High Schools	per student/year	-	35.89	-	-	-
Elementary/Middle Schools	per student/year	-	23.92	-	-	-
Churches	per 100 seats/month	-	49.84	-	-	-
Car Wash/Soft Water Service**	per account/month	25.90	-	7.58	-	-
Hotel/Motel without Dining**	per account/month	25.90	-	9.04	-	-
Hotel/Motel with Dining**	per account/month	25.90	-	13.08	-	-
Repair Shop/Service Station**	per account/month	25.90	-	7.96	-	-
Commercial Laundry**	per account/month	25.90	-	9.22	-	-
Laundromats**	per account/month	25.90	-	8.11	-	-
Hospital**	per account/month	25.90	-	8.71	-	-
Brewery	per account/month	25.90	-	6.90	0.67	0.63
Grocery Store – Meat Dept.**	per account/month	25.90	-	15.24	-	-
Industrial**	per account/month	25.90	-	12.31	-	-
Restaurant**	per account/month	25.90	-	15.04	-	-
All Other Commercial**	per account/month	25.90	-	9.21	-	-
Discharges to Brine Line	per account/month	25.90	-	0.85	-	-

* Applied to 80% of monthly water usage.
** Applied to 90% of monthly water usage.
*** Applied to 100% of water usage.
****Capped at 10,000 gallons per month for single family residences and 8,000 gallons per month for multi-family residences and mobile homes. There is no cap for commercial customers.
Source: City.

TABLE 7
CITY OF ESCONDIDO
Recycled Water Rates and Charges

Monthly Fixed Rate

Meter Size	***Monthly Charge***
1”	$ 64.69
1.5”	122.71
2”	192.58
3”	414.13
4”	740.17
6”	1,637.19

Commodity Rate

Service Type	***Cost per 1,000 Gallons***
Recycled	$3.85
Agricultural	2.70

Source: City.

Connection Charges. A wastewater connection right must be purchased from the City by anyone who wishes to connect to the Wastewater System. The connection fee is currently $7,500 for a single-family unit and multifamily unit with three or more bedrooms, $5,625 for a multifamily unit with fewer than three bedrooms and mobile homes and $3,750 for senior housing units. Connection charges for commercial and industrial users are based on average estimated flow as determined by the Director of Utilities.

In 1983, the City pre-sold 6,031 wastewater connection rights to finance capital improvements to the Wastewater System. 183.99 pre-sold wastewater connection rights are currently outstanding. Such rights can be redeemed for a connection at any time. If the holder of a pre-sold wastewater connection right does not wish to use it to connect to the Wastewater System, such right can be surrendered to the City, where it will be held until another party purchases such right. The current value of a wastewater connection right is $21,872.

Connection fees generally are treated as Revenues, but the purchase of a connection or the exercise of connection rights may not result in the receipt of corresponding cash by the City when purchased or exercised. For example, if the owner of a pre-sold wastewater connection right exercises its right to connect to the Wastewater System, the City treats the value of the exercised right as revenue in the amount of $21,872 per right, even though no current cash is received. If instead, a wastewater connection right is purchased, the City applies a portion of the purchase price equivalent to 2.916 new connections to buy back connection rights from owners who have offered them for resale, if any, at the price of $21,872, and holds the balance for future expansion of the Wastewater System. These credits relieve a liability of the Wastewater System, but they do not result in a current expense, and have no impact on Operation and Maintenance Costs, in the applicable year. Footnotes to the tables under the caption "WASTEWATER SYSTEM FINANCIAL INFORMATION" indicate the amount of net connection fees received, or projected to be received, by the City after eliminating the non-cash portion of such fees, and indicate further the resultant impact on coverage of Debt Service by Net Revenues.

The City reports that as of June 30, 2021, no connection rights were held by the City for resale. Revenues from connection fees in any given year reported in the financial statements and tables herein reflect the cash collected from paying customers, plus the value of rights used by holders at $21,872 per connection right. In Fiscal Year 2021, the City recorded connection right revenue of $3,395,980 (based on unaudited actual numbers) and connection rights holders exercised no rights.

Comparative Wastewater Rates. The following table compares the City's current average monthly residential sewer rate (based on usage of 10,000 gallons) to that of other nearby wastewater service providers.

CITY OF ESCONDIDO WASTEWATER SYSTEM
Monthly Residential Wastewater Service Charge Comparison

	Monthly Charge	*Volume Charge (per 10,000 gallons)*	*Total Charge (per 10,000 gallons)*
City of Del Mar	$54.90[(1)]	$103.74	$158.64[(1)]
Valley Center Municipal Water District	87.30	0.00	87.30
Fallbrook Public Utility District	22.23	107.90	130.13
City of Oceanside	26.84	59.36	86.20
City of San Diego	15.33[(1)]	48.11	63.44[(1)]
City of Poway	28.31	46.60	74.91
City of Escondido	**25.90**	**68.72**	**94.62**
Otay Water District	16.55	39.57	56.12
Vallecitos Water District	38.99	0.00	38.99
Carlsbad Municipal Water District	44.28	0.00	44.28

(1) Wastewater service billed every two months. Reflects effective monthly rate.
Source: City.

Collection Procedures

The City consolidates its billing procedures with charges for water, wastewater, recycled water and trash collection. Customers located within the City's potable water service area are billed monthly. Customers located outside of the City's potable water service area are billed bi-monthly. Bills are generated by computer monthly. A customer is given 19 days to pay the bill. A 10% late payment charge is assessed against any payment received on or after the nineteenth day following the billing date. Accounts that are over 60 days delinquent are subject to disconnection of wastewater service. After shutoff, a customer has approximately one week to pay the delinquent bill. If not paid, the account is closed and a closing bill is mailed. The delinquent customer has 30 days to pay the closing bill. If not paid by the due date, the bill is transferred to the collection department. Small claims litigation is the ultimate remedy for closed accounts that fail to pay.

Presently, approximately 85% to 90% of all bills are paid within 19 days and almost all delinquencies are paid prior to the disconnection of service, which is in accordance with historical averages prior to the COVID-19 outbreak. Outstanding bills on closed accounts are forwarded to the Collections Officer for collection.

See the caption "THE CITY—COVID-19 Outbreak" for a discussion of the suspension of wastewater service shutoffs through December 31, 2021. The suspension has prevented the City from shutting off delinquent accounts as described above, but no wastewater service charges are being forgiven. The City will also grant extended payment arrangements for customers that apply for such relief. Considering the impacts of the pandemic, the City assumed an allowance for the write-off of uncollectible accounts of $135,000 in Fiscal Year 2021, or approximately 0.6% of budgeted operating revenues. The City does not expect to write off material amounts in Fiscal Year 2022 as a result of the suspension of water service shutoffs through December 31, 2021. The City continues to actively monitor Wastewater System usage, payment delinquencies, revenues and expenditures so that any impacts of the COVID-19 pandemic can be anticipated; however, the City has not experienced and does not at this time foresee a future negative financial impact on Wastewater System operations as a result of the COVID-19 outbreak.

Future Wastewater System Improvements

The City projects capital improvements of approximately $53.8 million over the current and next four Fiscal Years, including expansion of the HARRF's secondary treatment capacity, the construction of wastewater transmission and recycled water distribution pipelines, the construction of a membrane filtration reverse osmosis facility and other miscellaneous capital improvements.

The City currently projects funding such capital improvements through a combination of grants, agreements that the City has entered into with the SWRCB but not yet drawn upon, agreements with the SWRCB that the City is currently repaying and Revenues remaining after the payment of debt service on agreements with the SWRCB and other existing obligations. See the caption "THE CITY—Outstanding Parity Obligations" for further information with respect to the above-described capital improvements and agreements with the SWRCB to finance certain of such improvements. See the caption "WASTEWATER SYSTEM FINANCIAL INFORMATION—Projected Operating Results and Debt Service Coverage" for projected debt service on the City's agreements with the SWRCB.

Many of the above-described capital improvements comprise portions of a larger potable water reuse program that has been conceptually approved by the City Council. The City estimates that the total cost of such program, if fully constructed, would be approximately $250,000,000 over 15 years, including approximately $53.8 million that is expected to be expended in the current and next four Fiscal Years. Such costs may be financed through a combination of debt (including additional agreements with the SWRCB), grants, reserves and Revenues remaining after the payment of debt service on existing obligations (which are dependent upon additional rate increases that have not yet been adopted). The timing, scope and financing sources for such capital program are presently uncertain and subject to change. Individual projects within the program are subject to City Council approval and there can be no assurance that any of such improvements will be constructed as currently contemplated.

Projected Wastewater System Connections

The following table shows projected billed connections to the Wastewater System for the current and next four Fiscal Years.

TABLE 8
CITY OF ESCONDIDO WASTEWATER SYSTEM
Projected Wastewater System Connections

Fiscal Year	*Wastewater*	*Recycled Water*	*% Increase/(Decrease)*[(1)]
2022	49,042	36	0.45%
2023	49,263	45	0.47
2024	49,485	60	0.48
2025	49,707	67	0.46
2026	49,931	70	0.46

(1) Represents the percentage change in total wastewater and recycled water connections.
Source: City.

Projected increases in connections reflect expected development activity within the City.

Projected Wastewater System Usage

The following table shows the volume of wastewater that is projected to be treated by the Wastewater System for the current and next four Fiscal Years, including wastewater that is attributable to the Rancho Bernardo community in the City of San Diego. See the caption "—Sewage Disposal Agreement."

TABLE 9
CITY OF ESCONDIDO WASTEWATER SYSTEM
Projected Wastewater System Daily Average Flow

Fiscal Year	*Daily Average Flow (MGD)*	*% Increase/(Decrease)*
2022	12.9	2.38%
2023	12.9	0.00
2024	12.9	0.00
2025	12.9	0.00
2026	12.9	0.00

Source: City.

Wastewater System usage is affected by a number of factors, including but not limited to the number of connections to the Wastewater System and water conservation efforts. The projected wastewater flows shown above do *not* reflect lower residential winter water usage in the winter of 2021-22 or any future years, if any, in response to drought conditions. See the caption "CERTAIN RISKS TO BONDHOLDERS—Drought Declarations."

Projected Recycled Water Sales

The following table shows the projected volume of recycled water sales for the current and next four Fiscal Years.

TABLE 10
CITY OF ESCONDIDO WASTEWATER SYSTEM
Projected Recycled Water Sales[1]

Fiscal Year	*Recycled Water Sales (Acre Feet)*	*% Increase/(Decrease)*
2022	2,500	(9.19)%
2023	3,812	52.48
2024	4,468	17.21
2025	5,124	14.68
2026	5,780	12.80

(1) Assumes completion of all projects that are described under the caption "—Recycled Water System."
Source: City.

Recycled water sales are affected by a number of factors, including but not limited to the amount of winter precipitation received.

Projected Wastewater System Service Charge Revenues

The following table shows projected service charge revenues of the Wastewater System for the current and next four Fiscal Years.

TABLE 11
CITY OF ESCONDIDO WASTEWATER SYSTEM
Projected Wastewater System Service Charge Revenues

Fiscal Year	*Wastewater Service Charge Revenues*	*Recycled Water Revenues*	*Total*	*% Increase/ (Decrease)*
2022	$32,985,200	$3,318,390	$36,303,590	(0.74)%
2023	33,315,052	4,556,621	37,871,673	4.32
2024	33,648,203	5,794,855	39,443,058	4.15
2025	33,984,685	7,033,089	41,017,774	3.99
2026	34,324,531	8,271,323	42,595,854	3.85

Source: City.

Wastewater service charge revenues and recycled water sales revenues are affected by a number of factors, including the number of connections, precipitation levels, rates and charges and drought conditions. See the captions "—Historical Wastewater System Connections," "—Wastewater System Rates and Charges" and "CERTAIN RISKS TO BONDHOLDERS—Drought Declarations."

As discussed under the caption "—Wastewater System Rates and Charges, the above projections assume rate increases of approximately 1% per annum commencing March 1, 2023 which have not yet been adopted. All rate adjustments are subject to City Council approval after a public hearing in accordance with Proposition 218 and there can be no assurance that Wastewater System rates will be increased as projected herein. See the caption "CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES—Proposition 218."

Growth Management

Pursuant to the City's current land use policies and ordinances, the City regulates growth by denying building permits to developments that are: (i) inconsistent with the City's general plan; or (ii) located in areas that have critical infrastructure deficiencies. The City will issue building permits in areas with critical infrastructure deficiencies where the development provides facilities to upgrade existing deficiencies, does not adversely impact critical infrastructure and provides a proportionate share of neighborhood or citywide improvements. The City anticipates that growth and development in the City will continue to be regulated in the future. There can be no assurance that the City will not enact future growth control ordinances which increase limits on population growth in the City. See the caption "—Projected Wastewater System Connections" for projected increases in service connections in the current and next four Fiscal Years. The City has covenanted in the Indenture to fix and prescribe, at the commencement of each Fiscal Year, rates and charges for the Wastewater Service which are reasonably expected to be at least sufficient to yield during each Fiscal Year Net Revenues equal to 115% of the Debt Service (including the 2021 Bonds) in such Fiscal Year. See the caption "SECURITY FOR THE 2021 BONDS—Rate Covenant."

WASTEWATER SYSTEM FINANCIAL INFORMATION

Financial Statements

A copy of the most recent audited financial statements (the "**Financial Statements**") of the City prepared by the City's accountant, The Pun Group, LLP, San Diego, California (the "**Auditor**") is set forth in Appendix A. The Auditor's letter dated December 29, 2020 is set forth therein. The Financial Statements should be read in their entirety. The Auditor has not reviewed or audited this Official Statement.

The summary operating results that are contained under the caption "—Historical Water System Operating Results and Debt Service Coverage" are derived from unaudited results for Fiscal Year 2021 (based on available information to date), the Financial Statements and audited financial statements for prior Fiscal Years (excluding certain non-cash items and after certain other adjustments), and are qualified in their entirety by reference to such statements, including the notes thereto.

The City accounts for moneys received and expenses paid in accordance with generally accepted accounting principles applicable to public entities ("**GAAP**"). In certain cases, GAAP requires or permits moneys that are collected in one Fiscal Year to be recognized as revenue in a subsequent Fiscal Year and requires or permits expenses that are paid or incurred in one Fiscal Year to be recognized as expenses in a subsequent Fiscal Year. See Note 1 to the Financial Statements that are set forth in Appendix A. Except as otherwise expressly noted herein, all financial information that has been derived from the City's audited financial statements reflects the application of GAAP.

The Wastewater Enterprise Fund of the City is accounted for as a proprietary fund type (enterprise fund). In governmental accounting, enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis are to be financed or recovered primarily through user charges, or where periodic determination of revenues earned, expenses incurred and/or net income is deemed appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Proprietary funds are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. In the Wastewater Enterprise Fund, receivables have been recorded as revenue and provisions have been made for uncollectible amounts.

Available Cash

As of June 30, 2021, the Wastewater System had approximately $38.2 million in available cash reserves, including approximately $18.9 million in reserves that are currently allocated to future capital projects but can be reallocated to other purposes in the City's discretion. This amount is equivalent to approximately 508 days of Operation and Maintenance Costs.

General Fund Structural Deficit

The 2021 Bonds are *not* payable from General Fund revenues, nor are Wastewater System revenues available to cover General Fund deficits. See the caption "CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES—Proposition 218." However, prior to the outbreak of COVID-19, the City's long-term financial plan projected a $6 million General Fund operating budget deficit in Fiscal Year 2021, with annual General Fund deficits projected to continue until Fiscal Year 2040 if additional revenues are not generated. These structural deficits reflect the fact that projected General Fund revenue growth is not expected to keep pace with projected growth in operational and retirement costs, particularly in the area of public safety, as the City's police, fire and public works service costs make up approximately 76% of the General Fund budget. Even after implementing cost-saving budget reduction measures, the City relied on a $4 million one-time redevelopment loan payment received by the City to balance its Fiscal Year 2021 General Fund budget and anticipates using one-time funds to balance future budgets as necessary. See the caption "THE CITY—Governance and Management—Management Policies—Budgetary and Financial Policy." In October 2021, the City Council formed a subcommittee to explore means of increasing General Fund revenues, including the possibility of placing a sales tax measure before City voters in November 2022.

At this time, the City does not anticipate an impact on Wastewater System finances as a result of the foregoing matters. The Wastewater Fund has not made any interfund loans to the General Fund to cover General Fund deficits, nor does the City anticipate making any such interfund loans in the future. However, there can be no assurance that the City will be able to raise sufficient General Fund revenues to address the structural deficit in its General Fund in the future. Continued expenditure reductions to achieve a balanced General Fund budget could negatively impact quality of life in the City and, should such conditions continue, eventually affect the ability and willingness of Wastewater System customers to pay for wastewater services, or result in slower growth in Wastewater System connections than is presently projected.

Historical Operating Results and Debt Service Coverage

The following table is a summary of operating results of the Wastewater System for the last five Fiscal Years. These results have been derived from unaudited results for Fiscal Year 2021 (based on available information to date), the Financial Statements and audited financial statements of the City for prior Fiscal Years but exclude certain non-cash items and include certain other adjustments. The table has not been reviewed or audited by the Auditor.

TABLE 12
CITY OF ESCONDIDO WASTEWATER SYSTEM
Historical Operating Results
Fiscal Year Ended June 30

	2017	*2018*	*2019*	*2020*	*2021*(9)
REVENUES					
Service charges(1)	$30,391,537	$31,232,433	$32,490,336	$32,251,130	$32,932,900
Recycled water revenues	3,775,065	3,231,643	3,290,218	3,249,679	3,641,378
Connection fees(2)	1,386,408	3,804,361	1,004,415	536,728	3,395,980
Investment Income	56,945	149,920	1,591,516	1,658,507	52,660
Other(3)	150,086	138,372	156,648	163,693	120,687
TOTAL REVENUES	$35,760,041	$38,556,729	$38,533,133	$37,859,737	$40,143,605
OPERATION AND MAINTENANCE COSTS(4)	$24,693,045	$23,468,708	$24,456,383	$24,712,849	$27,449,143
NET REVENUES	$11,066,996	$15,088,021	$14,076,750	$13,146,888	$12,694,462
DEBT SERVICE					
2012 Installment Purchase Agreement	$ 1,440,806	$ 1,440,281	$ 1,438,781	$ 1,441,981	$ 1,444,781
2015A Bonds	1,609,950	1,600,875	1,599,875	1,601,250	1,604,750
2015B Bonds	528,323	529,575	528,514	525,525	526,063
Phase I HARRF State Loan	488,990	488,990	488,990	488,990	488,998
Water Reclamation Project State Loan	987,722	987,723	987,722	987,722	987,722
Tertiary Treatment Facility State Loan	741,130	741,130	741,130	741,130	741,130
Blower State Loan	98,817	98,870	98,817	98,817	98,817
Recycled Water Easterly Main and Tanks Project Loan(5)	-	-	-	-	-
Brine Line Transmission Project Loan	-	-	-	-	217,751
Recycled Water Easterly Agriculture Distribution System Loan(6)	-	-	-	-	-
TOTAL DEBT SERVICE(7)	$ 5,895,738	$ 5,887,443	$ 5,883,829	$ 5,885,415	$ 6,110,012
DEBT SERVICE COVERAGE(7)(8)	1.88	2.56	2.39	2.23	2.08
NET REVENUES AVAILABLE FOR OTHER PURPOSES	$ 5,171,258	$ 9,200,577	$ 8,192,921	$ 7,261,473	$ 6,584,450

(1) Includes payments from City of San Diego for its share of Operation and Maintenance Costs. See the caption "THE WASTEWATER SYSTEM—Sewage Disposal Agreement."

(2) See the caption "THE WASTEWATER SYSTEM—Wastewater System Rates and Charges—Connection Charges" for a discussion of these Revenues; net cash received for the affected years for such connection fees was $1,364,536, $3,760,617, $982,543, $536,728 and $3,395,980 (based on unaudited actual results) for Fiscal Years 2017, 2018, 2019, 2020 and 2021, respectively. The increase in such revenues in Fiscal Years 2018 and 2021 compared to the respective immediately prior years reflects a high level of development.

(3) Includes other miscellaneous revenues, including but not limited to rebates, refunds and incentive payments.

(4) Operation and Maintenance Costs do not include GASB 68 accounting entries, which are non-cash items. There is not a linear correlative relationship between GASB 68 accounting entries and the City's annual pension contributions because GASB 68 accounting entries are based on assumptions by CalPERS which vary annually. However, if coverage were adjusted to reflect these entries, coverage would have been 1.92, 2.33, 2.21, 1.97 and 2.71 (based on unaudited actual results) for Fiscal Years 2017, 2018, 2019, 2020 and 2021, respectively. See the caption "—Employee Benefits—Pension Obligations" for a description of GASB 68.

(5) The City expects to begin repaying this obligation in Fiscal Year 2022.

(6) The City expects to begin repaying this obligation in Fiscal Year 2024.

(7) For purposes of calculating the Debt Service amount for Debt Service coverage purposes in the City's audited financial statements, miscellaneous bond expenses of $(111,981), $(112,051), $(111,806), $(111,552) and $(159,638) were included in the calculation for Fiscal Years 2017, 2018, 2019, 2020 and 2021, respectively.

(8) If coverage were adjusted to reflect only the cash received for connection fees, as described in Footnote 2, coverage would have been 1.87, 2.56, 2.39, 2.23 and 2.72 (based on unaudited actual results) for Fiscal Years 2017, 2018, 2019, 2020 and 2021, respectively.

(9) Reflects unaudited actual results based on available information to date.

Source: City.

Projected Operating Results and Debt Service Coverage

The projected operating results of the Wastewater for current and next four Fiscal Years are set forth below, reflecting certain significant assumptions concerning future events and circumstances. The financial forecast represents the City's estimate of projected financial results based on a variety of assumptions, including the assumptions set forth in the footnotes to the chart set forth below and assumed rate increases averaging approximately 1% per annum commencing March 1, 2023 which have not yet been adopted, as discussed under the caption "THE WASTEWATER SYSTEM—Wastewater System Rates and Charges—General." All of such assumptions are material to the development of the City's financial projections, and variations in the assumptions may produce substantially different financial results. Actual operating results achieved during the projection period may vary from those presented in the forecast and such variations may be material. See the caption "CERTAIN RISKS TO BONDHOLDERS—Accuracy of Assumptions."

TABLE 13
CITY OF ESCONDIDO WASTEWATER SYSTEM
Projected Operating Results
Fiscal Year Ending June 30

	2022[1]	*2023*	*2024*	*2025*	*2026*
REVENUES					
Service charges[2]	$32,985,200	$33,315,052	$33,648,203	$33,984,685	$34,324,531
Recycled water revenues[2]	3,318,390	4,556,621	5,794,855	7,033,089	8,271,323
Connection fees[3]	1,697,990	848,995	636,746	643,114	649,545
Investment Income[4]	53,187	53,718	54,256	54,798	55,346
Other[5]	121,894	123,113	124,344	125,588	126,843
TOTAL REVENUES	$38,176,661	$38,897,499	$40,258,403	$41,841,273	$43,427,589
OPERATION AND MAINTENANCE COSTS[6]	$28,272,617	$29,120,796	$29,994,420	$30,894,252	$31,821,080
NET REVENUES	$ 9,904,043	$ 9,776,703	$10,263,984	$10,947,021	$11,606,509
DEBT SERVICE					
2012 Installment Purchase Agreement[7]	$ 1,437,381	$ -	$ -	$ -	$ -
2015A Bonds	1,600,375	1,603,000	1,607,250	1,603,125	1,605,500
2015B Bonds	525,250	527,968	524,162	529,313	523,368
Water Reclamation Project State Loan	987,722	987,722	-	-	-
Tertiary Treatment Facility State Loan	741,130	741,130	-	-	-
Blower State Loan	98,817	98,817	98,817	98,817	-
Recycled Water Easterly Main and Tanks Project Loan	238,814	238,814	238,814	238,814	238,814
Brine Line Transmission Project Loan	217,751	217,751	217,751	217,751	217,751
Recycled Water Easterly Agriculture Distribution System Loan[8]	-	-	110,428	110,428	110,428
MFRO Facility Loan[9]	-	-	1,340,631	1,594,201	1,594,202
2021 Bonds*		1,090,742	1,141,900	1,146,000	1,144,600
TOTAL DEBT SERVICE*	$ 5,847,240	$ 5,505,944	$ 5,279,753	$ 5,538,449	$ 5,434,663
DEBT SERVICE COVERAGE*	1.69	1.78	1.94	1.98	2.14
NET REVENUES AVAILABLE FOR OTHER PURPOSES*	$ 4,056,803	$ 4,270,760	$ 4,984,231	$ 5,408,573	$ 6,171,846

(1) Reflects Fiscal Year 2022 adopted budget with certain adjustments. See the caption "THE CITY—Budget Process."

(2) Assumes projected rate increases of approximately 1% per annum commencing March 1, 2023 which have not yet been adopted. All rate increases are subject to the notice, hearing and protest provisions of Proposition 218, and there can be no assurance that rate increases which are projected herein will be approved. See the caption "CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES—Proposition 218."

* *Preliminary; subject to change.*

(3) Reflects City projections of development. See the caption "THE WASTEWATER SYSTEM—Projected Wastewater System Connections."
(4) Reflects projected interest earnings of 1% per annum on Wastewater System reserves.
(5) Includes other miscellaneous revenues, including but not limited to rebates, refunds and incentive payments. Projected to increase by approximately 1% per annum.
(6) Projected to increase by approximately 3.5% per annum.
(7) This obligation is being refunded from proceeds of the 2021 Bonds. See the caption "PLAN OF FINANCE—The Refunding Plan."
(8) The City expects to begin repaying this obligation in Fiscal Year 2024. Assumes repayment of $2,690,000 in principal amount. The actual amount to be repaid will be determined upon final cost reconciliation of the project being financed. See the caption "THE CITY—Outstanding Parity Obligations—Recycled Water Easterly Agriculture Distribution System Loan."
(9) The City expects to begin repaying this obligation in Fiscal Year 2024. Assumes repayment of $41,610,000 in principal amount. The actual amount to be repaid will be determined upon final cost reconciliation of the project being financed. See the caption "THE CITY—Outstanding Parity Obligations—MFRO Facility Loan."
Source: City.

Employee Benefits

Pension Obligations. Accounting and financial reporting by state and local government employers for defined benefit pension plans is governed by Governmental Accounting Standards Board Statement No. 68 ("**GASB 68**"). GASB 68 includes the following components: (i) unfunded pension liabilities are included on the employer's balance sheet; (ii) pension expense incorporates rapid recognition of actuarial experience and investment returns and is not based on the employer's actual contribution amounts; (iii) lower actuarial discount rates are required to be used for underfunded plans in certain cases for purposes of the financial statements; (iv) closed amortization periods for unfunded liabilities are required to be used for certain purposes of the financial statements; and (v) the difference between expected and actual investment returns will be recognized over a closed five-year smoothing period. GASB 68 affects the City's accounting and reporting requirements, but it does not change the City's pension plan funding obligations.

The City participates in a Miscellaneous Plan to fund pension benefits for employees that serve the Wastewater System. The City's pension plan is administered by CalPERS. CalPERS administers agent multiple-employer public employee defined benefit pension plans for all of the City's full-time and certain part-time employees. CalPERS provides retirement, disability and death benefits to plan members and beneficiaries and acts as a common investment and administrative agent for participating public entities within the State, including the City. CalPERS plan benefit provisions and all other requirements are established by State statute and the City Council.

City employees are subject to different benefit levels based on their hire date. Current benefit provisions for City employees are set forth below.

CITY OF ESCONDIDO
CalPERS Miscellaneous Plan – Summary of Benefit Provisions

	Employees Hired Before December 23, 2012	*Employees Hired On or After December 23, 2012 (Prior CalPERS Members)*	*Employees Hired On or After January 1, 2013 (Not Prior CalPERS Members)*
Benefit Formula	3.0% @ age 60	2.0% @ age 60	2.0% @ age 62
Benefit Vesting	5 years of service	5 years of service	5 years of service
Benefit Payments	Monthly for life	Monthly for life	Monthly for life
Minimum Retirement Age	50	50	52
Monthly Benefits as % of Eligible Compensation	2.0% - 3.0%	1.092% - 2.418%	1.0% - 2.5%
Employee Normal Cost	8.0%(1)	7.0%(1)	6.25%(1)
Employer Normal Cost Rate	11.04%(2)	11.04%(2)	11.04%

(1) Employees are required to make the full employee contribution themselves. The City does not make any portion of the employee contribution.
(2) Effective July 1, 2020, all M&O Unit employees hired before January 1, 2013 participate in cost sharing of 3% of the employer normal cost rate pursuant to the memorandum of understanding with the M&O Unit dated May 16, 2018. See the caption "THE CITY—Employees."
Source: City.

Contributions to the City's pension plan consist of contributions from plan participants (i.e., employees) and contributions by the City.

City employees who were hired on or after January 1, 2013 and who were not previously CalPERS members receive benefits based on 2.0% at age 62 formula. Such employees are required to make the full amount of required employee contributions themselves under the California Public Employees' Pension Reform Act of 2013 ("**AB 340**"), which was signed by the State Governor on September 12, 2012. AB 340 established a new pension tier for such employees. Benefits for such participants are calculated on the highest average annual compensation over a consecutive 36-month period. Employees are required to pay at least 50% of the total normal cost rate. AB 340 also capped pensionable income as noted below. Amounts are set annually, subject to Consumer Price Index increases, and retroactive benefits increases are prohibited, as are contribution holidays and purchases of additional non-qualified service credit.

CITY OF ESCONDIDO
Pensionable Income Caps for Calendar Year 2021 (AB 340 and Non-AB 340 Employees)

	Employees Hired On or Before December 31, 2012 (Non-AB 340 Employees)	*Employees Hired After December 31, 2012 (AB 340 Employees)*
Maximum Pensionable Income	$290,000	$153,671
Maximum Pensionable Income if also Participating in Social Security	N/A	$128,059

Source: City.

Additional employee contributions, limits on pensionable compensation and higher retirement ages for new members as a result of the passage of AB 340 are expected to reduce the City's unfunded pension lability and potentially reduce City contribution levels in the long term.

The City is also required to contribute the actuarially determined remaining amounts necessary to fund benefits for its members. Employer contribution rates for all public employers are determined on an annual basis by the CalPERS actuary and are effective on the July 1 following notice of a change in the rate. Total plan contributions are determined through the CalPERS annual actuarial valuation process. The total minimum required employer contribution is the sum of: (i) the plan's employer normal cost rate, which funds pension benefits for current employees for the upcoming Fiscal Year (expressed as a percentage of payroll); plus (ii) the employer unfunded accrued liability contribution amount, which funds pension benefits that were previously earned by current and former employees (billed monthly).

For Fiscal Year 2021, required employer normal cost rates as a percentage of payroll were 11.499% for Miscellaneous Plan employees. For Fiscal Year 2022, required employer normal cost rates as a percentage of payroll are 11.04% for Miscellaneous Plan employees.

For Fiscal Year 2021, the total required employer payment of the unfunded accrued liability for the City's Miscellaneous Plan was $11,687,801. For Fiscal Year 2022, the total required employer payment of the unfunded accrued liability for the City's Miscellaneous Plan is $13,503,578 (assuming the City elects the lump sum payment option). An 18.6% portion of such amount is expected to be allocable to the Wastewater System.

Beginning in Fiscal Year 2018, CalPERS began collecting employer contributions toward a pension plan's unfunded liability as dollar amounts instead of the prior method of a percentage of payroll. According to CalPERS, this change was intended to address potential funding issues that could arise from a declining payroll or a reduction in the number of active members in the plan. Funding the unfunded liability as a percentage of payroll could lead to underfunding of pension plans. Due to stakeholder feedback regarding internal needs for total contributions expressed as an estimated percentage of payroll, the CalPERS reports include such results in the contribution projection for informational purposes only. Contributions toward a pension plan's unfunded liability will continue to be collected as set dollar amounts.

The City's required contributions to CalPERS fluctuate each year and, as noted, include a normal cost component and a component that is equal to an amortized amount of the unfunded liability. Many assumptions are used to estimate the ultimate liability of pensions and the contributions that will be required to meet those obligations. The CalPERS Board of Administration has adjusted and may in the future further adjust certain assumptions used in the CalPERS actuarial valuations, which adjustments may increase the City's required contributions to CalPERS in future years. Accordingly, the City cannot provide any assurances that the City's required contributions to CalPERS in future years will not significantly increase (or otherwise vary) from any past or current projected levels of contributions. CalPERS earnings reports for Fiscal Years 2010 through 2020 report investment gains of approximately 13.3%, 21.7%, 0.1%, 13.2%, 18.4%, 2.4%, 0.6%, 11.2%, 8.6%, 6.7% and 4.7%, respectively. Preliminary returns for Fiscal Year 2021 indicate an investment gain of 21.3%. Future earnings performance may increase or decrease future contribution rates for plan participants, including the City. The City notes that CalPERS' earnings in Fiscal Year 2020 were below its investment targets as a result of stock market declines in the wake of the COVID-19 outbreak, which could increase future contribution rates for plan participants, including the City. See the caption "THE CITY—COVID-19 Outbreak."

On December 21, 2016, the CalPERS Board of Administration voted to lower its discount rate from 7.50% to 7.00% over a three period. For public agencies such as the City, the new discount rate took effect July 1, 2017. Lowering the discount rate means that employers which contract with CalPERS to administer their pension plans will see increases in their normal costs and unfunded actuarial liabilities. Active members hired after January 1, 2013 will also see their contribution rates rise under AB 340. The reduction of the discount rate will result in average employer rate increases of approximately 1% to 3% of normal cost as a percentage of payroll for most retirement plans such as the City's plans. Additionally, many employers will see a 30% to 40% increase in their current unfunded accrued liability payments (relative to the unfunded accrued liability payments projected in the June 30, 2015 valuation report) for pension plans. These payments are made to amortize unfunded liabilities over 20 years to bring pension funds to a fully funded status over the long-term.

The announcement on July 12, 2021 that CalPERS achieved a preliminary investment return of 21.3% for Fiscal Year 2021 could cause the CalPERS Board of Administration to lower CalPERS' discount rate from 7.00% to 6.80% in accordance with a risk mitigation policy that was adopted in 2015, which calls for the discount rate to be lowered if returns exceed the then-current discount rate by two or more percentage points. There can be no assurance as to whether or when the CalPERS Board of Administration will consider lowering the discount rate.

Portions of the above disclosures are primarily derived from information that has been produced by CalPERS, its independent accountants and its actuaries. The City has not independently verified such information and neither makes any representations nor expresses any opinion as to the accuracy of the information that has been provided by CalPERS.

The comprehensive annual financial reports of CalPERS are available on CalPERS' Internet website at www.calpers.ca.gov. The CalPERS website also contains CalPERS' most recent actuarial valuation reports and other information that concerns benefits and other matters. The textual reference to such Internet website is provided for convenience only. None of the information on such Internet website is incorporated by reference herein. The City cannot guarantee the accuracy of such information. Actuarial assessments are "forward-looking" statements that reflect the judgment of the fiduciaries of the pension plans, and are based upon a variety of assumptions, one or more of which may not materialize or be changed in the future.

The City's Miscellaneous Plan had a total net pension liability of approximately $141,770,992 for Fiscal Year 2020 (as of the measurement date of June 30, 2019), of which approximately 17% is attributable to the Wastewater System. The net pension liability is the difference between the total pension liability and the fair market value of pension assets. The City's total pension assets include funds that are held by CalPERS, and its net pension asset or liability is based on such amounts. For Fiscal Year 2020, the City incurred Miscellaneous Plan pension expenses of $14,696,078.

A summary of principal assumptions and methods used to determine the total pension liability for Fiscal Year 2020 is shown below.

CITY OF ESCONDIDO
Actuarial Assumptions for CalPERS Miscellaneous Plan

Actuarial Cost Method	Entry Age Normal in accordance with the requirements of GASB 68
Asset Valuation Method	Market Value of Assets
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Salary Increases	Varies by entry age and service
Investment Rate of Return	7.50% net of pension plan investment and administrative expenses; includes projected inflation rate of 2.50%
Mortality Rate Table[1]	Derived using CalPERS' membership data for all funds

(1) The mortality table used was developed based on CalPERS-specific data from a 2017 actuarial experience study for the period from 1997-2011.

Source: City.

Changes in the net pension liability for the City's pension plans in the most recent Fiscal Year for which information is available were as follows:

CITY OF ESCONDIDO
Changes in CalPERS Miscellaneous Plan Net Pension Liability

	Increase / (Decrease)		
	Total Pension Liability	***Plan Fiduciary Net Position***	***Net Pension Liability / (Asset)***
Balance at June 30, 2019	$ 443,306,473	$ 308,282,714	$135,023,759
Balance at June 30, 2020	459,862,821	318,091,829	141,770,992
Net Changes for period from July 1, 2019 through June 30, 2020	$ 16,556,342	$ 9,809,115	$ 6,747,233

Source: City.

The table below presents the net pension liability of the City's pension plans, calculated using the discount rate applicable to Fiscal Year 2020 (7.15%), as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.15%) or 1 percentage point higher (8.15%) than the Fiscal Year 2019-20 rate:

CITY OF ESCONDIDO
Sensitivity of CalPERS Miscellaneous Plan Net Pension Liability
to Changes in the Discount Rate

Plan's Net Pension Liability/(Asset)	***Discount Rate – 1% (6.15%)***	***Applicable Discount Rate (7.15%)***	***Discount Rate + 1% (8.15%)***
Miscellaneous Plan	$199,138,603	$141,770,992	$93,999,588

Source: City.

For additional information relating to the City's pension plans, see Note 12 to the City's audited financial statements set forth in Appendix A.

No Post-Employment Benefits. The City does not currently provide post-retirement health benefits to any of its employees.

CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES

Article XIIIB

Article XIIIB of the State Constitution limits the annual appropriations of the State and of any city, county, school district, authority, special district or other political subdivision of the State to the level of appropriations of the particular governmental entity for the prior fiscal year, as adjusted for changes in the cost of living and population. The "base year" for establishing such appropriation limit is the 1978-79 State fiscal year and the limit is to be adjusted annually to reflect changes in population and consumer prices. Adjustments in the appropriations limit of an entity may also be made if: (a) the financial responsibility for a service is transferred to another public entity or to a private entity; (b) the financial source for the provision of services is transferred from taxes to other revenues; or (c) the voters of the entity approve a change in the limit for a period of time not to exceed four years.

Appropriations that are subject to Article XIIIB generally include the proceeds of taxes levied by or for the State or other entity of local government, exclusive of certain State subventions, refunds of taxes and benefit payments from retirement, unemployment, insurance and disability insurance funds. "Proceeds of taxes" include, but are not limited to, all tax revenues and the proceeds to an entity of government from: (i) regulatory licenses, user charges, and user fees (but only to the extent that such proceeds exceed the cost reasonably borne by the entity in providing the service or regulation); and (ii) the investment of tax revenues. Article XIIIB includes a requirement that if an entity's revenues in any year exceed the amounts that are permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years.

Certain expenditures are excluded from the appropriations limit, including payments of indebtedness that were existing or legally authorized as of January 1, 1979, or of bonded indebtedness thereafter approved by the voters, and payments that are required to comply with court or federal mandates which without discretion require an expenditure for additional services or which unavoidably make the provision of existing services more costly.

The City is of the opinion that its charges for Wastewater Service do not exceed the costs that it reasonably bears in providing such service and therefore are not subject to the limits of Article XIIIB. See the caption "SECURITY FOR THE 2021 BONDS—Rate Covenant" for a description of the City's covenant to set rates and charges for the Wastewater Service.

Proposition 218

General. An initiative measure entitled the "Right to Vote on Taxes Act" (the "**Initiative**") was approved by the voters of the State at the November 5, 1996 general election. The Initiative added Articles XIIIC and XIIID to the State Constitution. According to the "Title and Summary" of the Initiative prepared by the State Attorney General, the Initiative limits "the authority of local governments to impose taxes and property-related assessments, fees and charges."

Article XIIID. Article XIIID defines the terms "fee" and "charge" to mean "any levy other than an ad valorem tax, a special tax or an assessment, imposed by an agency upon a parcel or upon a person as an incident of property ownership, including user fees or charges for a property-related service." A "property-related service" is defined as "a public service having a direct relationship to property ownership." Article XIIID further provides that reliance by an agency on any parcel map (including an assessor's parcel map) may be considered a significant factor in determining whether a fee or charge is imposed as an incident of property ownership.

Article XIIID requires that any agency which imposes or increases 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, because fees for wastewater service are a "fee" or "charge" as defined in Article XIIID, the local government's ability to increase such fees or charges may be limited by a majority protest.

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

Based upon the California Court of Appeal decision in *Howard Jarvis Taxpayers Association v. City of Los Angeles*, 85 Cal. App. 4th 79 (2000), which was denied review by the State Supreme Court, it was generally believed that Article XIIID did not apply to charges for water and wastewater services that are "primarily based on the amount consumed" (i.e., metered water or wastewater rates), which had been held to be commodity charges related to consumption of the service, not property ownership. The State Supreme Court ruled in *Bighorn-Desert View Water Agency v. Verjil*, 39 Cal. 4th 205 (2006) (the "***Bighorn*** **Case**"), however, that fees for ongoing water service through an existing connection were property-related fees and charges. The State Supreme Court specifically disapproved the holding in *Howard Jarvis Taxpayers Association v. City of*

Los Angeles that metered water rates are not subject to Proposition 218. The City has complied with the notice and public hearing requirements of Article XIIID in determining whether to change Wastewater System rates and charges since at least 2000.

Article XIIIC. Article XIIIC provides that the initiative power may not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge and that the power of initiative to affect local taxes, assessments, fees and charges is applicable to all local governments. Article XIIIC does not define the terms “local tax,” “assessment,” “fee” or “charge,” so it was unclear whether the definitions set forth in Article XIIID referred to above are applicable to Article XIIIC. Moreover, the provisions of Article XIIIC are not expressly limited to local taxes, assessments, fees and charges imposed after November 6, 1996. On July 24, 2006, the State Supreme Court held in the *Bighorn* Case that the provisions of Article XIIIC applied to rates and fees charged for domestic water use. In the decision, the Court noted that the decision did not address whether an initiative to reduce fees and charges could override statutory rate setting obligations.

On August 3, 2020, the State Supreme Court issued an opinion in *Wilde v. City of Dunsmuir* (Cal. S. Ct. S252915) holding that taxpayers do not have the right under Proposition 218 to challenge water rates by referendum, and the City does not believe that Article XIIIC grants to the voters within the City the power (whether by initiative under Article XIIIC or otherwise, or by referendum, which is not authorized under Article XIIIC) to repeal or reduce rates and charges for the Wastewater Service in a manner that would interfere with the contractual obligations of the City or the obligation of the City to maintain and operate the Wastewater System. However, there can be no assurance as to the availability of particular remedies adequate to protect the Beneficial Owners of the 2021 Bonds. Remedies that are available to Beneficial Owners of the 2021 Bonds in the event of a default by the City are dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time-consuming to obtain. So long as the 2021 Bonds are held in book-entry form, DTC (or its nominee) will be the sole registered owner of the 2021 Bonds and the rights and remedies of the 2021 Bond Owners will be exercised through the procedures of DTC.

Proposition 26

On November 2, 2010, voters in the State approved Proposition 26. Proposition 26 amends Article XIIIC of the State Constitution to expand the definition of “tax” to include “any levy, charge, or exaction of any kind imposed by a local government” except the following: (a) a charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege; (b) a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product; (c) a charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections, and audits, enforcing agricultural marketing orders, and the administrative enforcement and adjudication thereof; (d) a charge imposed for entrance to or use of local government property, or the purchase, rental or lease of local government property; (e) a fine, penalty or other monetary charge imposed by the judicial branch of government or a local government as a result of a violation of law; (f) a charge imposed as a condition of property development; and (g) assessments and property-related fees imposed in accordance with the provisions of Article XIIID. Proposition 26 applies to charges imposed or increased after November 2, 2010 and provides that the local government bears the burden of proving by a preponderance of the evidence that a levy, charge, or other exaction is not a tax, that the amount is no more than necessary to cover the reasonable costs of the governmental activity, and that the manner in which those costs are allocated to a payor bear a fair or reasonable relationship to the payor’s burdens on, or benefits received from, the governmental activity. The City believes that its Wastewater System rates and charges meet the exception that is described in clause (g) above and are not taxes under Proposition 26.

Future Initiatives

Articles XIIIB, XIIIC and XIIID and Proposition 26 were adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time other initiatives could be proposed and adopted affecting the City's revenues or ability to increase revenues.

CERTAIN RISKS TO BONDHOLDERS

The following information, in addition to the other matters that are described in this Official Statement, should be considered by prospective investors in evaluating the 2021 Bonds. However, the following does not purport to be comprehensive, definitive or an exhaustive listing of risks and other considerations that may be relevant to making an investment decision with respect to the 2021 Bonds. In addition, the order in which the following information is presented is not intended to reflect the relative importance of any such risks. If any risk factor materializes to a sufficient degree, it alone could delay or preclude payment of principal of or interest on the 2021 Bonds.

Limited Obligations

The obligation of the City to pay the 2021 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 Revenues. The obligation of the City to pay the 2021 Bonds does not constitute an obligation for which the general credit or taxing power of the City is pledged.

Accuracy of Assumptions

To estimate the revenues that will be available to pay debt service on the 2021 Bonds, the City has made certain assumptions with regard to the rates and charges to be imposed in future years, the expenses associated with operating the Wastewater System and the interest rate at which funds will be invested. The City believes these assumptions to be reasonable, but to the extent that any of these assumptions fail to materialize, the Net Revenues available to pay debt service on the 2021 Bonds will, in all likelihood, be less than those projected herein. See the caption "WASTEWATER SYSTEM FINANCIAL INFORMATION—Projected Operating Results and Debt Service Coverage." The City may choose, however, to maintain compliance with the rate covenant that is set forth in the Indenture in part by means of contributions from other available reserves or resources. In such event, Net Revenues may generate amounts which are less than 115% of Debt Service in any given Fiscal Year. See the caption "SECURITY FOR THE 2021 BONDS—Rate Covenant."

System Demand

There can be no assurance that the demand for wastewater or recycled water services will occur as described in this Official Statement. Reductions in demand could require an increase in rates or charges in order to comply with the rate covenant. Demand for wastewater or recycled water services could be reduced as a result of hydrological conditions, conservation efforts (including in response to drought), an economic downturn (including as a result of the COVID-19 outbreak that is discussed under the caption "THE CITY—COVID-19 Outbreak") or other factors. See the caption "THE WASTEWATER SYSTEM— Wastewater System Rates and Charges" and "—Accuracy of Assumptions."

The City's largest Wastewater System customer, Rincon MWD, which sells recycled water purchased from the City to SDGE, accounted for approximately 6.68% of total Wastewater System Revenues and approximately 77.84% of recycled water sales revenues in Fiscal Year 2020 (the latest year for which such information is available). In the event that the Recycled Water Service Agreement pursuant to which SDGE purchases recycled water is terminated, recycled water deliveries would be significantly reduced. The City does not anticipate that SDGE will seek to terminate the Recycled Water Service Agreement in the foreseeable future.

System Expenses

There can be no assurance that the City's expenses will be consistent with the descriptions in this Official Statement. Operation and Maintenance Costs may vary with labor costs (including costs related to pension liabilities and the costs of retaining qualified personnel with the proper certifications to operate Wastewater System treatment and other facilities), treatment costs, energy costs, regulatory compliance costs, increased costs to access groundwater due to land subsidence or falling water tables, increased imported water purchase costs and other factors. Increases in expenses could require an increase in rates or charges in order to comply with the rate covenant. See the caption "SECURITY FOR THE 2021 BONDS—Rate Covenant." Rate increases are subject to the provisions of Proposition 218 and there can be no assurance that the City will be able to increase rates as needed to address increases in Wastewater System expenses. See the caption "—Rate-Setting Process under Proposition 218."

Limited Recourse on Default

If the City defaults on its obligation to pay the principal of and interest on the 2021 Bonds, the Trustee has the right to declare the total unpaid principal of the 2021 Bonds, together with the accrued interest thereon to be immediately due and payable. However, in the event of a default and such acceleration, there can be no assurance that the City will have sufficient funds to pay the accelerated amounts due on the 2021 Bonds from Net Revenues.

Rate-Setting Process under Proposition 218

Proposition 218, which added Articles XIIIC and XIIID to the State Constitution, affects the City's ability to maintain existing rates and impose 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 Revenues in the amounts required by the Indenture to pay the 2021 Bonds. The City believes that its current Wastewater System rates approved by the City Council were effected in compliance with the notice, public hearing and majority protest provisions of Proposition 218. See the caption "CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES—Proposition 218."

Statutory and Regulatory Compliance

Laws and regulations governing the treatment and disposal of wastewater 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, such costs will likely increase.

Claims against the Wastewater System for failure to comply with applicable laws and regulations could be significant. Such claims may be payable from assets of the Wastewater System or from other legally available sources. In addition to claims by private parties, changes in the standards for public agency wastewater systems such as that operated by the City may also lead to administrative orders issued by federal or State regulators. Future compliance with such orders could also impose substantial additional costs on the City. No assurance can be given that the cost of compliance with such laws, regulations and orders would not adversely affect the ability of the City to generate Net Revenues sufficient to pay the 2021 Bonds.

Natural Disasters

The occurrence of any natural disaster in the City, including, without limitation, fire, earthquake, landslide, land subsidence, high winds, drought or flood, could have an adverse material impact on the economy within the City, the Wastewater System and the revenues available for the payment of the 2021 Bonds. Portions of the Wastewater System may be at risk of damage or destruction from unpredictable seismic activity. See the caption "THE CITY—Seismic Considerations." The City is not required to maintain earthquake insurance under the Indenture, and does not currently maintain such insurance for the majority of its assets. See the caption "THE CITY—City Insurance."

The occurrence of natural disasters in the City's service area could result in substantial damage to the Wastewater System which, in turn, could substantially reduce revenue generated by the Wastewater System and affect the ability of the City to pay the 2021 Bonds. The City maintains liability insurance for the Wastewater System and property casualty insurance for certain portions of the Wastewater System. However, there can be no assurance that specific losses will be covered by insurance or, if covered, that claims will be paid in full by the applicable insurers.

Furthermore, as described under the caption "THE CITY—City Insurance," portions of the Wastewater System, including subsurface pipelines, are not covered by property casualty insurance. Damage to such portions of the Wastewater System as a result of natural disasters would result in uninsured losses to the City.

Cybersecurity

The City relies on computers and technology to conduct its operations. The City and its departments face cyber threats from time to time including, but not limited to, hacking, viruses, malware and other forms of technology attacks. Recently, there have been significant cyber security incidents affecting municipal agencies, including a freeze affecting computer systems of the City of Atlanta, an attack on the City of Baltimore's 911 system, an attack on the Colorado Department of Transportation's computers, an attack that resulted in the temporary closure of the Port of Los Angeles' largest terminal and an attack on a water treatment facility in Oldsmar, Florida.

The City employs a multi-level cyber protection scheme that includes firewalls (both host-based and network-based), anti-virus software, anti-spam/malware software, intrusion protection, domain name system filtering software and other measures. The City contracts with third party vendors to perform an external audit of its network every two years and performs a similar internal audit annually. The next external audit will occur in 2022. The City also contracts with third party vendors to monitor and augment internal monitoring of the City's computer systems. The City's network topology employs firewalls at the core of its network to inspect, categorize and accept or reject all traffic between its internal and external virtual local area networks and networks. In 2019, the City implemented Deep Packet Inspection of Secure Sockets Layer traffic along with Capture Advanced Threat Protection on the firewalls (Capture ATP). With these features enabled, all network traffic, including Secure Sockets Layer encrypted traffic, is inspected. Email is inspected inbound and outbound by a cloud email filtering service. This prevents most malicious email traffic from ever traversing the City's Internet links. To further protect against the specific threat of file/Server Message Blocking-based attacks such as crypto viruses, the City employs numerous file screens and filtering on its servers to catch and prevent this class of attack before it is able to cause damage.

To date, the City has not experienced a successful attack against its network and servers. However, there can be no assurance that a future attack or attempted attack would not result in disruption of City operations. The City expects that any such disruptions would be temporary in nature due to its backup/restore procedures and disaster recovery planning.

Limitations on Remedies

The ability of the City to comply with its covenants under the Indenture and to generate Net Revenues in amounts that are sufficient to pay principal of and interest on the 2021 Bonds may be adversely affected by actions and events outside of the control of the City or actions taken (or not taken) by voters, property owners, taxpayers or persons obligated to pay assessments, fees and charges. See the caption "CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES—Proposition 218." Furthermore, the remedies available to the owners of the 2021 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. In the event that the City fails to comply with its covenants under the Indenture or fails to pay principal of and interest on the 2021 Bonds, there can be no assurance as to the availability of remedies adequate to protect the interest of the holders of the 2021 Bonds.

In addition to the limitations on remedies contained in the Indenture, the rights and obligations under the Indenture may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against cities in the State. The opinion to be delivered by Bond Counsel concurrently with the issuance of the 2021 Bonds will be subject to such limitations, and the various other legal opinions to be delivered concurrently with the issuance of the 2021 Bonds will be similarly qualified. See Appendix C.

In addition, usual equity principles may limit the specific enforcement under State law of certain remedies, as may the exercise by the United States of America of the powers delegated to it by the federal Constitution, and the reasonable and necessary exercise, in certain exceptional situations, of the police power inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose. Bankruptcy proceedings, or the exercise of powers by the federal or state government, if initiated, could subject the owners of the 2021 Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitations or modification of their rights. Remedies may be limited because the Wastewater System serves an essential public purpose.

Secondary Market

There can be no guarantee that there will be a secondary market for the 2021 Bonds or, if a secondary market exists, that the 2021 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 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.

Parity Obligations

The Indenture permits the City to enter into additional Contracts and issue additional Bonds which are payable from Net Revenues on a parity with the 2021 Bonds, subject to the terms and conditions set forth therein. The entry into of additional Contracts or the issuance of additional Bonds could result in reduced Net Revenues available to pay the 2021 Bonds. The City has covenanted to maintain Debt Service coverage of 115%, as further described under the caption "SECURITY FOR THE 2021 BONDS—Additional Indebtedness."

Climate Change

The State has historically been susceptible to wildfires and hydrologic variability. As greenhouse gas emissions continue to accumulate in the atmosphere as a result of economic activity, climate change is expected to intensify, increasing the frequency, severity and timing of extreme weather events such as coastal storm surges, drought, wildfires, floods and heat waves, and raising sea levels. The future fiscal impact of climate change on the City is difficult to predict, but it could be significant and it could have a material adverse effect on the Wastewater System's finances by requiring greater expenditures to counteract the effects of climate change or by changing the business and activities of Wastewater System customers.

The City has developed a Climate Action Plan (the "**CAP**") to establish a roadmap by which the City can reduce its greenhouse gas emissions, assist City residents in adapting to the effects of climate change and increase the City's resilience to the effects of climate change. Under the CAP, the City identifies its sources of and quantifies its levels of greenhouse gas emissions, sets emission reduction targets, implements actions to reduce its emissions and monitors progress toward its targets. With respect to adaption to the effects of climate change, the CAP recognizes that events such as heat waves, flooding and water scarcity are likely to impact historically disadvantaged communities more than others. Accordingly, the CAP seeks to develop relationships with and focus on vulnerable populations when implementing adaptation strategies, including the availability of climate-sustainable housing and a climate-resilient transportation network.

Rate Covenant Not a Guarantee

The 2021 Bonds are payable from Net Revenues of the Wastewater System. See the caption "SECURITY FOR THE 2021 BONDS." The City's ability to pay debt service on the 2021 Bonds depends on its ability to generate Net Revenues at the levels required by the Indenture. Although the City has covenanted in the Indenture to impose rates and charges as more particularly described under the caption "SECURITY FOR THE 2021 BONDS—Rate Covenant," and although the City expects that sufficient Revenues will be generated through the imposition and collection of such rates and charges, there is no assurance that the imposition and collection of such rates and charges will result in the generation of Net Revenues in amounts that are sufficient to pay the 2021 Bonds. Among other matters, the availability of and demand for water and changes in law and government regulations could adversely affect the amount of Revenues realized by the City.

Loss of Tax Exemption

In order to maintain the exclusion from gross income for federal income tax purposes of interest on the 2021 Bonds, the City has covenanted in the Indenture to comply with the applicable requirements of the Internal Revenue Code of 1986, as amended (the "**Code**"), and not to take any action or fail to take any action if such action or failure to take such action would adversely affect the exclusion from gross income of interest on the 2021 Bonds under Section 103 of the Code. Interest on the 2021 Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date of issuance of such 2021 Bonds as a result of acts or omissions of the City in violation of this or other covenants in the Indenture applicable to the 2021 Bonds. The 2021 Bonds are not subject to redemption or any increase in interest rates should an event of taxability occur and will remain outstanding until maturity or prior redemption in accordance with the provisions contained in the Indenture. See the caption "TAX MATTERS."

Drought Declarations

On January 17, 2014, the Governor declared a drought state of emergency (the "**Declaration**") with immediate effect. The Declaration included an order encouraging local urban water suppliers, including the City, to implement their local water shortage contingency plans. On April 7, 2017, after significant improvement in water supply conditions across California, the Governor issued Executive Order B 40-17, which rescinded mandatory conservation measures for most California counties (including the County).

In 2018, the California Governor signed Senate Bill 606 and Assembly Bill 1668 into law. These bills relate to water conservation and drought planning and empower the State of California Department of Water Resources and the SWRCB to adopt long-term standards for the following: (i) indoor residential water use; (ii) outdoor residential water use; (iii) commercial, industrial and institutional water use for landscape irrigation; and (iv) water loss. The indoor water use standard has been defined as 55 gallons per person per day ("**GPCD**") until January 2025; the standard will decrease over time to 50 GPCD in January 2030. Standards for outdoor residential water use and commercial, industrial and institutional water use for landscape irrigation are still being developed. Urban water suppliers will be required to stay within annual water budgets, based on these standards, for their service areas.

Flow in the Wastewater System has been stable subsequent to the passage of Senate Bill 606 and Assembly Bill 1668. Current and projected flows are sufficient to meet the water supply needs of the future membrane filtration reverse osmosis facility (as discussed under the caption "THE WASTWATER SYSTEM—Recycled Water System") and general recycled water demand. Existing and future water conservation measures are not expected to significantly impact Wastewater System Revenues because mandatory reductions in drinking water consumption primarily affect irrigation customers, which has little impact on wastewater flow.

On April 21, 2021, the Governor directed State agencies to take immediate action to bolster drought resilience and prepare for impacts on communities, businesses and ecosystems should dry conditions which have existed since 2019 continue. In addition, on July 8, 2021, the Governor declared a drought state of emergency in 50 counties in northern and central California (*not* including the County) and requested that all water users voluntarily reduce water use by 15%. There can be no assurance that subsequent declarations will not extend to the Wastewater System service area should dry conditions persist in 2021 or future years.

The projected Wastewater System operating results that are set forth under the caption "—Projected Operating Results and Debt Service Coverage" do not reflect any reductions in wastewater service demand as a result of drought. The City does not currently expect that any drought restrictions imposed by the State or the City will have a material adverse effect on its ability to pay the 2021 Bonds from Net Revenues. As discussed under the caption "THE WASTEWATER SYSTEM—Wastewater System Rates and Charges," the City's rate structure consists of variable and fixed rate components. Decreased wastewater service demand is partially offset by a decrease in related variable wastewater treatment costs, while fixed charges largely cover the Wastewater System's fixed operating and maintenance costs. In addition, the City has covenanted to set Wastewater System rates and charges in amounts that it expects to be sufficient to pay the 2021 Bonds from Net Revenues. See the caption "SECURITY FOR THE 2021 BONDS—Rate Covenant."

APPROVAL OF LEGAL PROCEEDINGS

The valid, legal and binding nature of the 2021 Bonds is subject to the approval of Stradling Yocca Carlson & Rauth, a Professional Corporation, acting as Bond Counsel. The form of such legal opinion is attached hereto as Appendix C, and such legal opinion will be attached to each 2021 Bond. Certain legal matters will be passed upon for the City by Stradling Yocca Carlson & Rauth, a Professional Corporation, as Disclosure Counsel, and by the City Attorney, for the Underwriter by its counsel, Jones Hall, A Professional Law Corporation, and for the Trustee by its counsel.

LITIGATION

At the time of delivery of and payment for the 2021 Bonds, the City will certify substantially to the effect that there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, regulatory agency, public board or body, pending or, to the knowledge of the City, threatened against the City affecting the existence of the City or the titles of its directors or officers to their respective offices or seeking to restrain or to enjoin the sale or delivery of the 2021 Bonds, the application of the proceeds thereof in accordance with the Indenture, or in any way contesting or affecting the validity or enforceability of the 2021 Bonds, the Indenture, or any action of the City contemplated by any of said documents, or in any way contesting the completeness or accuracy of this Official Statement or any amendment or supplement thereto, or contesting the powers of the City or its authority with respect to the 2021 Bonds or any action of the City contemplated by any of said documents, nor to the knowledge of the City, is there any basis therefor.

TAX MATTERS

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest on the 2021 Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals. In the further opinion of Bond Counsel, interest on the 2021 Bonds is exempt from State of California personal income tax.

Bond Counsel's opinion as to the exclusion from gross income for federal income tax purposes of interest on the 2021 Bonds is based upon certain representations of fact and certifications made by the City and others and is subject to the condition that the City complies with all requirements of the Code that must be satisfied subsequent to the issuance of the 2021 Bonds to assure that interest on the 2021 Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest on the 2021 Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 2021 Bonds. The City has covenanted to comply with all such requirements.

The amount by which a Bond Owner's original basis for determining loss on sale or exchange in the applicable 2021 Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable bond premium, which must be amortized under Section 171 of the Code; such amortizable bond premium reduces the 2021 Bond Owner's basis in the applicable 2021 Bond (and the amount of tax-exempt interest received with respect to the 2021 Bonds), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of bond premium may result in a Bond Owner realizing a taxable gain when a 2021 Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the 2021 Bond to the Owner. Purchasers of the 2021 Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.

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

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

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

Although Bond Counsel has rendered an opinion that interest on the 2021 Bonds is excluded from gross income for federal income tax purposes provided that the City continues to comply with certain requirements of the Code, the ownership of the 2021 Bonds and the accrual or receipt of interest on the 2021 Bonds may otherwise affect the tax liability of certain persons. Bond Counsel expresses no opinion regarding any such tax consequences. Accordingly, before purchasing any of the 2021 Bonds, all potential purchasers should consult their tax advisors with respect to collateral tax consequences relating to the 2021 Bonds.

Should interest on the 2021 Bonds become includable in gross income for federal income tax purposes, the 2021 Bonds are not subject to early redemption and will remain outstanding until maturity or until redeemed in accordance with the Indenture.

A copy of the proposed form of opinion of Bond Counsel with respect to the 2021 Bonds is set forth in Appendix C.

RATING

The City expects that S&P Global Ratings, a Standard & Poor's Financial Services LLC business ("**S&P**"), will assign the 2021 Bonds the rating of "[__]". Future events, including the impacts of the COVID-19 pandemic that is described under the caption "THE CITY—COVID-19 Outbreak," could have an adverse impact on the rating of the 2021 Bonds, and there is no assurance that any credit rating that is given to the 2021 Bonds will be maintained for any period of time or that the rating may not be qualified, downgraded, lowered or withdrawn entirely by S&P if, in the judgment of S&P, circumstances so warrant. Any such qualification, downgrade, lowering or withdrawal of the rating may have an adverse effect on the market price of the 2021 Bonds. The rating reflects only the views of S&P (which views and criteria could change at any time), and an explanation of the significance of such rating may be obtained from S&P. Generally, a rating agency bases its ratings on the information and materials furnished to it (which may include information and material from the City that is not included in this Official Statement) and on investigations, studies and assumptions of its own.

The City has covenanted in a Continuing Disclosure Certificate to file notices of any rating changes on the 2021 Bonds with EMMA. See the caption "CONTINUING DISCLOSURE" and Appendix E. Notwithstanding such covenant, information relating to rating changes on the 2021 Bonds may be publicly available from the rating agencies prior to the time that such information is provided to the City and prior to the date by which the City is obligated to file a notice of rating change. Purchasers of the 2021 Bonds are directed to the rating agencies and their respective websites and official media outlets for the most current ratings with respect to the 2021 Bonds after the initial issuance of the 2021 Bonds.

In providing a rating on the 2021 Bonds, S&P may have performed independent calculations of coverage ratios using its own internal formulas and methodology, which may not reflect the provisions of the Indenture. The City makes no representations as to any such calculations, and such calculations should not be construed as a representation by the City as to past or future compliance with any financial covenants, the availability of particular revenues for the payment of debt service or for any other purpose.

MUNICIPAL ADVISOR

The City has retained CSG Advisors Incorporated, San Francisco, California, as municipal advisor (the "**Municipal Advisor**") in connection with the issuance of the 2021 Bonds. The Municipal Advisor has not undertaken to make an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement. The Municipal Advisor is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal or other public securities.

UNDERWRITING

The 2021 Bonds will be purchased by Stifel, Nicolaus & Company, Incorporated (the "**Underwriter**"), pursuant to a purchase contract, dated the date hereof (the "**Purchase Contract**"), by and between the City and the Underwriter. Under the Purchase Contract, the Underwriter has agreed to purchase all, but not less than all, of the 2021 Bonds for an aggregate purchase price of $____ (representing the principal amount of the 2021 Bonds, plus/less a net original issue premium/discount of $___, and less an Underwriter's discount of $_____). The Purchase Contract provides that the Underwriter will purchase all of the 2021 Bonds if any are purchased, the obligation to make such a purchase being subject to certain terms and conditions set forth in the Purchase Contract, the approval of certain legal matters by counsel and certain other conditions.

The initial public offering prices stated on the inside cover page of this Official Statement may be changed from time to time by the Underwriter. The Underwriter may offer and sell the 2021 Bonds to certain dealers (including dealers depositing 2021 Bonds into investment trusts), dealer banks, banks acting as agents and others at prices lower than said public offering prices.

CONTINUING DISCLOSURE

The City has covenanted in a Continuing Disclosure Certificate, dated the date of issuance of the 2021 Bonds, for the benefit of the holders and Beneficial Owners of the 2021 Bonds to provide certain financial information and operating data relating to the City by not later than April 1 following the end of the City's Fiscal Year (currently its Fiscal Year ends on June 30) (the "**Annual Report**"), commencing on April 1, 2022 with the report for the Fiscal Year ended June 30, 2021, and to provide notices of the occurrence of certain enumerated events. The Annual Report and the notices of enumerated events will be filed by the City with EMMA, which is maintained on the Internet at http://emma.msrb.org/. The specific nature of the information to be contained in the Annual Report and the notices of enumerated events is set forth in Appendix E. These covenants have been made in order to assist the Underwriter in complying with subsection (b)(5) of Rule 15c2-12 adopted by the Securities and Exchange Commission (the "**Rule**").

[TO BE UPDATED]. In the past five years, the City filed its audited financial statements for certain Fiscal Years with EMMA after the date (December 1) by which such statements were required to be filed under a continuing disclosure agreement relating to the issuance of the City of Escondido Reassessment District No. 98-1 (Rancho San Pasqual) Limited Obligation Refunding Bonds. The City's audited financial statements were filed as soon as they were available, but the City did not file unaudited financial statements or notices that the audited financial statements would be filed late. Except as described in this paragraph, the City and its related entities have not failed to comply with the terms of their prior continuing disclosure undertakings in any material respect in the last five years.

In order to assure compliance with its continuing disclosure obligations going forward, the City has adopted continuing disclosure compliance policies and procedures as part of its debt management policy. See the caption "THE CITY—Governance and Management—Management Policies—Debt Management Policy." In addition, the City has retained Special District Financing and Administration to assist it with preparing and submitting the City's continuing disclosure filings.

FINANCIAL INTERESTS

The fees being paid to the Underwriter, Bond Counsel, Disclosure Counsel and counsel to the Underwriter are contingent upon the issuance and delivery of the 2021 Bonds.

MISCELLANEOUS

Insofar as any statements made in this Official Statement involve matters of opinion or of estimates, whether or not expressly stated, they are set forth as such and not as representations of fact. No representation is made that any of such statements made will be realized. Neither this Official Statement nor any statement which may have been made verbally or in writing is to be construed as a contract with the Owners of the 2021 Bonds.

The execution and delivery of this Official Statement have been duly authorized by the City.

CITY OF ESCONDIDO

By:____
City Manager

APPENDIX A

FINANCIAL STATEMENTS

APPENDIX B

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following is a summary of certain provisions of the Indenture which are not described elsewhere. This summary does not purport to be comprehensive and reference should be made to the Indenture for a full and complete statement of the provisions thereof.

[TO COME FROM BOND COUNSEL]

APPENDIX C

FORM OF OPINION OF BOND COUNSEL

Upon issuance of the 2021 Bonds, Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, proposes to render its final approving opinion in substantially the following form:

May 27, 2021

City of Escondido
Escondido, California

Re: City of Escondido Wastewater Revenue Refunding Bonds, Series 2021A

Members of the City Council:

We have acted as Bond Counsel to the City of Escondido (the "City") in connection with the issuance of $_____ aggregate principal amount of City of Escondido Wastewater Revenue Refunding Bonds, Series 2021 (the "Bonds"). The Bonds have been issued by the City pursuant to the terms of the Indenture of Trust, dated as of December 1, 2021 (the "Indenture"), by and between the City and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee").

The Bonds are limited obligations of the City payable solely from Net Revenues of the Wastewater System (as such terms are defined in the Indenture).

In connection with our representation, we have examined a certified copy of the proceedings relating to the Bonds. As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigations.

Based upon the foregoing and after examination of such questions of law as we have deemed relevant in the circumstances, but subject to the limitations set forth herein, we are of the opinion that:

1. The proceedings of the City show lawful authority for the issuance and sale by the City of the Bonds under the laws of the State of California (the "State") now in force, and the Indenture has been duly authorized, executed and delivered by the City, and, assuming due authorization, execution and delivery by the Trustee, as appropriate, the Bonds and the Indenture are valid and binding obligations of the City enforceable against the City in accordance with their respective terms.

2. The obligation of the City to make the payments of principal and interest on the Bonds from Net Revenues is an enforceable obligation of the City and does not constitute an indebtedness of the City in contravention of any constitutional or statutory debt limit or restriction.

3. Under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals.

4. Interest on the Bonds is exempt from State personal income tax.

5. The amount by which a Bond Owner's original basis for determining loss on sale or exchange in the applicable Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable Bond premium, which must be amortized under Section 171 of the Internal Revenue Code of 1986, as amended (the "Code"); such amortizable Bond premium reduces the Bond Owner's basis in the applicable Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The

basis reduction as a result of the amortization of Bond premium may result in a Bond Owner realizing a taxable gain when a Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the Bond to the Owner. Purchasers of the Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.

The opinions that are expressed herein as to the exclusion from gross income of interest on the Bonds are based upon certain representations of fact and certifications made by the City and are subject to the condition that the City comply with all requirements of the Code that must be satisfied subsequent to issuance of the Bonds to assure that interest on the Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The City has covenanted to comply with all such requirements.

The opinions that are expressed herein may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. Our engagement with respect to the Bonds terminates on the date of their issuance. The Indenture and the Tax Certificate relating to the Bonds permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. No opinion is expressed herein as to the effect on the exclusion from gross income of interest on the Bonds for federal income tax purposes if any such action is taken or omitted based upon the opinion or advice of counsel other than ourselves. Other than expressly stated herein, we express no other opinion regarding tax consequences with respect to the Bonds.

Our opinion is limited to matters governed by the laws of the State and federal law. We assume no responsibility with respect to the applicability or the effect of the laws of any other jurisdiction.

The opinions that are expressed herein are based upon our analysis and interpretation of existing statutes, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities. We call attention to the fact that the rights and obligations under the Indenture and the Bonds are subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights, to the application of equitable principles if equitable remedies are sought, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public agencies in the State.

We express no opinion herein as to the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Bonds and expressly disclaim any duty to advise the Owners of the Bonds with respect to matters contained in the Official Statement.

Respectfully submitted,

APPENDIX D

INFORMATION CONCERNING DTC

The information in this section concerning DTC and DTC's book-entry only system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the completeness or accuracy thereof. The following description of the procedures and record keeping with respect to beneficial ownership interests in the 2021 Bonds, payment of principal, premium, if any, accreted value, if any, and interest on the 2021 Bonds to DTC Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the 2021 Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC.

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the 2021 Bonds. The 2021 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered 2021 Bond will be issued for each annual maturity of the 2021 Bonds, each in the aggregate principal amount of such annual maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 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 is rated AA+ by Standard & Poor's. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of 2021 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2021 Bonds on DTC's records. The ownership interest of each actual purchaser of each 2021 Bonds ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2021 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive bonds representing their ownership interests in 2021 Bonds, except in the event that use of the book-entry system for the 2021 Bonds is discontinued.

To facilitate subsequent transfers, all 2021 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of 2021 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2021 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2021 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of 2021 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2021 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the 2021 Bonds documents. For example, Beneficial Owners of 2021 Bonds may wish to ascertain that the nominee holding the 2021 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2021 Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to 2021 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts 2021 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the 2021 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A 2021 Bond Owner shall give notice to elect to have its 2021 Bonds purchased or tendered, through its Participant, to the Trustee, and shall effect delivery of such 2021 Bond by causing the Direct Participant to transfer the Participant's interest in the 2021 Bonds, on DTC's records, to the Trustee. The requirement for physical delivery of 2021 Bond in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the 2021 Bond are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered 2021 Bond to the Trustee's DTC account.

DTC may discontinue providing its services as depository with respect to the 2021 Bonds at any time by giving reasonable notice to the City or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, physical certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, 2021 Bonds will be printed and delivered to DTC.

THE TRUSTEE, AS LONG AS A BOOK-ENTRY ONLY SYSTEM IS USED FOR THE 2021 BONDS, WILL SEND ANY NOTICE OF REDEMPTION OR OTHER NOTICES TO OWNERS ONLY TO DTC. ANY FAILURE OF DTC TO ADVISE ANY DTC PARTICIPANT, OR OF ANY DTC PARTICIPANT TO NOTIFY ANY BENEFICIAL OWNER, OF ANY NOTICE AND ITS CONTENT OR EFFECT WILL NOT AFFECT THE VALIDITY OF SUFFICIENCY OF THE PROCEEDINGS RELATING TO THE REDEMPTION OF THE 2021 BONDS CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE.

APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

Upon issuance of the 2021 Bonds, the City proposes to enter into a Continuing Disclosure Certificate in substantially the following form:

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the City of Escondido (the "City") in connection with the issuance of the $_____ City of Escondido Wastewater Revenue Refunding Bonds, Series 2021A (the "Bonds"). The Bonds are being issued pursuant to an Indenture of Trust, dated as of December 1, 2021 (the "Indenture"), by and between The Bank of New York Mellon Trust Company, N.A., as trustee, and the City. The City covenants and agrees as follows:

1. Purpose of this Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with the Rule.

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. The term "Annual Report" means any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

Beneficial Owner. The term "Beneficial Owner" means any person which: (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries); or (b) is treated as the owner of any Bonds for federal income tax purposes.

EMMA. The term "EMMA" means the Municipal Securities Rulemaking Board's Electronic Municipal Market Access System for municipal securities disclosures, maintained on the Internet at http://emma.msrb.org/.

Financial Obligation. The term "Financial Obligation" means a: (a) debt obligation; (b) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (c) guarantee of (a) or (b). The term "Financial Obligation" does not include municipal securities as to which a final official statement has been provided to the Municipal Securities Rulemaking Board consistent with the Rule.

Fiscal Year. The term "Fiscal Year" means the one-year period ending on the last day of June of each year.

Holder. The term "Holder" means a registered owner of the Bonds.

Listed Events. The term "Listed Events" means any of the events listed in Sections 5(a) and (b) of this Disclosure Certificate.

Official Statement. The term "Official Statement" means the Official Statement dated _____ __, 2021 relating to the Bonds.

Participating Underwriter. The term "Participating Underwriter" means any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

Rule. The term "Rule" means Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

3. Provision of Annual Reports.

(a) The City shall provide not later than each April 1 following the end of its Fiscal Year (commencing April 1, 2022 with a report for Fiscal Year 2021) to EMMA an Annual Report relating to the immediately preceding Fiscal Year which is consistent with the requirements of Section 4 of this Disclosure Certificate, which Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate.

(b) If the City is unable to provide to EMMA an Annual Report by the date required in subsection (a), the City, in a timely manner, shall send to EMMA a notice in the manner prescribed by the Municipal Securities Rulemaking Board.

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

(a) The audited financial statements of the City for the prior Fiscal Year prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If audited annual financial statements are not available by the time specified in Section 3(a) above, unaudited financial statements will be provided as part of the Disclosure Report and audited financial statements will be provided when and if available; and

(b) To the extent not contained in the audited financial statements, updates of the below-listed financial information and operating data relating to the Bonds and the City substantially similar to the information and data contained in the Official Statement; provided that such information shall be updated only for the last completed Fiscal Year prior to the filing of the Annual Report:

1. Principal amount of the Bonds outstanding.

2. An update of the information substantially in the form of Tables 1, 2, 3 and 4 under the caption “THE WASTEWATER SYSTEM” in the Official Statement.

3. An update of the information substantially in the form of Table 12 under the caption “WASTEWATER SYSTEM FINANCIAL INFORMATION” in the Official Statement.

4. A description of additional Contracts or Bonds (as such terms are defined in the Indenture) executed or issued by the City during 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 EMMA; provided, that if any document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board; and provided further, that the City shall clearly identify each such document so included by reference.

5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds in a timely manner not more than ten (10) Business Days after the event:

1. principal and interest payment delinquencies;

2. unscheduled draws on debt service reserves reflecting financial difficulties;

3. unscheduled draws on credit enhancements reflecting financial difficulties;

4. substitution of credit or liquidity providers, or their failure to perform;

5. adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability or Notices of Proposed Issue (IRS Form 5701 TEB);

6. tender offers;

7. defeasances;

8. ratings changes;

9. bankruptcy, insolvency, receivership or similar proceedings of the City; Note: For the purposes of the event identified in subparagraph (9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person 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 governmental 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 obligated person; and

10. default, event of acceleration, termination event, modification of terms or other similar events under the terms of a Financial Obligation of the City, any of which reflect financial difficulties.

(b) Pursuant to the provisions of this Section 5, the City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material, in a timely manner not more than ten (10) Business Days after the event:

1. unless described in Section 5(a)(5), other notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other events affecting the tax status of the Bonds;

2. modifications to the rights of Bond Holders;

3. Bond redemptions;

4. release, substitution or sale of property securing repayment of the Bonds;

5. non-payment related defaults;

6. the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, 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;

7. appointment of a successor or additional trustee or the change of the name of a trustee; and

8. incurrence of a Financial Obligation of the City, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the City, any of which affect security holders, if material.

(c) If the City determines that knowledge of the occurrence of a Listed Event under Section 5(b) would be material under applicable federal securities laws, the City shall file a notice of such occurrence with EMMA in a timely manner not more than ten (10) Business Days after the event.

6. Customarily Prepared and Public Information. Upon request, the City shall provide to any person financial information and operating data regarding the City which is customarily prepared by the City and is publicly available.

7. Termination of Obligation. The City's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior prepayment or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

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, in the opinion of nationally recognized bond counsel, such amendment or waiver is permitted by the Rule.

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 notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall not thereby have any obligation under this Disclosure Certificate to update such information or include it in any future notice of occurrence of a Listed Event.

10. Default. In the event of a failure of the City to file an annual report under Section 4 hereof or to file a report of a listed event under Section 5 hereof, any Holders or Beneficial Owners of the 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 make such filing. 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.

No Holder or Beneficial Owner of the Bonds may institute such action, suit or proceeding to compel performance unless they shall have first delivered to the City satisfactory written evidence of their status as such, and a written notice of and request to cure such failure, and the City shall have refused to comply therewith within a reasonable time.

11. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Participating Underwriter and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Dated: December __, 2021

CITY OF ESCONDIDO

By: ____________________________________

Its: City Manager

CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the City of Escondido (the "City") in connection with the issuance of the $_____ City of Escondido Wastewater Revenue Refunding Bonds, Series 2021A (the "Bonds"). The Bonds are being issued pursuant to an Indenture of Trust, dated as of December 1, 2021 (the "Indenture"), by and between The Bank of New York Mellon Trust Company, N.A., as trustee, and the City. The City covenants and agrees as follows:

1. Purpose of this Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with the Rule.

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. The term "Annual Report" means any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

Beneficial Owner. The term "Beneficial Owner" means any person which: (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries); or (b) is treated as the owner of any Bonds for federal income tax purposes.

EMMA. The term "EMMA" means the Municipal Securities Rulemaking Board's Electronic Municipal Market Access System for municipal securities disclosures, maintained on the Internet at http://emma.msrb.org/.

Financial Obligation. The term "Financial Obligation" means a: (a) debt obligation; (b) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (c) guarantee of (a) or (b). The term "Financial Obligation" does not include municipal securities as to which a final official statement has been provided to the Municipal Securities Rulemaking Board consistent with the Rule.

Fiscal Year. The term "Fiscal Year" means the one-year period ending on the last day of June of each year.

Holder. The term "Holder" means a registered owner of the Bonds.

Listed Events. The term "Listed Events" means any of the events listed in Sections 5(a) and (b) of this Disclosure Certificate.

Official Statement. The term "Official Statement" means the Official Statement dated _______, 2021 relating to the Bonds.

Participating Underwriter. The term "Participating Underwriter" means any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

Rule. The term "Rule" means Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

3. Provision of Annual Reports.

(a) The City shall provide not later than each April 1 following the end of its Fiscal Year (commencing April 1, 2022 with a report for Fiscal Year 2021) to EMMA an Annual Report relating to the immediately preceding Fiscal Year which is consistent with the requirements of Section 4 of this Disclosure Certificate, which Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate.

(b) If the City is unable to provide to EMMA an Annual Report by the date required in subsection (a), the City, in a timely manner, shall send to EMMA a notice in the manner prescribed by the Municipal Securities Rulemaking Board.

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

(a) The audited financial statements of the City for the prior Fiscal Year prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If audited annual financial statements are not available by the time specified in Section 3(a) above, unaudited financial statements will be provided as part of the Disclosure Report and audited financial statements will be provided when and if available; and

(b) To the extent not contained in the audited financial statements, updates of the below-listed financial information and operating data relating to the Bonds and the City substantially similar to the information and data contained in the Official Statement; provided that such information shall be updated only for the last completed Fiscal Year prior to the filing of the Annual Report:

1. Principal amount of the Bonds outstanding.

2. An update of the information substantially in the form of Tables 1, 2, 3 and 4 under the caption "THE WASTEWATER SYSTEM" in the Official Statement.

3. An update of the information substantially in the form of Table 12 under the caption "WASTEWATER SYSTEM FINANCIAL INFORMATION" in the Official Statement.

4. A description of additional Contracts or Bonds (as such terms are defined in the Indenture) executed or issued by the City during 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 EMMA; provided, that if any document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board; and provided further, that the City shall clearly identify each such document so included by reference.

5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds in a timely manner not more than ten (10) Business Days after the event:

1. principal and interest payment delinquencies;

2. unscheduled draws on debt service reserves reflecting financial difficulties;

3. unscheduled draws on credit enhancements reflecting financial difficulties;

4. substitution of credit or liquidity providers, or their failure to perform;

5. adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability or Notices of Proposed Issue (IRS Form 5701 TEB);

6. tender offers;

7. defeasances;

8. ratings changes;

9. bankruptcy, insolvency, receivership or similar proceedings of the City; Note: For the purposes of the event identified in subparagraph (9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person 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 governmental 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 obligated person; and

10. default, event of acceleration, termination event, modification of terms or other similar events under the terms of a Financial Obligation of the City, any of which reflect financial difficulties.

(b) Pursuant to the provisions of this Section 5, the City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material, in a timely manner not more than ten (10) Business Days after the event:

1. unless described in Section 5(a)(5), other notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other events affecting the tax status of the Bonds;

2. modifications to the rights of Bond Holders;

3. Bond redemptions;

4. release, substitution or sale of property securing repayment of the Bonds;

5. non-payment related defaults;

6. the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, 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;

7. appointment of a successor or additional trustee or the change of the name of a trustee; and

8. incurrence of a Financial Obligation of the City, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the City, any of which affect security holders, if material.

(c) If the City determines that knowledge of the occurrence of a Listed Event under Section 5(b) would be material under applicable federal securities laws, the City shall file a notice of such occurrence with EMMA in a timely manner not more than ten (10) Business Days after the event.

6. Customarily Prepared and Public Information. Upon request, the City shall provide to any person financial information and operating data regarding the City which is customarily prepared by the City and is publicly available.

7. Termination of Obligation. The City's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior prepayment or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

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, in the opinion of nationally recognized bond counsel, such amendment or waiver is permitted by the Rule.

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 notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall not thereby have any obligation under this Disclosure Certificate to update such information or include it in any future notice of occurrence of a Listed Event.

10. Default. In the event of a failure of the City to file an annual report under Section 4 hereof or to file a report of a listed event under Section 5 hereof, any Holders or Beneficial Owners of the 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 make such filing. 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.

No Holder or Beneficial Owner of the Bonds may institute such action, suit or proceeding to compel performance unless they shall have first delivered to the City satisfactory written evidence of their status as such, and a written notice of and request to cure such failure, and the City shall have refused to comply therewith within a reasonable time.

11. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Participating Underwriter and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Dated: December __, 2021

CITY OF ESCONDIDO

By: ______________________________

Its: City Manager

RESOLUTION NO. 2021-128

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF ESCONDIDO APPROVING THE ISSUANCE OF NOT TO EXCEED $27,000,000 AGGREGATE PRINCIPAL AMOUNT OF WASTEWATER REVENUE REFUNDING BONDS, SERIES 2021A, AND APPROVING THE EXECUTION AND DELIVERY OF CERTAIN DOCUMENTS IN CONNECTION THEREWITH AND CERTAIN OTHER MATTERS (WASTEWATER SYSTEM)

WHEREAS, in 2012, the City Council (the “City Council”) of the City of Escondido (the “City”), a municipal corporation that is duly organized and existing under the general laws of the State of California (the “State”), financed and refinanced the acquisition and construction of certain existing improvements, betterments, renovations and expansions of facilities within its wastewater system (collectively, the “2012 Project”); and

WHEREAS, the City proposes to undertake the refinancing of the 2012 Project; and

WHEREAS, in order to effect such refinancing, the City proposes to issue its Wastewater Revenue Refunding Bonds, Series 2021A (the “Bonds”); and

WHEREAS, the Bonds are to be secured by net revenues of the City’s wastewater system; and

WHEREAS, the City and The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”), will enter into an Indenture of Trust (the “Indenture”), to provide for the issuance and security of the Bonds and to provide for the refinancing of the 2012 Project; and

WHEREAS, the City desires to execute a Continuing Disclosure Certificate, to be dated the closing date of the Bonds (the “Continuing Disclosure Certificate”), in order to provide updates of certain information relating to the City and its wastewater system and certain enumerated events on an ongoing basis while the Bonds are outstanding; and

WHEREAS, the City desires to execute an Escrow Agreement (2012 Bonds) (the “Escrow Agreement”) with the Escondido Joint Powers Financing Authority and The Bank of New York Mellon Trust Company, N.A., as escrow agent, to effect the refinancing of the bonds that financed the 2012 Project; and

WHEREAS, the City desires to execute and deliver a bond purchase agreement (the “Purchase Contract”) with Stifel, Nicolaus & Company, Incorporated, as underwriter of the Bonds (the “Underwriter”), with respect to the Bonds; and

WHEREAS, in order to effect a public sale of the Bonds to the Underwriter, the City is required under federal securities laws and regulations to prepare a preliminary official statement (the “Preliminary Official Statement”) disclosing material information about the Bonds, the City and the City’s wastewater system; and

WHEREAS, the City wishes to approve the Preliminary Official Statement for the Bonds, which has been prepared by the City with the assistance of Stradling Yocca Carlson & Rauth, a Professional Corporation, as disclosure counsel (“Disclosure Counsel”);

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Escondido that:

1. The City Council hereby specifically finds and declares that each of the statements, findings and determinations of the City Council that are set forth in the above recitals and in the preambles of the documents that are approved herein are true and correct.

2. The Indenture is hereby approved in substantially the form attached hereto and, upon execution as authorized below, made a part hereof as though set forth in full herein. The Mayor, the City Manager, any Deputy City Manager, the Finance Director, the Director of Utilities or the City Clerk (each, an "Authorized Officer") or the designee thereof is hereby authorized and directed to execute and deliver such Indenture with such changes, insertions and omissions as may be recommended by the City Attorney or the law firm of Stradling Yocca Carlson & Rauth, a Professional Corporation, as bond counsel ("Bond Counsel"), and approved by the officer executing the same, said execution being conclusive evidence of such approval.

3. The Continuing Disclosure Certificate is hereby approved in substantially the form attached hereto and, upon execution as authorized below, made a part hereof as though set forth in full herein. Each Authorized Officer or the designee thereof is hereby authorized and directed to execute and deliver such Continuing Disclosure Certificate with such changes, insertions and omissions as may be recommended by the City Attorney or Bond Counsel and approved by the officer executing the same, said execution being conclusive evidence of such approval.

4. The Escrow Agreement is hereby approved in substantially the form attached hereto and, upon execution as authorized below, made a part hereof as though set forth in full herein. Each Authorized Officer or the designee thereof is hereby authorized and directed to execute and deliver such Escrow Agreement with such changes, insertions and omissions as may be recommended by the City Attorney or Bond Counsel and approved by the officer executing the same, said execution being conclusive evidence of such approval.

5. The Purchase Contract is hereby approved in substantially the form attached hereto and, upon execution as authorized below, made a part hereof as though set forth in full herein. Each Authorized Officer or the designee thereof is hereby authorized and directed to execute and deliver such Purchase Contract with such changes, insertions and omissions as may be recommended by the City Attorney or Bond Counsel and approved by the officer executing the same, said execution being conclusive evidence of such approval; provided, however, that in no event shall the aggregate principal amount of the Bonds exceed $27,000,000, nor shall the underwriting discount for the Bonds (excluding any net original issue discount) exceed 0.75% of the aggregate principal amount of the Bonds, nor shall the all-in true interest cost of the Bonds exceed 5.00%.

6. The preparation and distribution of the Preliminary Official Statement in substantially the form attached hereto is hereby approved. Each Authorized Officer is hereby authorized: (i) to sign a certificate pursuant to Rule 15c2-12 promulgated under the Securities Exchange Act of 1934 (the “Rule”) deeming the Preliminary Official Statement substantially final under the Rule, except for the omission of information as

permitted by the Rule; and (ii) to execute, approve and deliver the final Official Statement in substantially the form of the Preliminary Official Statement with such changes, insertions and omissions as the officer or officers executing said document may require or approve, subject to advice from the City Attorney or Disclosure Counsel, such approval to be conclusively evidenced by the execution and delivery thereof. The Underwriter is directed to deliver copies of the final Official Statement to all actual initial purchasers of the Bonds.

7. The proceeds of the Bonds shall be deposited as provided in the Indenture to refinance the 2012 Project.

8. The appointment of The Bank of New York Mellon Trust Company, N.A., as Trustee under and pursuant to the Indenture, with the powers and duties of said office as set forth therein, is hereby approved.

9. The City Council hereby authorizes the City Manager or his designee: (i) to solicit bids on a municipal bond insurance policy and/or reserve policy; (ii) to negotiate the terms of such policy or policies; (iii) to finalize, if appropriate, the form of such policy or policies with a municipal bond insurer; and (iv) if it is determined that the policy or policies will result in net savings for the City, to pay the insurance premium of such policy or policies from the proceeds of the issuance and sale of the Bonds.

10. The Authorized Officers or any other proper officer of the City, acting singly, be and each of them hereby is authorized and directed to execute and deliver any and all documents and instruments and to do and cause to be done any and all acts and things necessary or proper for carrying out the transactions contemplated by the Indenture, the

Purchase Contract, the Continuing Disclosure Certificate, the Escrow Agreement, bond insurance, a reserve policy and this Resolution, including any reimbursement agreement or other agreement related to bond insurance or a reserve policy and any refunding instructions, escrow agreement or escrow instructions related to the refunding of the Escondido Joint Powers Financing Authority Revenue Bonds (Wastewater System Financing), Series 2012. In the event that the Mayor and the Deputy Mayor of the City are unavailable to sign any of the agreements described herein, any other member of the City Council may sign such agreement and, in the event that the City Clerk is unavailable or unable to execute and deliver any of the above-referenced documents, any deputy clerk may validly execute and deliver such document.

11. The good faith estimates of costs related to the Bonds which are required by Section 5852.1 of the California Government Code are disclosed in Exhibit A hereto and are available to the public at the meeting at which this Resolution is approved.

12. Unless otherwise defined herein, all terms used herein and not otherwise defined shall have the meanings given such terms in the Indenture unless the context otherwise clearly requires.

EXHIBIT A

GOOD FAITH ESTIMATES

The good faith estimates set forth herein are provided with respect to the Bonds in accordance with California Government Code Section 5852.1. Such good faith estimates have been provided to the City by CSG Advisors Incorporated (the City's "Municipal Advisor") in consultation with Stifel, Nicolaus & Company, Incorporated, the Underwriter of the Bonds.

Principal Amount. The Municipal Advisor has informed the City that, based on the City's financing plan and current market conditions, its good faith estimate of the aggregate principal amount of the Bonds to be sold is $22,060,000 (the "Estimated Principal Amount"), which excludes approximately $4,095,000 of net premium estimated to be generated based on current market conditions, which together total $26,155,000. Net premium is generated when, on a net aggregate basis for a single issuance of bonds, the price paid for the bonds is higher than the face value of such bonds.

True Interest Cost of the Bonds. The Municipal Advisor has informed the City that, assuming that the Estimated Principal Amount of the Bonds is sold, and based on market interest rates prevailing at the time of preparation of such estimate, its good faith estimate of the true interest cost of the Bonds, which means the rate necessary to discount the amounts payable on the respective principal and interest payment dates to the purchase price received for the Bonds, is 2.36%.

Finance Charge of the Bonds. The Municipal Advisor has informed the City that, assuming that the Estimated Principal Amount of the Bonds is sold, and based on market interest rates prevailing at the time of preparation of such estimate, its good faith estimate of the finance charge for the Bonds, which means the sum of all fees and charges paid to third parties (or costs associated with the Bonds), is $357,000.

Amount of Proceeds to be Received. The Municipal Advisor has informed the City that, assuming that the Estimated Principal Amount of the Bonds is sold, and based on market interest rates prevailing at the time of preparation of such estimate, its good faith estimate of the amount of proceeds expected to be received by the City for sale of the Bonds, less the finance charge of the Bonds, as estimated above, and any reserves or capitalized interest paid or funded with proceeds of the Bonds, is $25,798,000.

Total Payment Amount. The Municipal Advisor has informed the City that, assuming that the Estimated Principal Amount of the Bonds is sold, and based on market interest rates prevailing at the time of preparation of such estimate, its good faith estimate of the total payment amount, which means the sum total of all payments the City will make to pay debt service on the Bonds, plus the finance charge for the Bonds, as described above, not paid with the proceeds of the Bonds, calculated to the final maturity of the Bonds, is $33,469,000.

The foregoing estimates constitute good faith estimates only. The actual principal amount of the Bonds issued and sold, the true interest cost thereof, the finance charges thereof, the amount of proceeds received therefrom and total payment amount with respect thereto may differ from such good faith estimates due to: (a) the actual date of the sale of the Bonds being different than the date assumed for purposes of such estimates; (b) the actual principal amount of Bonds sold being different from the Estimated Principal Amount; (c) the actual amortization of the Bonds being different than the amortization assumed for purposes of such estimates; (d) the actual market interest rates at the time of sale of the Bonds being different than those estimated for purposes of such estimates; (e) other market conditions; or (f) alterations in the City's financing plan, delays in the financing, additional legal work or a combination of such factors and additional finance charges, if any, attributable thereto. Market interest rates are affected by economic and other factors beyond the control of the City.

RESOLUTION NO. EJPFA-2021-01

A RESOLUTION OF THE BOARD OF DIRECTORS OF THE ESCONDIDO JOINT POWERS FINANCING AUTHORITY APPROVING THE THE EXECUTION AND DELIVERY OF AN ESCROW AGREEMENT IN CONNECTION WITH THE REFUNDING OF THE ESCONDIDO JOINT POWERS FINANCING AUTHORITY REVENUE BONDS (WASTEWATER SYSTEM FINANCING), SERIES 2012 AND CERTAIN OTHER MATTERS (WASTEWATER SYSTEM)

WHEREAS, the Escondido Joint Powers Financing Authority (the "Authority"), a public entity that is duly organized and existing under a joint exercise of powers agreement and under the Constitution and laws of the State of California (the "State"), has the powers, among others, to issue bonds and to finance and refinance water facilities on behalf of its members pursuant to Articles 1, 2 and 4 of Chapter 5 of Division 7 of Title 1 of the Government Code of the State, including but not limited to Article 4 thereof, known as the "Marks-Roos Local Bond Pooling Act of 1985," Government Code Section 6584 *et seq.* (the "Act"); and

WHEREAS, in 2012, the Authority previously issued its Revenue Bonds (Wastewater System Financing), Series 2012 (the "2012 Bonds") under the Act to assist the City of Escondido (the "City"), a member of the Authority, in financing and refinancing the acquisition and construction of certain existing improvements, betterments, renovations and expansions of facilities within its wastewater system; and

WHEREAS, the City proposes to refund the 2012 Bonds for debt service savings; and

WHEREAS, in connection with the refunding of the 2012 Bonds, there has been prepared the form of an Escrow Agreement (2012 Bonds) (such Escrow Agreement (2012 Bonds), in the form on file with the Secretary with such changes, insertions and deletions as are made pursuant to this Resolution, being referred to herein as the "Escrow Agreement"); and

WHEREAS, the Commissioners of the Authority (the "Board") now desire to authorize the execution and delivery of the Escrow Agreement, including the execution of such other documents and the performance of such acts as may be necessary or desirable to effect the refunding of all or a portion of the 2012 Bonds, and the other actions contemplated by this Resolution;

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Escondido, acting as the Commissioners of the Escondido Joint Powers Financing Authority, that:

1. The Board hereby specifically finds and declares that each of the statements, findings and determinations of the Authority that are set forth in the above recitals and in the preambles of the documents that are approved herein are true and correct.

2. The Escrow Agreement, in substantially the form on file with the Secretary, and made a part hereof as though set forth in full herein, be and the same is hereby approved. Each of the Chair, the Vice Chair, the Executive Director, the Auditor and Treasurer and the Secretary of the Authority, and any designee thereof (each an "Authorized Officer"), acting singly, is hereby authorized to execute and deliver the

Escrow Agreement, in the name of and on behalf of the Authority, in substantially the form attached hereto with such changes, insertions and deletions as may be approved by the Authorized Officer executing the Escrow Agreement, said execution being conclusive evidence of such approval, and the Secretary is hereby authorized to attest thereto.

3. The Authorized Officers and any other proper official, officer or employee of the Authority, acting singly, be and each of them hereby is authorized to execute and deliver any and all documents and instruments and to do and cause to be done any and all acts and things necessary or convenient in carrying out the actions authorized by this Resolution and the transactions contemplated by the documents and instruments approved or authorized by this Resolution, including, without limitation, making any determinations or submission of any documents or reports which are required by any rule or regulation of any governmental entity, the giving of any notices and directions or the seeking of any consents or acknowledgements in connection with the refunding, redemption and defeasance of all or a portion of the 2012 Bonds, the selection of an escrow agent, the execution and delivery of escrow and/or redemption instructions with respect to the 2012 Bonds and the authorization, execution, delivery of, and the performance by the Authority of its obligations under, the documents and instruments approved or authorized by this Resolution.

4. All actions heretofore taken by any committee of the Board, or any official, officer, employee, representative or agent of the Authority, in connection with the refunding of the 2012 Bonds or the authorization, execution, delivery, or performance of the Authority's obligations under the documents and instruments approved or

authorized by this Resolution, and the other actions contemplated by this Resolution, are hereby ratified, approved and confirmed.

5. This Resolution shall take effect from and after its date of adoption.

ESCONDIDO
City of Choice

CITY COUNCIL STAFF REPORT

Current Business Item No. 9 **October 27, 2021** **File No. 0430-30**

SUBJECT: Financial Status Report and Budget Adjustment Request for Fiscal Year 2020/21

DEPARTMENT: Finance

RECOMMENDATION:

It is requested that the City Council receive and file the annual financial status report for Fiscal Year 2020/21 (Attachment "1") and adopt a Budget Adjustment (Attachment "2") to distribute the General Fund year-end financial resources of $17,602,485.

FISCAL ANALYSIS: See below.

PREVIOUS ACTION:

On May 15, 2021, the City Council received the Fiscal Year 2020/21 Third Quarter Financial Report. The City Council approved amendments to the General Fund operating budget. These increases had no effect on Reserves, as all adjustments had funding sources.

BACKGROUND:

This year-end financial status report presents a financial update to the City Council concerning certain funds of the City of Escondido ("City") and their year-end financial outcome. It continues to reflect outstanding efforts to maintain services while exercising fiscal prudence. This report includes budgetary information for selected funds, along with actual revenues and expenditures for the year. In addition, it provides Council a summary of each of these funds' financial plan and whether the plan was achieved during the year. The City Council will be receiving the Escondido Comprehensive Annual Financial Report (CAFR) in December, which is prepared in accordance with generally accepted accounting principles.

The report provides an analysis of unaudited revenues and expenditures for Fiscal Year 2020/21 in comparison to Fiscal Year 2019/20 for the General Fund, the Reidy Creek Municipal Golf Course Fund, and the Water and Wastewater Funds.

General Fund

The City Council adopted the FY2020/21 operating budget with approved General Fund revenues of $102 million and expenditures of $107.6 million. To address the structural budget gap projected in the General Fund long-term financial plan prior to the effects of COVID-19, departments were required to reduce operating expenses. Cuts to staff and services were made including reducing the maintenance of City parks and eliminating community outreach programs involving crime prevention and youth engagement. This is in addition to ongoing cost saving measures that include reducing staff, deferring infrastructure maintenance, investing in technology to reduce ongoing costs and outsourcing services. The proposed budget reductions were sufficient to close the budget gap; however, due to the restrictions of COVID-19 and resulting economic impacts, operating revenue was reduced by 5% or about $5.5 million dollars from the prior fiscal year. As a result, the Fiscal Year 2020/21 General Fund Operating Budget was a balanced budget but relied on $4 million of one-time funds from the Redevelopment Loan payment to the City. Such funds would have normally been placed in the Section 115 Irrevocable Pension Trust pursuant to prior City Council policy direction for use of one-time funds.

Through the third quarter of this fiscal year, operating revenue exceeded the amount projected by about $2.5 million. COVID-19 restrictions continued to be lifted through the end of the fiscal year and a combination of California fully reopening its economy, improved vaccination rates, public health measures to reduce the spread of the COVID-19 virus, and additional federal funding allowed for additional public activities and improved the economic environment. As a result, the City's major General Fund revenues grew significantly in April, May, and June. Due to strong sales tax receipts, increases in property tax revenue, and an increase in development activities in the City, operating revenues exceeded the amended FY2020/21 budgeted amount by $9.7 million.

Actual General Fund expenditures are under budget by $4.2 million. This can be attributed to countless conscientious and efficient operational decisions, and an overall climate of fiscal prudence on the part of the entire City workforce. In addition, CityWide vacant staff positions, the effects of the COVID-19 pandemic, and various closures during the fiscal year also resulted in expenditure savings for the fiscal year.

Unanticipated funds of $2.8 million dollars not included in the FY2020/21 adopted operating budget were received from the following sources:

<u>Fire Assistance Reimbursements - $1,337,520</u>: The City's Fire Department staff can be deployed to assist other State agencies with responses to fires and other incidents. The California Office of Emergency Services reimburses the City for the time and resources of the staff deployed. In FY2020/21, reimbursements of $1,337,520 have been received.

<u>CARES Act Funding - $1,506,140</u>: Through the Coronavirus Relief Fund, the CARES Act provided for payments to State, Local, and Tribal governments navigating the impact of the COVID-19 outbreak. In the prior fiscal year, the General Fund reported $953,330 of expenses that were eligible for reimbursement under the CARES Act. Additional expenses of $1.5 million were incurred between July and September 2020, the eligibility period of the grant funds. These expenses include the purchase of Personal Protective Equipment and related supplies, payroll costs of personnel and services diverted to a substantially different use, such as Community Services staff delivering Senior Meals, as well as the costs incurred for public safety and public health employees who were substantially dedicated to mitigating or responding to COVID-19 public health emergency.

RECOMMENDATION:

The final quarter of the fiscal year benefited from an improvement in revenues and forecasters are predicting that growth in sales tax and property tax revenues will continue into the next fiscal year; however, even after the increase in projected revenues the City's structural budget gap remains. To maintain current City services, the updated General Fund's Multi-Year Financial Plan forecasts a budget deficit of $6.3 million in Fiscal Year 2022/23 with future budget deficits that continue each fiscal year.

The impacts from the COVID-19 pandemic continue and the economy remains unstable. Sales Tax accounts for 39% of total General Fund revenue and it is uncertain if the recent robust consumer spending will continue into the next fiscal year as various fiscal stimulus programs expire and spending shifts back towards experiences rather than goods. While American Rescue Plan Act funds are available to backfill lost revenue, this source cannot be used as a deposit into a pension fund, as a non-federal grant match, for debt obligations, to satisfy a judgment or settlement, or to contribute to reserves. With no ongoing additional source of revenue identified, the City will need to continue to make fiscally responsible and strategic decisions about how to use the one-time sources of revenue and fiscal year positive operating results to address the financial challenges ahead.

Staff is recommending the available General Fund resources for the fiscal year ending June 30, 2021 be allocated to the following:

FY2020/21 Commitments (Carryover Requests) - $681,570: These are obligations incurred in the FY2020/21 operating budget that were not completed by the end of the fiscal year, as a result the remaining obligated amounts will be expended in the new fiscal year. All items have been encumbered under a FY2020/21 purchase order, the result of a FY 2020/21 budget adjustment, or specifically referenced in the FY 2020/21 adopted line item detail budget. Items totaling $681,570 are as follows:

- City Clerk ($200,300) for costs associated with the Independent Districting Commission that was scheduled for completion during FY2020/21 but was delayed due to the census information not being available and the costs for shredding services not completed during the fiscal year;
- City Attorney ($3,630) for consulting services that began in FY2020/21;
- Risk Management ($6,500) FIT testing for Fire, Utilities, Public Works & PD, including calibration of machines used was delayed due to COVID restrictions;
- Enterprise Software and Web Administration ($40,360) for the Cityworks Timmons Portal professional services not completed in FY2020/21;
- Planning ($158,420) for consulting services for Sager Ranch not completed in FY2020/21;
- Engineering ($54,980) for consulting services for the VMT Exchange program with Fehr & Peers not completed in FY2020/21

- Police Department ($151,450) for safety equipment services that were not received before the end of the fiscal year;
- Fire Department ($65,930) for consulting services for a fire protection plan review and for the Ground Emergency Medical Transportation Consultant services that have been delayed due to pending legislation.

Transfer to the Building Maintenance Fund - $470,070: During Fiscal Year 2020/21, the Building Maintenance Fund incurred unbudgeted expenses of approximately $500,0000. The unanticipated costs were due to emergency repairs at the CCA for an HVAC leak and HVAC control (approximately $270,000), the City Hall fire alarm system failed and needed to be replaced ($70,000), and mold in the bathrooms at Fire Station #5 needed to be repaired ($130,100).

Transfer to the Section 115 Pension Trust Fund - $5,982,930: As part of the 2011 Budget Act, the State of California Legislature approved the dissolution of the state's Redevelopment Agencies and replaced them with Successor Agencies effective February 1, 2012. As part of the dissolution of the City's Successor Agency, the State Department of Finance approved the repayment of loans made between the City and the former Redevelopment Agency. This resulted in annual loan repayments to the General Fund pursuant to a formula described in the Health and Safety Code which began in FY2018/19 and will end in FY2021/22.

In February 2018, City Council authorized the establishment of a Section 115 Irrevocable Pension Trust Fund. When the Pension Trust Fund was established, a funding policy for contributions to the Fund was recommended and included the four years of annual Successor agency Redevelopment Loan Repayments. However, to achieve a balanced budget for FY2020/21, avoid further cuts to services, and address the $4 million deficit, City Council approved the recommendation to divert the transfer of funds in the same amount from the Redevelopment Loan payment to the City.

As a result of the FY2020/21 General Fund operating surplus, the Successor Agency Redevelopment Loan Repayment is not needed to close the projected operating deficit of $4.0 million. Staff is recommending that the Successor Agency Redevelopment Loan Repayment of $5,982,930 be transferred to the Pension Trust Fund.

Fire Department Cardiac Monitors - $475,000: The Fire Department ambulances and fire engines are Advanced Life Support units which directly respond to and address emergent public health needs. They are staffed with paramedics and are required by State and County EMS regulations to have a cardiac monitor. The Department's 15 EKG monitors were originally purchased in 2013 and need to be replaced as they are no longer supported with software updates and parts by the manufacturer.

In early 2021, Escondido, San Marcos and Valley Center Fire Departments applied for a Regional Assistance to Firefighters Grant ("AFG") to purchase replacement EKG Monitors for all three agencies. The grant was partially funded to pay for 90% of eighteen (18) EKG monitors for San Marcos and Escondido (nine for each of the two Fire Departments). San Marcos will purchase those devices, invoice Escondido for our share of the 10% cost match, and then transfer ownership of nine (9) of the cardiac monitors to us. Escondido Fire will need to purchase six (6) additional cardiac monitors, preventative maintenance service, data services subscription, batteries, battery chargers, supplies and equipment. A total of $475,000 is need for the grant cost match requirement as well as the purchase of the remaining six EKG monitors to replace the City's full inventory.

PUBLIC SAFETY FLEET PURCHASES

The City has a Fleet Services Fund that accumulates reserves for future vehicle and equipment purchases on a predetermined replacement schedule. Due to the ongoing General Fund structural deficit and budget limitations, the CityWide vehicle replacement plan has been underfunded and the replacement of critical public safety equipment has been delayed. As a result of an increasing population and demand for services, Staff is recommending that the available resources from FY2020/21 be utilized for the following critical public safety purchases.

Fire Department Type 1 Fire Engines - $1,700,000 General Fund / $950,000 Public Facilities Fees: Front line Type 1 fire engines are needed at each of the seven fire stations in the City as they are the primary response apparatus for all emergency types. In addition, reserve engines are required to account for engines that are placed out of service for preventative maintenance or other repairs. Several of the current fire engines have aged beyond their recommended lifespan of 15 to 20-years and have reduced liability, more frequent and longer repairs and higher costs to maintain. Older apparatus also lacks modern safety features and do not meet recent emission standards.

The lead time to construct fire engines is estimated at 18 to 24 months; therefore, Staff is recommending that the most critical fire engines be replaced immediately so that they can be placed in service by 2023. This would include replacing two older Type 1 Fire Engines and adding a third new engine to boost the reserve number.

Fire Department Type 3 Brush Engine - $450,000: Type 3 Brush Engines are specifically designed for fighting wildfires and are valuable because during a large-scale wildfire incident, all apparatus with call back crews can be deployed within our community or be deployed to assist other jurisdictions. The City currently owns three Type 3 Brush Engines located at Fire Stations 2, 3, and 4. One of the Fire Department's Type 3 wildfire apparatus, also referred to a brush engine, has aged to the point that a critical failure in the near future is likely. It is recommended that the 29-year-old Type 3 Brush Engine be replaced so that is can be placed in service by 2023.

Fire Department Three Ambulances - $775,000: In order to meet the demand for services and community needs, five front line ambulances are needed along with four reserve units. The City currently has the appropriate number of reserve ambulances; however, with an aging fleet the reliability has deteriorated. Within the City's fleet, 5 ambulances have aged past their recommended life span of 5 to 7-years. Staff is recommending the replacement of three ambulances now so that they can be placed in service by 2022.

Police and Fire Emergency Operations Vehicle $1,500,000: The City's current unified emergency operations vehicle was purchased in 2010 and outfitted as a command and emergency operations vehicle for Fire and Police incidents. The vehicle can also be used as an off-site emergency alternate dispatch center. Due to its age, the current vehicle has several shortfalls that are unable to be upgraded or replaced. Due to communication limitations, radio and video reception is inadequate which impacts safety and operational effectiveness during an incident. The current vehicle can only operate and communicate in areas that cellular coverage. Such a limitation jeopardizes emergency communications as it can be expected that cellular communications are unreliable during a large-scale emergency. The interior design does not allow for adequate workstations and the spacing is insufficient to allow for retrofits or upgrades

The purchase of a new Command Vehicle would provide many advantages. The new technology would enhance the safety and communication capability and the satellite communication would dramatically improve reception and operational access. The improved chassis would allow more versatility and efficiency for operational use and updated workspaces would improve effectiveness.

Transfer Remaining Net Resources to the Section 115 Pension Trust Fund - $5,567,915: Even after the improved operating revenue forecast, the updated General Fund Multi-Year Financial Plan forecasts a budget deficit of $6.3 million in Fiscal Year 2022/23 with future budget deficits that continue each fiscal year. This leaves the City with the structural budget gap consistently present in Escondido's finances and the inevitable lingering impacts of the COVID-19 pandemic. In order to prepare for the future fiscal deficits, staff is recommending that the remaining fiscal year resources of $5.6 million be placed in the Section 115 Pension Trust Fund, to be used to offset the impact of future cost cutting and service reduction measures.

Staff are recommending that be placed in the Trust rather than the General Fund reserve because the investment arrangements through the Trust enable the City to generate a higher rate of return on the funds while they are being held. Funds in the trust can be used to provide economic relief during recessionary cycles and/or rate increases that are significantly above anticipated projected employee rate increases. More importantly, funds placed in this Trust can also be used to offset the City's "normal" CalPERS costs, such that if funds are necessary for other purposes, a certain amount of flexibility is present.

Financial highlights for the other funds are listed below:

Reidy Creek Golf Course had the best performance it has had since opening and was able to end the year with positive net income for the first time in 10 years. Overall operating net income revenues are up 85% compared to the prior year. Disc Golf revenues continue to exceed expectations, coming in at 69% more than budgeted. Operating expenditures were up 36% from the prior year. The added activity at the course has led to an increase in expenses, primarily due to the maintenance and repairs of aging equipment. As of June 30, 2021, Reidy Creek total net income is $78,103, excluding transfers from the General Fund.

The Water Fund ended FY2020/21 with net operating income of $2.7 million, an increase of $236,275 from the prior year. The increase was primarily due to increases in water consumption offset by the amount of purchased water and current year operating expenses.

The Wastewater Fund ended FY2020/21 with net operating income of $1.1 million, an increase of $236,275 from the prior year. The increase was primarily due to increases in service charges as a result of rate increases effective March 1.

APPROVED AND ACKNOWLEDGED ELECTRONICALLY BY:
Christina Holmes, Director of Finance
10/20/21 3:44 p.m.

ATTACHMENTS:

1. Attachment “1”: Financial Status Report for Fiscal Year 2020/21
2. Attachment “2”: Budget Adjustment Request

Attachment "1"

Item 9.

ESCONDIDO
City of Choice

Fiscal Year 2020/21
Financial Report

OVERVIEW

This report summarizes the City's overall financial position for the fiscal year ending June 30, 2021 for the General Fund, Water and Wastewater Funds, and the Reidy Creek Municipal Golf Course. The purpose of the report is to provide City Council, City Management, and the Escondido community an update on the City's fiscal status based on the most recent financial information available. The revenue projections and budget information include adjustments for encumbrances, carryovers, and any other supplemental appropriations approved by the City Council as of June 30, 2021.

This report is for internal use only. The figures presented here are unaudited and have not been prepared in accordance with Generally Accepted Accounting principles (GAAP).

GENERAL FUND

The General Fund Fiscal Year 2020/21 operating budget was adopted as a balanced budget without the use of reserves but relied on one-time revenues of $4.0 million from the Redevelopment Loan payment to the City. Such funds would have normally been placed in the Section 115 Irrevocable Pension Trust pursuant to City Council policy direction for use of one-time funds. As a result of COVID-19, based on an updated forecast model and the economic condition at the time, projected operating revenue was reduced by 5% or about $5.5 million dollars from the prior fiscal year.

To address the predicted structural budget gap for the upcoming fiscal year, Departments were required to submit their Fiscal Year 2020/21 General Fund operating budgets with a 3% reduction using their adopted Fiscal Year 2019/20 budget as the base to determine their reduction. Because department budgets were projected to grow on average by about 5% in Fiscal Year 2020/21, actual department budget reductions averaged around 8%. Cost saving measures were implemented including reductions in staff and services, resulting in an overall net increase of 1% to the total operating expense budget from the prior fiscal year.

Contrary to financial indicators and the consultant's revenue analysis prepared each quarter, as the result of strong sales tax receipts, increases in property tax revenue, and an increase in development activities in the City, operating revenues exceeded the amended FY2020/21 budgeted amount by $9.7 million. At the same time, Staff responded to the pandemic as great stewards of General Fund resources by reducing services and the related staffing levels where mandated. These efforts led to total operating expenditures under the amended FY2020/21 budgeted amount by $4.2 million. As a result of the increases in operating revenue and expenditure savings, the General Fund ended the fiscal year with a net operating surplus of $8.8 million.

General Fund
Comparison of FY2020/21 Operating Budget to Actuals

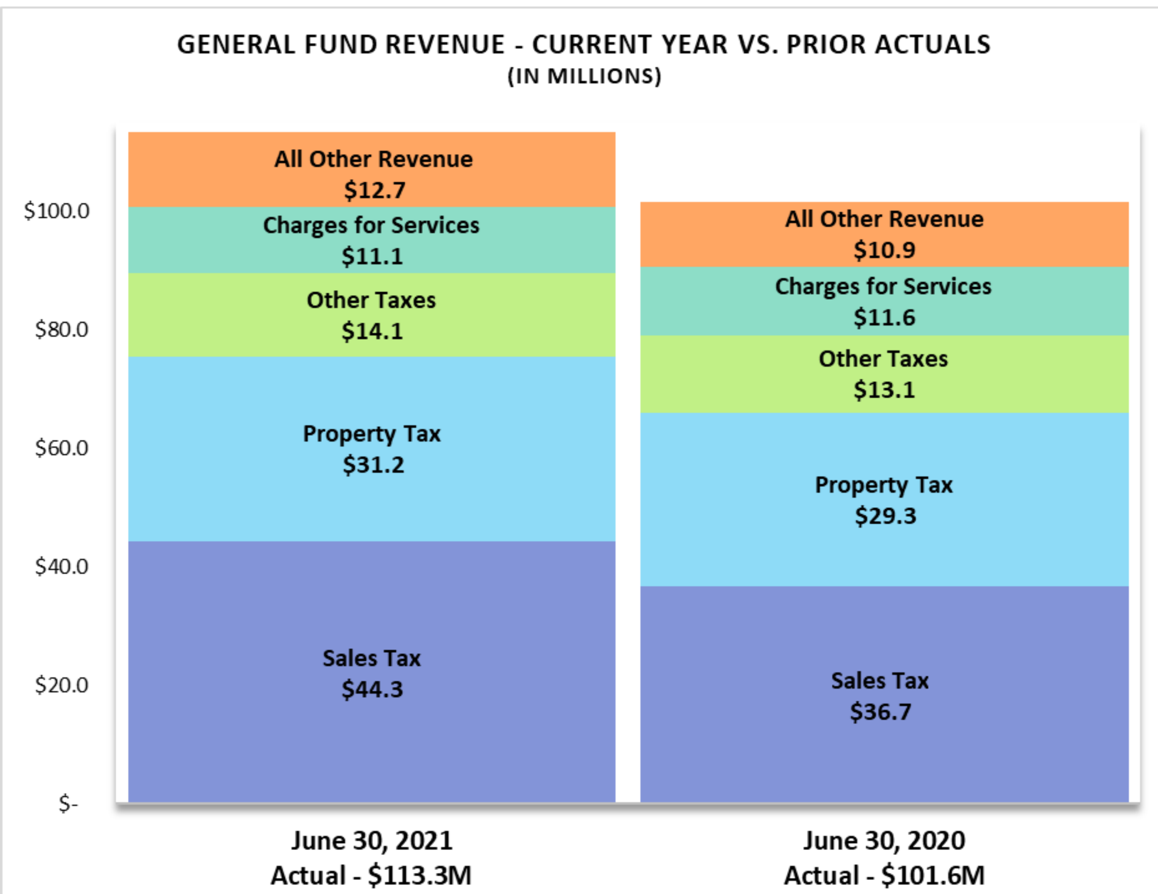
	FY2020/21 ADOPTED BUDGET	FY2020/21 AMENDED BUDGET	ACTUAL RESULTS JUNE 2021
Total Operating Revenue	$102,017,820	$103,658,140	$113,377,780
Total Operating Expenditures	(107,596,800)	(110,272,120)	(106,111,800)
Other Sources (Uses)	1,581,630	1,449,630	1,449,630
Net Operating Surplus / (Deficit)*	**($3,997,350)**	**($5,164,350)**	**$8,715,610**

**Budget deficit closed with one-time revenue from the Redevelopment Loan payment*

GENERAL FUND REVENUE

	FY2020/21 AMENDED BUDGET	ACTUAL RESULTS JUNE 2021	ACTUAL RESULTS JUNE 2020	*Prior Year vs. Current Year*
Sales Tax	$39,431,300	$44,295,510	$36,651,480	$7,644,030
Property Tax	30,022,000	31,209,630	29,273,990	1,935,640
Other Taxes	13,039,800	14,142,700	13,095,120	1,047,580
Charges for Services	10,396,820	11,074,260	11,610,030	(535,770)
Intergovernmental	3,487,000	3,918,250	3,763,510	154,740
Fines and Forfeitures	750,000	864,800	1,122,480	(257,680)
Permits and Licenses	1,918,020	2,433,870	923,130	1,510,740
Rental Income	3,783,000	4,131,580	3,855,330	276,250
Other Revenue	830,200	1,307,180	1,286,110	21,070
TOTAL OPERATING REVENUE	**$103,658,140**	**$113,377,780**	**$101,581,180**	**$11,796,600**

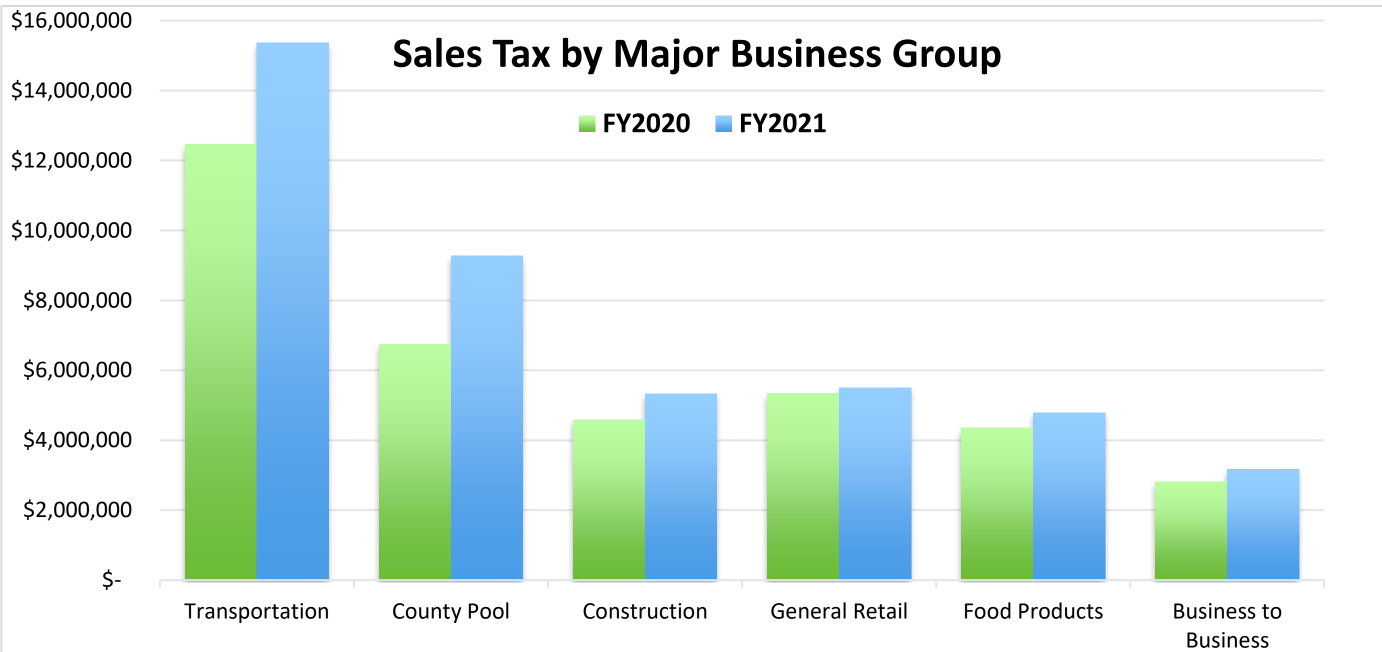
Sales tax is the largest General Fund revenue source at 39% of total revenue in FY2020/21 followed by property tax, other taxes, and charges for services. The chart below shows the major categories of revenue collected through June 30, 2021 compared to the revenue collected in the prior year through June 30, 2020.



Sales Tax ($44.3 million)

The Sales Tax revenue projected in the Fiscal Year 2020/21 Operating Budget was $36 million, a decrease of $3 million or 7.5% over the FY2019/20 amended sales tax forecast. At the time of the budget adoption in June 2020, the forecast model assumed that the mandated restrictions on a wide range of businesses and services, as well as individual and business actions taken to mitigate virus exposure, would lead to less business activity, less consumer spending, and therefore less sales tax revenue collections.

Through the third quarter of this fiscal year, the restrictions from the COVID-19 pandemic continued to negatively impact sales tax revenue when compared to the prior year activity; however, sales tax revenue exceeded the amount projected by about $3.4 million. Actual sales tax receipts in the fourth quarter resulted in strong growth that was not previously anticipated. A combination of California fully reopening its economy, improved vaccination rates, public health measures to reduce the spread of the COVID-19 virus, and additional federal funding fostered an economic environment in which consumers' buying power remained intact and the demand to spend on taxable goods significantly increased during this time period. Overall, the City's local economy is currently experiencing a fairly strong recovery as well and as a result, sales tax revenues distributed to the City through June 2021 increased by $7.6 million or 21% from the prior year.



The largest sales tax segment, 35% of total sales tax revenue, is Transportation, which includes new and used auto sales, auto repair shops, and service stations. Sales revenues increased by 23% compared to the prior year primarily due to new auto sales. Limited supply has been overwhelmed by strong demand and the smaller inventories increased the taxable price of vehicles.

Sales tax revenue received through the County Pool is now the second largest sales tax segment accounting for 21% of the sales tax revenue received this fiscal year. The increase in activity is due to the implementation of the AB 147 Wayfair decision beginning in April 2019, which extended sales and use taxes to out-of-state retailers engaged in business in California. In addition to the new taxable sales under AB 147, the continued COVID-19 restrictions pushed consumers from brick and mortar stores to online sales resulting in an increase of $2.5 million, or 38%, compared to the prior fiscal year. Since early 2020, companies accelerated efforts to make e-commerce shopping easier, especially as they offered flexible payment and delivery options. Recent studies show customers value convenience more now than prior to the pandemic and many experts expect the e-commerce behaviors that accelerated over the past year are here to stay.

The Construction sales tax segment accounts for revenue generated from building materials, including both wholesale and general retail, increased from the prior year by about 16%. This is due to an increase in demand for home improvements as well as an increase in the price of materials, including lumber and steel. Permit levels for all types of projects are at their second highest level in two years across the state and construction and development activity have also increased throughout the City during the fiscal year.

General retail and food products combined make up 24% of the total sales tax revenue for the City and increased by 13% compared to the prior fiscal year. The rise in general merchandise and food product sales reflects increased foot traffic and buying activity as people return to in-store shopping and indoor dining.

Property Tax ($31.2 million)

Property tax revenues were not negatively impacted by the pandemic in FY2020/21, the revenue increased by $1.9 million or about 7.0% compared to the prior fiscal year. Collection rates have remained stable and home prices have continued to rise. Favorable lending conditions and the increased number of home sales when compared to the prior year have all lead to significant growth in property tax revenues this fiscal year.

Other Taxes ($14.1 million)

Other Taxes include franchise fee revenues, transient occupancy tax, and business license revenue and combined have increased by $1.0 million compared to the prior year.

The City collects franchise fee revenues from San Diego Gas and Electric (SDG&E), cable companies conducting business within City limits, and Escondido Disposal Incorporated (EDI). Revenues received from franchise agreements increased by $866,000 from the prior fiscal year primarily due to an increase in fees collected from EDI and SDG&E.

Transient Occupancy Tax, also known as hotel tax, decreased by $12,300 compared to the prior year. Due to the COVID-19 pandemic, many hotels have remained closed or partially closed during the fiscal year.

All entities doing business in the City are required to have a valid business license. The business license tax is calculated based on annual gross receipts; business license revenue from the 2020 calendar year is based off of 2019 gross receipts. Business license revenues have increased by about $202,000 from the previous fiscal year.

Charges for Services ($11.0 million)

Due to the public health orders, City recreation facilities and services have been restricted or closed. The inability to hold recreation programs has resulted in refunds of fees collected for classes and programs already scheduled as well as the loss of recreation program revenue of approximately $253,000 compared to the prior year.

The decrease in recreation program revenues were offset by increases in charges for development related services, which include engineering and planning fees. Development related fees are paid by developers to cover the cost of reviewing and monitoring development activities, such as plan checks and inspections, and have increased by about $433,000 compared to the prior year.

Intergovernmental ($3.9 million)

Intergovernmental revenue includes the Rincon fire services agreement, state mandated cost claims, and various grants, and increased $154,740 compared to the prior year primarily due to the timing of various grant reimbursements.

Fines & Forfeitures ($864,800)

Fines & forfeitures represent fees collected for code enforcement citations, vehicle code violations, parking citations, overdue fines, and impound fees. The decrease of $257,680 to date is due to closures and restrictions in activity as a result of the COVID-19 pandemic.

Permits and Licenses ($2.4 million)

Revenue generated from permits and licenses has increased by $1.5 million or 164% from the prior year primarily due to building permits. The increase in building permit revenue is due to increases in the number of new residential permits and commercial/industrial permitting to date.

Investment, Rental Income, and Other Revenues ($5.4 million)

Investments, Rental Income, and Other Revenue includes rental income, interest earned from investing activities, and other miscellaneous receipts and has increased slightly compared to the prior year.

GENERAL FUND OPERATING EXPENDITURES

Actual General Fund expenditures are under budget by $4.2 million. The expenditure savings were largely the result of vacant staff positions in multiple departments as recruitments are being performed. The effects of the COVID-19 pandemic and various closures also resulted in expenditures being less than budgeted. In May 2020 as a result of the closures of recreation facilities, certain Recreation and ASES Department staff were furloughed. In addition, the Library professional services contract was amended to account for service level reduction, both of which contributed to the Community Services budget savings of $1.3 million. Expenses for utilities were also under the amount budgeted as the result of closures of various City buildings, including California Center for the Arts, during the fiscal year.

	FY2020/21 AMENDED BUDGET	ACTUAL RESULTS JUNE 2021	*AMENDED BUDGET OVER/(UNDER)*
General Government & Support Services	$6,427,950	$5,406,180	$(1,021,770)
Community Services	8,691,570	7,407,930	(1,283,640)
Community Development	7,398,655	6,871,570	(527,085)
Public Works	10,135,940	10,107,380	(28,560)
Police	46,245,605	45,947,390	(298,215)
Fire	27,463,775	27,172,350	(291,425)
California Center for the Arts	2,443,000	2,181,670	(261,330)
Other Expenditures	1,465,630	1,017,330	(448,300)
TOTAL OPERATING EXPENDITURES	**$110,272,125**	**$106,111,800**	**$(4,160,325)**

General Fund total expenditures are up 1% compared to the prior Fiscal Year or about $1.0 million. This in line with the FY2020/21 General Fund Operating Budget which increased by approximately $793,000 or 1% compared to the FY2019/20 revised Operating Budget.

	ACTUAL RESULTS JUNE 2021	ACTUAL RESULTS JUNE 2020	*PRIOR YEAR VS CURRENT YEAR OVER/(UNDER)*
General Government & Support Services	$5,406,180	$5,928,670	$(522,490)
Community Services	7,407,930	7,501,720	(93,790)
Community Development	6,871,570	6,747,160	124,410
Public Works	10,107,380	10,303,440	(196,060)
Police	45,947,390	45,434,770	512,620
Fire	27,172,350	25,900,980	1,271,370
California Center for the Arts	2,181,670	2,372,410	(190,740)
Other Expenditures	1,017,330	817,270	200,060
TOTAL OPERATING EXPENDITURES	**$106,111,800**	**$105,006,420**	**$1,105,380**

GENERAL FUND ONE-TIME REVENUE ($2,843,660)

Unanticipated funds of $2.8 million dollars not included in the FY2020/21 adopted operating budget were received from the following sources:

Fire Mutual Aid Reimbursements - $1,337,520

The City's Fire Department staff can be deployed to assist other State agencies with responses to fires and other incidents. The California Office of Emergency Services reimburses the City for the time and resources of the staff deployed. In FY2020/21, reimbursements of $1,337,520 have been received.

CARES Act Funding - $1,506,140

Through the Coronavirus Relief Fund, the CARES Act provided for payments to State, Local, and Tribal governments navigating the impact of the COVID-19 outbreak. The City of Escondido was allocated $2,713,486 from the County of San Diego and $1,889,210 from the State; a total of $4,602,696. The CARES Act requires that the payments from the Coronavirus Relief Fund only be used to cover expenses that are necessary expenditures incurred due to the public health emergency with respect to the Coronavirus Disease 2019 (COVID–19).

In the prior fiscal year, the General Fund reported $953,330 of expenses that were eligible for reimbursement under the CARES Act. Additional expenses of $1.5 million were incurred between July and September 2020, the eligibility period of the grant funds. These expenses include the purchase of Personal Protective Equipment and related supplies, payroll costs of personnel and services diverted to a substantially different use, such as Community Services staff delivering Senior Meals, as well as the costs incurred for public safety and public health employees who were substantially dedicated to mitigating or responding to COVID-19 public health emergency.

GENERAL FUND RESERVES

In December 2015, City Council adopted a Fund Balance Policy and established a General Fund target Reserve balance of 25 percent of General Fund operating revenues in order to maintain adequate levels of fund balance based on a risk-based analysis, mitigate current and future risks, adequately provide for cash flow requirements, and to fund one-time unanticipated expenditure requirements.

Budgeted General Fund operating revenue in Fiscal Year 2021/22 is $107,219,510 and 25% of this amount is $26,804,878. The current General Fund Reserve balance is $17,392,319, or 16% of budgeted operating revenue, which is below the identified acceptable risk-based analysis adopted by City Council and general government practices.

Section 115 Irrevocable Pension Trust Fund

In February 2018, City Council authorized the establishment of a Section 115 Irrevocable Pension Trust Fund. The Trust Fund is used to set aside and hold money to meet future pension liabilities and can be used to provide economic relief during recessionary cycles and/or rate increases that are significantly above anticipated projected employee rate increases. Funds placed in this Trust can also be used to offset the City's "normal" CalPERS costs, such that if funds are necessary for other purposes, a certain amount of flexibility is present. Another benefit is that funds held in the Trust can be invested in the same manner as funds in a typical pension fund rather than as part of the City's General Fund, which means a potentially higher rate of return.

When the Pension Trust Fund was established, a funding policy for contributions to the Fund was recommended and included the four years of annual Successor Agency Redevelopment Loan Repayments of $14 million that began in Fiscal Year 2018/19, future proceeds from the sale of City Property belonging to the General Fund, and a portion of General Fund surplus at the end of each fiscal year, if one exists. The FY2020/21 loan repayment was utilized as one-time revenue to close the operating budget deficit. As a result of the current year operating results, it is Staff's recommendation that the loan repayment be placed in the Section 115 Pension Trust Fund per City Council policy.

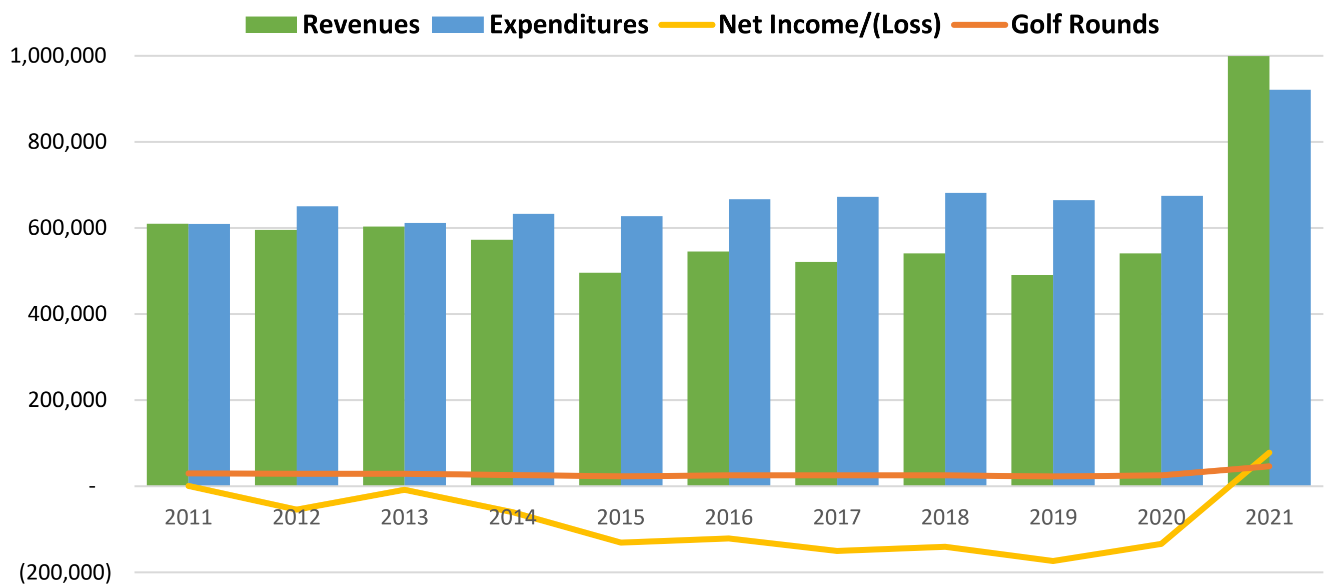
As of June 30, 2021, the Section 115 Pension Trust Fund has a balance of $15,301,705 which includes City contributions of $12,855,585 plus investment earnings net of expenses of $2,446,120. The 3-month rate of return of the investment portfolio is 3.65% and the 1-year rate of return is 14.01%.

The following table provides a summary of the activity since the establishment of the fund.

Section 115 Pension Trust Fund

Initial Deposit	$1,984,000
FY2017/18 General Fund Operating Results	1,000,000
Successor Agency Advance Repayment - FY2018/19 Budget	3,716,185
Successor Agency Advance Repayment - FY2019/20 Budget	2,657,860
FY2018/19 General Fund Operating Results	748,000
FY2019/20 General Fund Operating Results	2,749,540
Investment Earnings, net of expenses	2,446,120
Balance as of June 30, 2021	**$15,301,705**

REIDY CREEK GOLF COURSE FUND



Reidy Creek Golf Course had the best performance it has had since opening and was able to end the year with positive net income for the first time in 10 years. Overall operating net income revenues are up 85% compared to the prior year. Disc Golf revenues continue to exceed expectations, coming in at 69% more than budgeted. Operating expenditures were up 36% from the prior year. The added activity at the course has led to an increase in expenses, primarily due to the maintenance and repairs of aging equipment. Most of the equipment that is being used was purchased in 2002 when the golf course opened and the repair costs continue to escalate. As of June 30, 2021, Reidy Creek total net income with transfers from the general fund is $222,538 and $78,103 without the transfers.

With the March 2021 quarterly update, $160,000 of the projected net surplus was approved to be used to purchase new golf carts for the course. The carts were ordered, but not received before the end of the fiscal year, so the expense to offset some of the surplus will be carried into the next fiscal year.

	FISCAL YEAR 2020/21 BUDGET	ACTUAL RESULTS JUNE 2021	ACTUAL RESULTS JUNE 2020
Total Revenues	$620,780	$999,580	$541,007
Total Expenditures	(697,190)	(921,477)	(674,922)
Net Operating Income / (Deficit)	**(76,410)**	**78,103**	**(133,915)**
Budgeted Transfer from the General Fund	76,410	76,410	95,890
Transfer of remaining Capital Project Funds to purchase New Golf Carts	-	30,000	
Additional Funding Approved at Yearend for Previous FY deficit	-	38,025	130,000
Total Sources over (Uses)	**$0**	**$222,538**	**$91,975**

WATER FUND

Net operating income for FY2020/21 was $2,706,123, an increase of $236,275 or 10% over the prior year. Operating revenue increased by about $9.8 million or 16% compared to the prior year, due to an increase in water usage. Because of the increase in overall water usage, the amount of purchased water also increased by about $7.7 million. Non-operating revenue and Capital Contributions increased by a combined $6.8 million compared to the prior year due to significant development in the City.

	FISCAL YEAR 2020/21 BUDGET	ACTUAL RESULTS JUNE 2021	ACTUAL RESULTS JUNE 2020	*PRIOR YEAR VS CURRENT YEAR OVER/(UNDER)*
Operating Revenues	$63,475,000	$69,992,349	$60,212,236	$9,780,113
Operating Expenses	(55,944,030)	(67,286,226)	(57,742,388)	(9,543,838)
Operating Income	**$7,530,970**	**$2,706,123**	**$2,469,848**	**$236,275**
Non-Operating Revenue (Expenses)	-	(317,531)	(1,741,346)	1,423,815
Capital Contributions	-	7,247,517	1,856,220	5,391,297
Change in Net Position	**-**	**$9,636,111**	**$2,584,722**	**$7,051,387**

WASTEWATER FUND

Net operating income for FY 2021 was approximately $1.1 million, a $677,078 decrease from the prior year. Operating revenue increased by $1.2 million or 3% compared to the prior year due to approved rate increases effective March 31. Operating expenditures increased by $1.8 million or 5% primarily due to an increase in professional services related to the construction of Recycled Water infrastructure. Non-operating revenue and Capital Contributions increased from the prior fiscal year due to significant development in the City resulting in an increase in Sewer Connection Fees.

	FISCAL YEAR 2020/21 BUDGET	ACTUAL RESULTS JUNE 2021	ACTUAL RESULTS JUNE 2020	*PRIOR YEAR VS CURRENT YEAR OVER/(UNDER)*
Operating Revenues	$39,900,000	$37,147,393	$35,974,920	$1,172,473
Operating Expenses	(27,595,230)	(36,077,209)	(34,227,658)	(1,849,551)
Operating Income	**$12,304,770**	**$1,070,184**	**$1,747,262**	**$(677,078)**
Non-Operating Revenue (Expenses)	-	(1,983,638)	(296,581)	(1,687,057)
Capital Contributions	-	7,172,210	4,905,304	2,266,906
Change in Net Position	**-**	**$6,258,756**	**$6,355,985**	**($97,229)**

FOR MORE INFORMATION

This summary report is based on detailed information generated by the City's Finance department. If you have any questions or would like additional information on this report, please contact the Finance department at (760) 839-4676 or visit www.escondido.org

Attachment "2"

Item 9.

CITY OF ESCONDIDO
BUDGET ADJUSTMENT REQUEST

Date of Request: October 27, 2021

Department: Finance

Division:

Project/Budget Manager: Christina Holmes
Name Extension

Council Date (if applicable): October 27, 2021
(attach copy of staff report)

For Finance Use Only

Log #

Fiscal Year 2021

______ Budget Balances
______ General Fund Accts
______ Revenue
______ Interfund Transfers
______ Fund Balance

Project/Account Description	Account Number	Amount of Increase	Amount of Decrease
Transfer In – Section 115 Pension Trust Fund	4999-795	11,550,845	
Transfer Out – General Fund	5999-001	11,550,845	
General Fund Carryover Requests	3050-001		681,570
Transfer In – Building Maintenance	4999-650	470,070	
Transfer Out – General Fund	5999-001	470,070	
Type 1 Fire Engines	229-NEW	2,650,000	
Public Works Yard Relocation	243-556501		950,000
Transfer Out – Public Facilities - Admin	5999-243	950,000	
Transfer Out – General Fund	5999-001	1,700,000	
Type 3 Brush Engine	229-NEW	450,000	
Transfer Out – General Fund	5999-001	450,000	
Three Ambulances	229-NEW	775,000	
Transfer Out – General Fund	5999-001	775,000	
Command Vehicle	229-NEW	1,500,000	
Transfer Out – General Fund	5999-001	1,500,000	
EKG Monitors	229-NEW	475,000	
Transfer Out – General Fund	5999-001	475,000	
Transfer In – Capital Project Fund	4999-229	5,850,000	
Golf Course Green Fees	4420-553	201,000	
Golf Course Cart Rental	4421-553	133,620	

Attachment "2"

Misc Motive	5118-553-530	890	
Professional Services	5131-553-130	2,840	
Golf Shop Operations	5155-553-130	92,620	
Golf Course Maintenance	5156-553-130	80,390	
Golf Course General & Admin	5157-553-130	14,960	
Merchandise - COGS	5158-553-130	30,100	
Other Insurance	5169-553-130	2,490	
Water Usage	4400-555	2,900,000	
Water Service	4401-555	2,260,000	
Reimbursement from Outside Agencies	4370-555	1,737,000	
Purchased Water	5104-555-410	6,897,000	
Temporary Part-Time	5004-555-414	107,000	
PERS-Normal Cost	5026-555-414	24,000	
Workers' Compensation	5028-555-414	28,000	
Professional Services	5131-555-414	10,000	
Camping – Lake Dixon	4332-555	107,000	
Reimb from Outside Agencies	4370-555	62,000	

Explanation of Request:

Use of FY 2020/21 General Fund year-end surplus to be allocated as follows: Section 115 Irrevocable Pension Trust, Carryover Requests, Public Safety Fleet Purchases, EKG Monitors partially grant funded. Increase Reidy Creek Fund and Water Fund Operating Revenue and related Operating Expenses to reflect fiscal year actual results.

APPROVALS

DocuSigned by:
Christina Holmes 10/20/2021

Department Head Date City Manager Date

DocuSigned by:
Jodi Coco 10/20/2021
F22DD68BFC2B4F3...

Finance Date City Clerk Date

ESCONDIDO
City of Choice

CITY COUNCIL STAFF REPORT

Current Business Item No. 10 **October 27, 2021** **File No. 0600-35**

SUBJECT: City of Escondido's Membership in the Clean Energy Alliance, a Community Choice Energy Program

DEPARTMENT: City Manager's Office

RECOMMENDATION:

It is requested that the City Council:

1. Adopt Resolution No. 2021-169 authorizing the City Manager or designee to execute the Joint Exercise of Powers Agreement of the Clean Energy Alliance ("CEA" or "Alliance") and authorizing staff to take other actions necessary for the City of Escondido to join the CEA; and

2. Adopt Ordinance No. 2021-12 ordaining the City Council's decision, pursuant to Public Utilities Code Section 366.2(c)(12), to implement a Community Choice Aggregation program within the jurisdiction of the City of Escondido by participating in the Clean Energy Alliance, under the terms and conditions provided in its Joint Powers Agreement.

FISCAL ANALYSIS:

During FY 2020 and FY 2021, the City of Escondido ("City") spent $21,021 to perform with the Cities of Vista and San Marcos ("Partner Cities") a feasibility study of community choice energy in the City of Escondido. The Community Choice Technical Feasibility Study ("Feasibility Study"), presented to the City Council on June 16, 2021, determined that a Community Choice Aggregation or Community Choice Energy (collectively referred to as "CCE") program is both technically and financially feasible and beneficial.

Escondido's cost to join the Clean Energy Alliance would be an amount not to exceed $50,000. These funds would cover the costs incurred by the Alliance to update its Implementation Plan with the State of California. Thereafter City's membership would launch; that is, customers in the City would begin to purchase energy through CEA in the Spring of 2023 if the City Council chooses to adopt the resolution and ordinance under consideration. The City shares the cost of updating the Implementation Plan with cities electing to join the CEA at the same time, with launch in early 2023. The Cities of San Marcos, Vista, and Oceanside are also considering membership in the Alliance, which reduces Escondido's share of the cost. The cost is fully reimbursable from CEA within three years of its service to Escondido customers.

The Feasibility Study estimated that the cost of forming a new CCE program, either independently or with Partner Cities, would be several million dollars. Joining an existing program like CEA avoids these costs, including California Independent Systems Operator ("CAISO") deposits and resource adequacy costs, which are already paid by CEA through a line of credit issued by J.P. Morgan Bank and customer revenues. Additional costs to insure resource adequacy after Escondido joins are paid by the CEA from reserves, customer revenues or additional use of the line of credit. Money borrowed by CEA via the line of credit will be repaid through revenues earned by the sale of energy to customers in the member cities, including future customers in the City of Escondido. Member cities are protected by law, as well as by language in the Joint Powers Agreement, and have no liability or obligation related to CEA's liabilities.

PREVIOUS ACTIONS:

On July 17, 2019, the City Council adopted Resolution No. 2019-94 to approve the release of a Request for Proposals ("RFP") for a joint CCE feasibility study.

On January 22, 2020, the City Council authorized the City Manager to execute a cost sharing agreement with the Partner Cities with EES Consulting, Inc. to prepare the feasibility study.

On March 10, 2021, the City Council adopted the 2021 Climate Action Plan ("CAP") which provided the specific actions that the City would do to address climate change and reduce its greenhouse gas ("GHG") emissions. One measure included was Measure E-5.3 (Increase Grid-Supply Renewable and/or Zero-Carbon Electricity), which included an action to complete a CCE feasibility study in 2021.

On June 16, 2021, the City Council received from staff the Feasibility Study. The City Council directed staff to investigate further options for joining or forming a CCE program.

BACKGROUND:

Joining Clean Energy Alliance – The Feasibility Study found that a CCE program is technically and financially feasible. Additionally, the Feasibility Study found that the City's intent to reduce GHG emissions through energy efficiency and renewable energy choice, as specified in the City's Climate Action Plan, could be promoted through membership in a CCE program.

Based on these findings and the City Council's direction to investigate further forming or joining a CCE program, staff specifically focused efforts to evaluate joining an existing CCE program in San Diego County. Staff does not recommend forming a new CCE because this option carries significant financial cost and would require putting additional staff in place to create and operate it. An existing CCE already has those structures and staff in place.

Staff recommends that the City of Escondido join CEA, which was formed in November 2019 as a Joint Powers Authority of the Cities of Carlsbad, Del Mar, and Solana Beach with the primary aim to reduce greenhouse gas emissions through providing alternative energy resources and programs to electricity customers. Service to electric customers in these cities launched in May and June 2021. Like other CCE programs, CEA purchases electricity directly from energy suppliers for sale to customers in the service areas of its member agencies. San Diego Gas & Electric ("SDG&E") continues providing transmission, distribution, and billing services. Through its direct purchase of energy on behalf of its member agencies and their customers, CEA is able to provide an energy portfolio that is cost competitive and includes higher renewable energy content.

CEA is interested in growing its membership beyond the original three member cities, with a focus on other North County cities. More member agencies, and the resulting larger customer base, would increase the diversity of its customers (i.e. its mix of residential, commercial, and industrial customers). A larger, more diverse customer base would place CEA in a stronger position to negotiate energy purchases, meaning even better opportunities for cleaner energy and reduced costs. Three other North San Diego cities – Oceanside, Vista, and San Marcos – are considering membership in CEA. Based on recent direction to their staff by these cities' City Councils, it is likely that these cities will also join CEA, either in Fall 2021, as staff recommend for Escondido, or Fall 2022.

Governance – A Board of Directors governs the CEA with one Director from each member agency. A copy of the Clean Energy Alliance By-Laws is included as Attachment "1" to this Staff Report. Each Director's vote carries equal weight resulting in a "One City, One Vote" style of governance. Some other CCE's use a weighted voting system with, for instance, the weight of each member agency's vote determined by its share of the CCE's overall electric load profile. Another existing CCE in San Diego County uses a weighted voting structure. The "weighted vote" form of governance would be disadvantageous to Escondido if it were to join this CCE because Escondido would represent a relatively small fraction of the electric load. Escondido would be the largest member of CEA in terms of electric load or among the largest of seven if all the North County cities join. Staff believe that joining CEA with its equally weighted voting structure is still advantageous to Escondido because it places all members on equal footing.

Each member agency of CEA also appoints an alternate member of the Board of Directors to serve when the primary Director is unable to attend the meetings. If the City Council chooses to adopt the resolution and ordinance under consideration here, staff will bring another resolution for appointment of the Director and Alternate Director to represent Escondido at a future meeting. Only a member of the City Council may serve as a member of the Board of Directors or as the alternate. The Board of Directors of the CEA will consider accepting Escondido as a member, after Escondido chooses to join, anticipated at a special meeting in November or at the regularly scheduled meeting in December. At that time, the Board of Directors will seat Escondido's new Board member as a full voting member of the Board, even though Escondido customers will not be purchasing energy until early 2023. Board meetings are held typically on the last Thursday of each month.

CEA also has a Community Advisory Committee ("CAC"), made up of two representatives from each member city. If Escondido joins CEA, the process would begin to solicit applicants from Escondido to serve on the CAC.

Other Benefits of Joining Clean Energy Alliance – By joining CEA after its establishment as a CCE, the City avoids paying the required deposit with the CAISO, the manager of the State's electric grid. CEA has all technical and support staff already in place with experience launching a new CCE program in multiple cities. CEA has met all its obligations for procuring energy, thus avoiding State penalties if these obligations are not met. CEA continues building its organization, and by joining now, Escondido will have the opportunity to participate in this important decision making process.

<u>Power Supply Products Available to Customers</u> – Electric customers in the City are automatically enrolled as customers of CEA when service is offered beginning in early 2023, unless the customer takes action to opt out. Each customer will receive four notices of the pending enrollment, with the first coming at least 60 days in advance of the automatic enrollment. Customers may choose to opt-out of service from CEA and remain with SDG&E as energy provider. Customers may opt-out beginning 60 days prior to enrollment and up to 60 days after enrollment with CEA. After 60 days, customers may still return to SDG&E by giving SDG&E at least six-month notice and a commitment to remain with SDG&E as energy supplier for at least one year. SDG&E will continue to provide transmission and distribution services to *all* customers. In its present service area, 92.2% of customers – totaling 66,000 customers - are purchasing energy from CEA (56,000 residential, 10,000 commercial).

Clean Energy Alliance offers three energy supply products to its customers:

1. Clean Impact – 50% of this portfolio is renewable, with the renewable fraction increasing to 100% by 2035. The energy generation cost for this option is 2.2% lower than SDG&E for present customers in Carlsbad & Del Mar. This is lowest cost option. While CEA can not guarantee savings compared to SDG&E, it has a stated goal in its JPA to achieve a minimum 2% savings on generation costs.
2. Clean Impact Plus – This portfolio is similar to Clean Impact, but increases to 75% Carbon Free energy supplies. The energy generation cost for this option is 1.9% lower than SDG&E for Carlsbad & Del Mar customers.
3. Green Impact – 100% of this portfolio is renewable.

Member cities choose a default option from these three portfolios; that is, the option that will be assigned to all customers at the time of enrollment. Carlsbad, Del Mar and Solana Beach have all selected Clean Impact Plus as the default in their communities. Individual customers may choose a different option than the default option chosen by the customer's home city. The selection of Escondido's default option will be made in the Fall of 2022.

<u>Allocation of Discretionary Revenue to Member Agencies</u> – The JPA Agreement allows Member Agencies to direct some discretionary revenues of CEA into certain programs or projects that provide benefits to ratepayers. The distribution of discretionary funds must be substantially commensurate with each member agency's energy load. Escondido's share of the load will be about 23% if all four State Route 78 cities join the CEA, and it will be about 50% if only Escondido joins. The JPA Agreement requires periodic audits of the use of discretionary funds (at least every two years) to insure proper distribution. If Escondido joins, it will participate in decision making related to prioritizing programs and projects.

<u>RECOMMENDATION</u>:

Membership in the Clean Energy Alliance will further the City's goals to reduce GHG emissions through energy efficiency and renewable energy choice. Membership offers electric customers in the City a choice of energy suppliers and energy supply portfolios. CEA is an established CCE that is successfully operating and procuring renewable energy at a cost competitiveness compared to

SDG&E. By joining an established CCE, the City avoids much of the startup cost the City would bear, with these costs instead paid by CEA via revenues earned from customers and financing as necessary. Membership will result in future discretionary funds to benefit projects in the City that could further the City's CAP goals. The governance structure of Clean Energy Alliance (i.e. One City, One Vote) gives Escondido a share of the overall vote that is comparable to its share of the overall load profile if all State Route 78 cities join within the next year, as expected.

Staff recommends that the City of Escondido join the Clean Energy Alliance by adopting Resolution No. 2021-169, authorizing the City Manager or designee to execute the JPA agreement, and adopt Ordinance No. 2021-12 ordaining the City Council's decision to join. Staff will immediately prepare resolutions for future consideration by the City Council to appoint a member of the Clean Energy Alliance Board of Directors and to appoint an alternate.

APPROVED AND ACKNOWLEDGED ELECTRONICALLY BY:
Christopher McKinney, Deputy City Manager/Director of Utilities
10/20/21 5:12 p.m.

ATTACHMENTS:

1. Attachment "1" – Clean Energy Alliance By-Laws
2. Resolution No. 2021-169
3. Resolution No. 2021-169 Exhibit "A" – Clean Energy Alliance Joint Powers Agreement and Amendment No. 1 thereto
4. Ordinance No. 2021-12

CLEAN ENERGY ALLIANCE BY-LAWS

ARTICLE I

FORMATION

The Clean Energy Alliance ("CEA") was established on November 4, 2019 pursuant to the execution of the Clean Energy Alliance Joint Powers Agreement (the "Agreement") by the Cities of Carlsbad, Del Mar and Solana Beach.

ARTICLE II

PURPOSE BY-LAWS

The purpose of these By-laws is to establish procedural rules for the conduct of CEA business that are consistent with the provisions of the Agreement.

ARTICLE III

BOARD OF DIRECTORS

Section 1. Establishment of Board of Directors. The establishment of the Board of Directors, the appointment and removal of Directors, the responsibilities of the Board, and the voting requirements of the Board are addressed by Section 4 of the Agreement.

Section 2. Board Agendas. The agendas for all Board meetings shall be prepared by the Chief Executive Officer in consultation with the Chair of the Board. Two or more members of the Board at a duly noticed Board meeting may direct the Chief Executive Officer to place a specified matter on the agenda for a subsequent regular or special meeting of the Board.

ARTICLE IV

COMMITTEES

Section 1. Establishment of Committees. As provided by Section 5.9 of the Agreement, the Board may establish any advisory commissions, boards, and committees as the Board deems appropriate to assist the Board in carrying out its functions and implementing the CCA Program, related energy programs, and the provisions of the Agreement.

Section 2. Community Advisory Committee. The Board has established a Community Advisory Committee (CAC) to advise it on those matters concerning the operation of its Community Choice Aggregation program as directed by the Board of Directors in an annual workplan for the CAC that is adopted by the Board The objectives of the CAC are to provide feedback to the Board, act as a liaison between the Board and the community and serve as a forum for community input on those matters assigned to the CAC in the annual workplan. The CAC shall not have any decision-making authority but will serve as an advisory body to the Board. The composition of the CAC and the requirements governing its operation are set forth in a Board adopted policy.

ARTICLE V

MEETINGS

Section 1. Regular Meetings. Prior to the commencement of each fiscal year, the Board shall adopt by resolution a calendar of regular meetings for the following fiscal year, establishing the date, time and location of each meeting.

Section 2. Special Meetings. Special meetings of the Board may be called at any time and may be held in any location within the jurisdiction of CEA as provided by the notice for the special meeting.

Section 3. Annual Meeting. The Board shall hold an annual meeting in July of each year at which time it will appoint Board officers and Committee members.

Section 4. Open Meeting Requirements. The meetings of the Board, the Community Advisory Committee and all other committees established by the Board shall be governed by the provisions of the Ralph M. Brown Act (Government Code Section 54950 et seq.).

ARTICLE VI

AMENDMENTS

These By-Laws may be amended by a majority vote of the full membership of the Board but only after such amendment has been proposed at a regular meeting and acted upon at the next or later regular meeting of the Board for final adoption. The proposed amendment shall not be finally acted upon unless each member of the Board has received written notice of the amendment at least 10 days prior to the date of the meeting at which final action on the amendment is to be taken. The notice shall include the full text of the proposed amendment.

Certificate of Secretary

I certify that I am the duly appointed and acting Secretary of the Clean Energy Alliance, created in accordance with the provisions of the Joint Exercise of Powers Act (Cal. Gov't. Code §§6500 et seq.); that these By-laws, consisting of a total of three (3) pages, consist the By-Laws of the Authority as adopted by the Board of Directors on September 17, 2020; and that these By-laws have not been amended or modified since that date.

Executed on ______________ at ______________________, California

____
Secretary

RESOLUTION NO. 2021-169

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF ESCONDIDO, CALIFORNIA, AUTHORIZING THE MAYOR AND CITY CLERK, TO EXECUTE, ON BEHALF OF THE CITY, THE JOINT EXERCISE OF POWERS AGREEMENT FOR MEMBERSHIP IN THE CLEAN ENERGY ALLIANCE

WHEREAS, Section 6500 et seq. of the Government Code authorizes the joint exercise by two or more public agencies of any power common to them as a Joint Powers Authority ("JPA"); and

WHEREAS, Public Utilities Code Section 366.2(c)(12)(B) specifically authorizes two or more cities and/or counties to conduct a Community Choice Aggregation ("CCA") program through the creation of a Joint Powers Agency if each public entity adopts an ordinance; and

WHEREAS, an existing JPA, known as Clean Energy Alliance (“CEA”) and currently including the Cities of Solana Beach, Del Mar, and Carlsbad, allows its members to share resources and jointly provide and achieve the environmental and economic benefits of a CCA program on a regional basis; and

WHEREAS, on June 16, 2021, the City Council received the final Community Choice Technical Feasibility Study, dated May 24, 2021 ("Feasibility Study"); and

WHEREAS, on June 16, 2021, the City Council directed City staff to further pursue the possibility and feasibility of creating or joining an existing CCA program; and

WHEREAS, the City working in cooperation with other cities in northern San Diego County, has been actively investigating the feasibility of CCA service for electric customers within the City; and

WHEREAS, the objective of this investigation is promoting electrical rate price stability and cost savings; fostering consumer choice; local economic benefits such as job creation; fostering local renewable energy development; and addressing climate change by reducing energy-related greenhouse gas emissions; and

WHEREAS, the Feasibility Study, which determined that a CCA program would be both technically and financially feasible, examined a number of organizational structures by which a CCA program could be implemented including a JPA; and

WHEREAS, this Resolution and the creation of the CEA is exempt from the requirements of the California Environmental Quality Act ("CEQA"), as it involves organizational and administrative activities of government that will not result in direct or indirect physical changes on the environment, and therefore is not considered a "project." (14 Cal. Code Regs. § 15378(b)(5)); and

WHEREAS, the City desires to enter into the existing JPA Agreement ("Agreement") to join the CEA along with the current Members identified in the Agreement, and any additional members approved by the JPA Board in the future.

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Escondido, California, as follows:

1. That the above recitations are true.

2. The Clean Energy Alliance Joint Powers Agreement, including any amendments creating and governing the CEA, which is attached hereto as Exhibit “A” and is incorporated by this reference, is hereby approved, and the City Manager or his designee is authorized to execute the Agreement.

3. The City Manager or his designee is further authorized to prepare, negotiate and execute such other related applications, agreements and written documents as may be required by the CEA JPA and related entities to implement the intent and purpose of this Resolution, Ordinance 2021-12 and state law.

Clean Energy Alliance Joint Powers Agreement

Effective: November 4, 2019

CLEAN ENERGY ALLIANCE JOINT POWERS AGREEMENT

This Joint Powers Agreement (the "Agreement"), effective as of Nov. 4, 2019, is made by the Founding Members of the Clean Energy Alliance and entered into pursuant to the provisions of Title 1, Division 7, Chapter 5, Article 1 (Section 6500 et seq.) of the California Government Code relating to the joint exercise of powers among the public agencies set forth in **Exhibit B**.

RECITALS

1. The Parties are public agencies sharing various powers under California law, including but not limited to the power to purchase, supply, and aggregate electricity for themselves and their customers.

2. SB 350, adopted in 2015, mandates a reduction in greenhouse gas emissions to 40 percent below 1990 levels by 2030 and to 80 percent below 1990 levels by 2050. In 2018, the State Legislature adopted SB 100, which directs the Renewable Portfolio Standard to be increased to 60% renewable by 2030 and establishes a policy for eligible renewable energy resources and zero-carbon resources to supply 100 percent of electricity retail sales to California end-use customers by 2045.

3. The purposes for the Founding Members (as such term is defined in Exhibit A) entering into this Agreement include procuring/developing electrical energy for customers in participating jurisdictions, addressing climate change by reducing energy-related greenhouse gas emissions, promoting electrical rate price stability and cost savings, and fostering consumer choice and local economic benefits such as job creation, local energy programs and local power development. It is the intent of this Agreement to promote the development and use of a wide range of renewable energy sources and energy efficiency programs, including but not limited to state, regional, and local solar and wind energy production and energy storage.

4. The Parties to this Agreement desire to establish a separate public agency, known as the Clean Energy Alliance ("Authority"), under the provisions of the Joint Exercise of Powers Act of the State of California (Government Code Section 6500 et seq.) ("Act") in order to collectively study, promote, develop, conduct, operate, and manage energy programs.

5. The Founding Members have each adopted an ordinance electing to implement through the Authority a Community Choice Aggregation program pursuant to California Public Utilities Code Section 366.2 ("CCA Program"). The first priority of the Authority will be the consideration of those actions necessary to implement the CCA Program on behalf of participating jurisdictions.

6. By establishing the Authority, the Parties seek to:

   (a) Provide electricity service to residents and businesses located within the jurisdictional boundaries of the public agencies that are members of the Authority in a responsible, reliable, innovative, and efficient manner;

(b) Provide electric generation rates to all ratepayers that are competitive with those offered by the Investor Owned Utility, San Diego Gas & Electric (SDG&E), for similar products with a target generation rate at least 2 percent below SDG&E's base product generation rate;

(c) Offer a mix of energy products for standard commodity electric service that provide a cleaner power portfolio than that offered by SDG&E for similar service and other options, including a 90 percent and a 100 percent renewable content options in which communities and customers may "opt-up" and voluntarily participate, with the ultimate objective of achieving— and sustaining—the Climate Action Plan goals of the Parties, at competitive rates;

(d) Develop an aggregate electric supply portfolio with overall lower greenhouse gas (GHG) emissions than SDG&E, and one that supports near-term achievement of the Parties' greenhouse gas reduction goals and renewable electricity goals;

(e) Promote an energy portfolio that incorporates energy efficiency and demand response programs and pursues ambitious energy consumption reduction goals;

(f) Pursue the procurement of local generation of renewable power developed by or within member jurisdictions with an emphasis on local jobs, where appropriate, without limiting fair and open competition for projects or programs implemented by the Authority;

(g) Provide a range of energy product and program options, available to all Parties and customers, that best serve their needs, their local communities, and support regional sustainability efforts;

(h) Support low-income households having access to special utility rates including California Alternative Rates for Energy (CARE) and Family Electric Rate Assistance (FERA) programs;

(i) Use discretionary program revenues to support the Authority's long-term financial viability, enhance customer rate stability, and provide all Parties and their customers with access to innovative energy programs, projects and services throughout the jurisdiction of the Authority; and

(j) Create an administering Authority that seeks to maximize economic benefits and is financially sustainable, well-managed and responsive to regional and local priorities.

AGREEMENT

NOW, THEREFORE, in consideration of the mutual promises, covenants, and conditions hereinafter set forth, it is agreed by and among the Parties as follows:

1. DEFINITIONS AND EXHIBITS

1.1 **Definitions.** Capitalized terms used in this Agreement shall have the meanings specified in **Exhibit A**, unless the context requires otherwise.

1.2 **Documents Included.** This Agreement consists of this document and the following exhibits, all of which are hereby incorporated into this Agreement:

Exhibit A: Definitions
Exhibit B: List of Founding Members

2. FORMATION OF THE COMMUNITY CHOICE ENERGY AUTHORITY

2.1 **Effective Date and Term.** This Agreement shall become effective and the Authority shall exist as a separate public agency on the date this Agreement is executed by at least three Founding Members after the adoption of the ordinances required by Public Utilities Code Section 366.2(c)(12). The Authority shall provide notice to the Parties of the Effective Date. The Authority shall continue to exist, and this Agreement shall be effective, until the Agreement is terminated in accordance with Section 8.4 (Mutual Termination), subject to the rights of the Parties to withdraw from the Authority under Section 8.1.

2.2 **Formation of the Authority.** Under the Act, the Parties hereby create a separate joint exercise of power agency named the Clean Energy Alliance. Pursuant to Sections 6506 and 6507 of the Act, the Authority is a public agency separate from the Parties. The jurisdiction of the Authority shall be all territory within the geographic boundaries of the Parties; however, the Authority may, as authorized under applicable law, undertake any action outside such geographic boundaries as is necessary to the accomplishment of its purpose.

2.3 **Purpose.** The purpose of this Agreement is to establish the Authority, to provide for its governance and administration, and to define the rights and obligations of the Parties. This Agreement authorizes the Authority to provide opportunities by which the Parties can work cooperatively to create economies of scale and implement sustainable energy initiatives that reduce energy demand, increase energy efficiency, and advance the use of clean, efficient, and renewable resources in the region for the benefit of all the Parties and their constituents, including, but not limited to, establishing and operating a CCA Program.

2.4 **Addition of Parties.** After the initial formation of the Authority and prior to October 1, 2020, any incorporated municipality, county, or other public agency authorized to be a community choice aggregator under Public Utilities Code Section 331.1 and located within the service territory of SDG&E may become a member of the Authority if it has completed a positive CCE Feasibility Study, adopted a CCA ordinance pursuant to Public Utilities Code Section 366.2(c)(12), approved and executed this Agreement, and paid or agrees to pay its share of the Initial Costs pursuant to Section 7.3.2 of this Agreement. Notwithstanding the foregoing, such public agency may be denied membership in the Authority if the

Board determines within 60 days after the submittal of the CCE Feasibility Study that the addition of the public agency would create an undue risk or financial burden to the Authority or to the achievement of the CAP goals of the Parties.

On or after October 1, 2020, any incorporated municipality, county, or other public agency authorized to be a community choice aggregator under Public Utilities Code Section 331.1 and located within the service territory of SDG&E may apply to and become a member of the Authority if all the following conditions are met:

2.4.1 Adoption of a resolution by a two-thirds vote of the entire Board authorizing membership in the Authority;

2.4.2 Adoption by the proposed member of a CCA ordinance as required by Public Utilities Code Section 366.2(c)(12) and approval and execution of this Agreement and other necessary program agreements by the proposed member;

2.4.3 Payment of a membership fee, if any, as may be required by the Board to cover Authority costs incurred in connection with adding the new party; and

2.4.4 Satisfaction of any other conditions established by the Board.

2.5 **Continuing Participation.** The Parties acknowledge that membership in the Authority may change by the addition, withdrawal and/or termination of Parties. The Parties agree to participate with such other Parties as may later be added by the Board, as described in Section 2.4 (Addition of Parties) of this Agreement. The Parties also agree that the withdrawal or termination of a Party shall not affect this Agreement or the remaining Parties' continuing obligations under this Agreement.

3. POWERS

3.1 **General Powers.** The Authority shall have the powers common to the Parties which are necessary or appropriate to the accomplishment of the purposes of this Agreement, subject to the restrictions set forth in Section 3.4 (Limitation on Powers) of this Agreement.

3.2 **Specific Powers.** Specific powers of the Authority shall include, but not be limited to, each of the following powers, which may be exercised at the discretion of the Board:

3.2.1 make and enter into contracts;

3.2.2 employ agents and employees, including but not limited to a Chief Executive Officer;

3.2.3 acquire, own, contract, manage, maintain, and operate any buildings, public works, improvements or other assets including but not limited to public electric generation resources;

3.2.4 acquire property for the public purposes of the Authority by eminent domain, or otherwise, except as limited under Section 6508 of the Act and Sections 3.6 and 4.12.3 of this Agreement, and to hold or dispose of any property; provided, however, the Authority shall not exercise the power of eminent domain within the jurisdiction of a Party without its affirmative vote under Section 4.12.2;

3.2.5 lease any property;

3.2.6 sue and be sued in its own name;

3.2.7 incur debts, liabilities, and obligations, including but not limited to loans from private lending sources pursuant to its temporary borrowing powers authorized by law pursuant to Government Code Section 53850 et seq. and authority under the Act;

3.2.8 issue revenue bonds and other forms of indebtedness;

3.2.9 apply for, accept, and receive all licenses, permits, grants, loans or other aids from any federal, state or local public agency;

3.2.10 form independent corporations or entities, if necessary, to carry out energy supply and energy conservation programs;

3.2.11 submit documentation and notices, register, and comply with applicable orders, tariffs and agreements for the establishment and implementation of the CCA Program and other energy programs;

3.2.12 adopt rules, regulations, policies, bylaws and procedures governing the operation of the Authority;

3.2.13 make and enter into service agreements relating to the provision of services necessary to plan, implement, operate and administer the CCA Program and other energy programs, including the acquisition of electric power supply and the provision of retail and regulatory support services;

3.2.14 receive revenues from sale of electricity and other energy-related programs; and

3.2.15 Partner or otherwise work cooperatively with other CCA's on the acquisition of electric resources, joint programs, advocacy and other efforts in the interests of the Authority.

3.3 **Additional Powers to be Exercised.** In addition to those powers common to each of the Parties, the Authority shall have those powers that may be conferred upon it by law and by subsequently enacted legislation.

3.4 **Limitation on Powers.** As required by Section 6509 of the Act, the powers of the Authority are subject to the restrictions upon the manner of exercising power possessed by the City of Solana Beach and any other restrictions on exercising the powers of the Authority that may be adopted by the Board.

3.5 **Obligations of the Authority.** The debts, liabilities, and obligations of the Authority shall not be the debts, liabilities, and obligations of any of the Parties unless a Party agrees in writing to assume any of the debts, liabilities, and obligations of the Authority with the approval of its Governing Body, in its sole discretion. A Party that has not agreed in writing, as duly authorized by its Governing Body, to assume an Authority debt, liability, or obligation shall not be responsible in any way for such debt, liability, or obligation, regardless of any action by the Board. Further, the debts, liabilities and obligations of the City of Solana Beach related to or arising from its existing CCA program, commonly known as the Solana Energy Alliance, shall not be the debts, liabilities or obligations of the Authority or any of the Parties except the City of Solana Beach unless the Board approves assuming specific contracts entered into by the City of Solana Beach. Any such contracts assumed by the Authority shall be obligations of the Authority only and not of any of the Parties. Notwithstanding Sections 4.12.1 and 9.8 of this Agreement, this Section 3.5 shall not be amended or its liability limitations otherwise modified by an amendment to another part of this Agreement unless such amendment is approved by the Governing Body of each Party.

3.6 **Compliance with Local Zoning and Building Laws.** Notwithstanding any other provisions of this Agreement or state law, any facilities, buildings, structures or other projects (the "project") developed, constructed or installed or caused to be developed, constructed or installed by the Authority within the territory of the Authority (which consists of the territorial jurisdiction of the Parties) shall comply with the General Plan, zoning, land use regulations, building laws and any applicable local Coastal Plan of the local jurisdiction within which the project is located.

3.7 **Compliance with the Political Reform Act and Government Code Section 1090.** The Authority and its officers and employees shall comply with the Political Reform Act (Government Code Section 81000 et seq.) and Government Code Section 1090 et seq. The Board shall adopt a Conflict of Interest Code pursuant to Government Code Section 87300. The Board may adopt additional conflict of interest regulations in the Operating Policies and Procedures.

4. GOVERNANCE

4.1 Board of Directors.

4.1.1 The Governing Body of the Authority shall be a Board of Directors ("Board") consisting of one Director for each Party appointed in accordance with Section 4.2 (Appointment and Removal of Directors) of this Agreement.

4.1.2 Each Director must be a member of the Governing Body of the appointing Party. Each Director shall serve at the pleasure of the Governing Body of the Party that appointed such Director and may be removed as Director by such Governing Body at any time. If at any time a vacancy occurs on the Board, then a replacement shall be appointed to fill the position of the previous Director within 45 days after the date that position becomes vacant.

4.1.3 The Governing Body of each Party also shall appoint an alternate to serve in the absence of the primary Director. The alternate also shall be a member of the Governing Body of the appointing Party. The alternate shall have all the rights and responsibilities of the primary Director when serving in his/her absence.

4.1.4 Any change to the size and composition of the Board other than what is described in this section shall require an amendment of this Agreement in accordance with Section 4.12.

4.2 **Appointment and Removal of Directors.** The Directors shall be appointed and may be removed as follows:

4.2.1 The Governing Body of each Party shall appoint and designate in writing one regular Director, who shall be authorized to act for and on behalf of the Party on matters within the powers of the Authority. The Governing Body of each Party shall appoint and designate in writing one alternate Director who may vote on matters when the regular Director is absent from a Board meeting. The alternate Director may vote on matters in committee, chair committees, and fully participate in discussion and debate during meetings. All Directors and alternates shall be subject to the Board's adopted Conflict of Interest Code.

4.2.2 A Director may be removed by the Board for cause in accordance with procedures adopted by the Board. Cause shall be defined for the purposes of this section as follows:

a. Unexcused absences from three consecutive Board meetings.

b. Unauthorized disclosure of confidential information or documents from a closed session or the unauthorized disclosure of information or documents provided to the Director on a confidential basis and whose public disclosure may be harmful to the interests of the Authority.

c. Violation of any ethics policies or code of conduct adopted by the Board.

Notwithstanding the foregoing, no Party shall be deprived of its right to seat a Director on the Board and any such Party for which its Director and/or alternate Director has been removed may appoint a replacement.

4.3 **Director Compensation.** The Board may adopt by resolution a policy relating to the compensation or expense reimbursement of its Directors.

4.4 **Terms of Office.** Each Party shall determine the term of office for its regular and alternate Director.

4.5 **Purpose of Board.** The general purpose of the Board is to:

4.5.1 Provide structure for administrative and fiscal oversight;

4.5.2 Retain a Chief Executive Officer to oversee day-to-day operations of the Authority;

4.5.3 Retain legal counsel;

4.5.4 Identify and pursue funding sources;

4.5.5 Set policy;

4.5.6 Optimize the utilization of available resources; and

4.5.7 Oversee all Committee activities.

4.6 **Specific Responsibilities of the Board.** The specific responsibilities of the Board shall be as follows:

4.6.1 Formulate and adopt an annual budget prior to the commencement of the fiscal year;

4.6.2 Develop and implement a financing and/or funding plan for ongoing Authority operations and capital improvements, if applicable;

4.6.3 Retain necessary and sufficient staff and adopt personnel and compensation policies, rules and regulations;

4.6.4 Adopt policies for procuring electric supply and operational needs such as professional services, equipment and supplies;

4.6.5 Develop and implement a Strategic Plan to guide the development, procurement, and integration of renewable energy resources consistent with the intent and priorities identified in this Agreement;

4.6.6 Establish standing and ad hoc committees as necessary;

4.6.7 Set retail rates for power sold by the Authority and set charges for any other category of retail service provided by the Authority;

4.6.8 Wind down and resolve all obligations of the Authority in the event the Authority is terminated pursuant to Section 8.2;

4.6.9 Conduct and oversee Authority operational audits at intervals not to exceed three years including review of customer access to Authority programs and benefits, where applicable;

4.6.10 Arrange for an annual independent fiscal audit;

4.6.11 Adopt such bylaws, rules and regulations necessary or desirable for the purposes set forth in this Agreement and consistent with this Agreement;

4.6.12 Exercise the Specific Powers identified in Sections 3.2 and 4.6 except as those which the Board may elect to delegate to the Chief Executive Officer; and

4.6.13 Discharge other duties as appropriate or necessary under this Agreement or required by law.

4.7 **Startup Responsibilities.** The Authority shall promptly act on the following matters:

4.7.1 Oversee the preparation of, adopt, and update an implementation plan for electrical load aggregation pursuant to Public Utilities Code Section 366.2(c)(3);

4.7.2 Prepare a statement of intent for electrical load aggregation pursuant to Public Utilities Code Section 366.2(c)(4);

4.7.3 Obtain financing and/or funding as is necessary to support start up and ongoing working capital for the CCA Program; and

4.7.4 Acquire and maintain insurance in accordance with Section 9.3.

4.8 **Meetings and Special Meetings of the Board.** The Board shall hold at least four regular meetings per year, but the Board may provide for the holding of regular meetings at more frequent intervals. The date, hour, and place of each regular meeting shall be fixed annually by resolution of the Board. The location of regular meetings may rotate for the convenience of the Parties, subject to Board approval and availability of appropriate meeting space. Regular meetings may be adjourned to another meeting time. Special meetings of the Board may be called in accordance with the provisions of Government Code Section 54956. Directors may participate in meetings telephonically, with full voting rights, only to the extent permitted by law. Board meeting agendas generally shall be set, in consultation with the Board Chair, by the Chief Executive Officer appointed by the Board pursuant to Section 5.5. The Board itself may add items to the agenda upon majority vote pursuant to Section 4.11.1.

4.9 **Brown Act Applicable.** All meetings of the Board shall be conducted in accordance with the provisions of the Ralph M. Brown Act (Government Code Section 54950, et seq.).

4.10 **Quorum.** A simple majority of the Directors shall constitute a quorum. No actions may be taken by the Board without a quorum of the Directors present.

4.11 **Board Voting.** Except for matters subject to Special Voting under Section 4.12, Board action shall require the affirmative votes of a majority of the Directors on the entire Board. The consequence of a tie vote shall be "no action" taken.

4.12 **Special Voting.**

4.12.1 The affirmative vote of two-thirds of the Directors of the entire Board shall be required to take any action on the following:

(a) Issuing bonds or other forms of debt;

(b) Adding or removing Parties or removing Directors; and

(c) Amending or terminating this Agreement or adopting or amending the bylaws of the Authority except as provided in Sections 3.5 and 4.12.3. At least 30 days advance written notice to the Parties shall be provided for such actions. Such notice shall include a copy of any proposed amendment to this Agreement or the bylaws of the Authority. The Authority shall also provide prompt written notice to all Parties of the action taken and attach the adopted amendment, resolution or agreement.

4.12.2 An affirmative vote of three-fourths of the entire Board shall be required to initiate any action for Eminent Domain and no eminent domain action shall be approved within the jurisdiction of a Party without the affirmative vote of such Party's Director.

4.12.3 An unanimous vote of the entire Board shall be required to amend the following provisions in this Agreement:

(a) Section 2.3 (Purpose of Agreement)

(b) Section 3.6 (Compliance with Local Zoning)

(c) Sections 4.11 and 4.12 (Voting Requirements)

(d) Section 4.12.2 (Eminent Domain)

(e) Section 6.5 (Power Supply Requirements)

(f) Section 6.6 (Solana Energy Alliance Transition)

5. INTERNAL ORGANIZATION

5.1 **Elected and Appointed Officers.** For each fiscal year, the Board shall elect a Chair and Vice Chair from among the Directors and shall appoint a Secretary and a Treasurer as provided in Government Code section 6505.5. No Director may hold more than one such office at any time. Appointed officers shall not be elected officers of the Board.

5.2 **Chair and Vice Chair.** For each fiscal year, the Board shall elect a Chair and Vice Chair from among the Directors. The term of office of the Chair and Vice Chair shall continue for one year, but there shall be no limit on the number of terms held by either the Chair or Vice Chair. The Chair shall be the presiding officer of all Board meetings, and the Vice Chair shall serve in the absence of the Chair. The Chair shall perform duties as may be required by the Board. In the absence of the Chair, the Vice-Chair shall perform all of the Chair's duties. The office of the Chair or Vice Chair shall be declared vacant and a new selection shall be made if: (a) the person serving dies, resigns, or the Party that the person represents removes the person as its representative on the Board, or (b) the Party that he or she represents withdraws from the Authority pursuant to the provisions of this Agreement. Upon a vacancy, the position shall be filled at the next regular meeting of the Board held after such vacancy occurs or as soon as practicable thereafter.

5.3 **Secretary.** The Board shall appoint a qualified person who is not on the Board to serve as Secretary. The Secretary shall be responsible for keeping the minutes of all meetings of the Board and all other office records of the Authority. If the appointed Secretary is an employee of any Party, such Party shall be entitled to reimbursement for any documented out of pocket costs it incurs in connection with such employee's service as Secretary of the Authority, and full cost recovery for any documented hours of service provided by such employee during such Party's normal working hours.

5.4 **Treasurer/Chief Financial Officer and Auditor.** The Board of Directors shall appoint a Treasurer who shall function as the combined offices of Treasurer and Auditor and shall strictly comply with the statutes related to the duties and responsibilities specified in Section 6505.5 of the Act. The Treasurer for the Authority shall be the depository and have custody of all money of the Authority from whatever source and shall draw all warrants and pay demands against the

Authority as approved by the Board. The Treasurer shall cause an independent audit(s) of the finances of the Authority to be made by a certified public accountant, or public accountant, in compliance with Section 6505 of the Act. The Treasurer shall report directly to the Board and shall comply with the requirements of treasurers of incorporated municipalities. The Board may transfer the responsibilities of Treasurer to any qualified person or entity as the law allows at the time. The duties and obligations of the Treasurer are further specified in Section 7. The Treasurer shall serve at the pleasure of the Board. If the appointed Treasurer is an employee of any Party, such Party shall be entitled to reimbursement for any documented out of pocket costs it incurs in connection with such employee's service as Treasurer of the Authority, and full cost recovery for any documented hours of service provided by such employee during such Party's normal working hours.

5.5 **Chief Executive Officer.** The Board shall appoint a Chief Executive Officer for the Authority, who shall be responsible for the day-to-day operation and management of the Authority and the CCA Program. The Chief Executive Officer may not be an elected member of the Board or otherwise represent any Party to the Authority. The Chief Executive Officer may exercise all powers of the Authority, except those powers specifically reserved to the Board, including but not limited to those set forth in Section 4.6 (Specific Responsibilities of the Board) of this Agreement or the Authority's bylaws, or those powers which by law must be exercised by the Board. The Chief Executive Officer may enter into and execute power purchase agreements and other contracts, in accordance with criteria and policies established by the Board.

5.6 **General Counsel.** The Board shall appoint a qualified person to act as the Authority's General Counsel, who shall not be a member of the Board, or an elected official or employee of a Party.

5.7 **Bonding of Persons Having Access to Property.** Pursuant to the Act, the Board shall designate the public officer or officers or person or persons who have charge of, handle, or have access to any property of the Authority exceeding a value as established by the Board, and shall require such public officer or officers or person or persons to file an official bond in an amount to be fixed by the Board.

5.8 **Privileges and Immunities from Liability.** All of the privileges and immunities from liability, exemption from laws, ordinances and rules, all pension, relief, disability, workers' compensation and other benefits which apply to the activities of officers, agents or employees of a public agency when performing their respective functions shall apply to the officers, agents or employees of the Authority to the same degree and extent while engaged in the performance of any of the functions and other duties of such officers, agents or employees under this Agreement. None of the officers, agents or employees directly employed by the Board shall be deemed, by reason of their employment by the Authority to be employed by the Parties or by reason of their employment by the Authority, to be subject to any of the requirements of the Parties.

5.9 **Commissions, Boards and Committees.** The Board may establish any advisory commissions, boards, and committees as the Board deems appropriate to assist the Board in carrying out its functions and implementing the CCA Program, related energy programs, and the provisions of this Agreement. To the extent possible, the commissions, boards, and committees should have equal representation from each Party. The Board may establish criteria to qualify for appointment on its commissions, boards, and committees. The Board may establish rules, regulations, policies, or procedures to govern any such commissions, boards, or committees and shall determine whether members shall be entitled to reimbursement for expenses. The meetings of the commissions, boards, or committees shall be held in accordance with the requirements of the Ralph M. Brown Act, as applicable.

6. IMPLEMENTATION ACTION AND AUTHORITY DOCUMENTS

6.1 Preliminary Implementation of the CCA Program.

6.1.1 Enabling Ordinance. In addition to the execution of this Agreement, each Party shall adopt an ordinance in accordance with Public Utilities Code Section 366.2(c)(12) for the purpose of specifying that the Party intends to implement a CCA Program by and through its participation in the Authority.

6.1.2 Implementation Plan. The Authority shall secure Board approval of an Implementation Plan meeting the requirements of Public Utilities Code Section 366.2 and any applicable Public Utilities Commission regulations, and consistent with the terms of this Agreement, as soon after the Effective Date as reasonably practicable but no later than December 31, 2019.

6.2 **Authority Documents.** The Parties acknowledge and agree that the affairs of the Authority will be implemented through various documents duly adopted by the Board through Board resolution or minute action, including but not necessarily limited to operational procedures and policies, the annual budget, and specific plans such as a local renewable energy development and integration plan and other policies defined as the Authority Documents by this Agreement. All such Authority Documents shall be consistent with and designed to advance the goals and objectives of the Authority as expressed in this Agreement. The Parties agree to abide by and comply with the terms and conditions of all such Authority Documents that may be adopted by the Board, subject to the Parties' right to withdraw from the Authority as described in Section 8 (Withdrawal and Termination) of this Agreement.

6.3 **Integrated Resource Plan and Regulatory Compliance.** The Authority shall cause to be prepared an Integrated Resource Plan in accordance with California Public Utilities Commission regulations, and consistent with the terms of this Agreement, that will ensure the long-term development and administration of a variety of energy programs that promote local renewable resources, conservation, demand response, and energy efficiency, while maintaining compliance with other regulatory requirements including the State Renewable Portfolio Standard (RPS) and customer rate competitiveness.

6.4 **Renewable Portfolio Standards.** The Authority shall provide its customers energy primarily from Category 1 and Category 2 eligible renewable resources, as defined under the California RPS and consistent with the goals of the CCA Program. The Authority shall avoid the procurement of energy from Category 3 eligible renewable resources (unbundled Renewable Energy Credits or RECs) to the extent feasible. The Authority's ultimate objective shall be to achieve— and sustain—a renewable energy portfolio with 100 percent renewable energy availability and usage, at competitive rates, within the Authority service territory by no later than 2035, and then beyond.

6.5 **Power Supply Requirements.** The Authority's power supply base product will be greater than or equal to 50% qualified renewable resources. The Board shall establish product options with higher renewable and/or GHG-free content that each Party may select (such as 75% or 100% renewable content). In no event will the Authority's power supply base product contain a lesser amount of renewable resources than the base product provided by SDG&E to its customers. Power supply options established by the Board will allow each Party the flexibility to achieve its CAP goals without impeding any other Party from doing the same.

6.6 **Continuation and Transition of City of Solana Beach's Existing CCA Program**. The City of Solana Beach has been operating a CCA program within its jurisdiction since 2018. The City of Solana Beach shall be permitted to continue to operate its existing CCA program until the Authority's CCA Program commences service to customers within the jurisdiction of the City of Solana Beach. The transition of CCA customers within the City of Solana Beach to the Authority's CCA Program shall be implemented in accordance with the Authority's implementation plan approved by the Board and certified by the CPUC and any policies and requirements established by the Board.

7. FINANCIAL PROVISIONS

7.1 **Fiscal Year.** The Authority's fiscal year shall be 12 months commencing July 1 and ending June 30. The fiscal year may be changed by Board resolution.

7.2 **Depository.**

7.2.1 All funds of the Authority shall be held in separate accounts in the name of the Authority and not commingled with funds of any Party or any other person or entity.

7.2.2 All funds of the Authority shall be strictly and separately accounted for, and regular reports shall be rendered of all receipts and disbursements, at least quarterly during the fiscal year. The books and records of the Authority shall be open to inspection and duplication by the Parties at all reasonable times. Annual financial statements shall be prepared in accordance with Generally Accepted Accounting Principles of the United States of America within 6 months of the close of the fiscal year. The Board shall contract with a certified public accountant to make an annual audit of the financial statements of the Authority, which shall be conducted in accordance with the requirements of Section 6505 of the Act.

7.2.3 All expenditures shall be made in accordance with the approved budget and upon the approval of any officer so authorized by the Board in accordance with its policies and procedures.

7.3 **Budget and Recovery Costs.**

7.3.1 Budget. The initial budget shall be approved by the Board. The Board may revise the budget from time to time as may be reasonably necessary to address contingencies and unexpected expenses. All subsequent budgets of the Authority shall be prepared and approved by the Board in accordance with its fiscal management policies that should include a deadline for approval.

7.3.2 Funding of Initial Costs. The Initial Costs of establishing the Authority and implementing its CCA Program shall be divided equally among the Founding Members. In the event that the CCA Program becomes operational, these Initial Costs paid by the Founding Members shall be included in the customer charges for electric services to the extent permitted by law. The Authority may establish a reasonable time period over which such costs are recovered and reimbursed to the Founding Members. In the event that the CCA Program does not become operational, the Founding Members shall not be entitled to any reimbursement of the Initial Costs they have paid from the Authority or any Party.

7.3.3 CCA Feasibility and Governance Report Costs. In the event that the CCA Program becomes operational, any costs incurred by the Parties in preparing CCA Feasibility or Governance Reports in connection with establishing the Authority shall be included in the customer charges for electric services to the extent permitted by law. The Authority may establish a reasonable time period over which such costs are recovered and reimbursed to the Parties that incurred such costs. In the event that the CCA Program does not become operational, no Party shall be entitled to any reimbursement of these costs from the Authority or any Party.

7.3.4 Program Costs. The Parties intend that all costs incurred by the Authority that are directly or indirectly attributable to the provision of electric or other services under the CCA Program, including the establishment and maintenance of various reserve and performance funds, shall be recovered through appropriate charges to CCA customers receiving such services.

7.3.5 No Requirement for Contributions or Payments. Parties are not required under this Agreement to make any financial contributions or payments to the Authority, and the Authority shall have no right to require such a contribution or payment unless expressly set forth herein (for example, as provided in Section 2.4.3, with respect to Additional Members, Section 7.3.2 with respect to Initial Costs and Section 8.1, with respect to Withdrawal), or except as otherwise required by law.

Notwithstanding the foregoing, a Party may voluntarily enter into an agreement with the Authority to provide the following:

(a) contributions of public funds for the purposes set forth in this Agreement;

(b) advances of public funds for the purposes set forth in this Agreement, such advances to be repaid as provided by such written agreement; or

(c) its personnel, equipment or property in lieu of other contributions or advances.

No Party shall be required, by or for the benefit of the Authority, to adopt any local tax, assessment, fee or charge under any circumstances.

7.4 **Accounts and Reports.** The Treasurer shall establish and maintain such funds and accounts as may be required by good accounting practice or by any provision of any trust agreement entered into with respect to the proceeds of any bonds issued by the Authority. The books and records of the Authority in the hands of the Treasurer shall be open to inspection and duplication at all reasonable times by duly appointed representatives of the Parties. The Treasurer, within 180 days after the close of each fiscal year, shall give a complete written report of all financial activities for such fiscal year to the Parties. The Treasurer shall cooperate with all audits required by this Agreement.

7.5 **Funds.** The Treasurer shall receive, have custody of and/or disburse Authority funds in accordance with the laws applicable to public agencies and generally accepted accounting practices, and shall make the disbursements required by this Agreement in order to carry out any of the purposes of this Agreement.

7.6 **Discretionary Revenues**. The Board shall establish policies concerning the expenditure of discretionary revenues. As determined by the Board in such policies, discretionary revenues may be used to (1) provide programs and develop projects of the Authority or (2) allow Parties to direct funds into qualified Authority programs and projects, or provide other ratepayer benefits. The Board shall endeavor to achieve a balanced distribution of program and project benefits substantially commensurate with each Party's energy load ("balanced distribution"). The Board shall conduct periodic audits no less than every two years in order to verify the balanced distribution of program and project benefits and take any corrective action necessary to achieve or continue to maintain a balanced distribution.

7.7 **Rate Related Programs**. The Authority will maintain residential net energy metering and low-income rate discount programs.

8. WITHDRAWAL AND TERMINATION

8.1 Withdrawal

8.1.1 Withdrawal by Parties. Any Party may withdraw its membership in the Authority, effective as of the beginning of the Authority's fiscal year, by giving no less than one year advance written notice of its election to do so, which notice shall be given to the Authority and each Party. The Board, in its discretion, may approve a shorter notice period on a case by case basis. In addition, a Party may immediately withdraw its membership in the Authority upon written notice to the Board at any time prior to the Authority filing its first year-ahead load forecast with the CPUC that included the Party's load (anticipated to occur in April 2020) without any financial obligation other than its share of Initial Costs that shall not be reimbursed and any costs directly related to the resulting amendment of the Implementation Plan. Withdrawal of a Party shall require an affirmative vote of the Party's Governing Body.

8.1.2 Amendment. Notwithstanding Section 8.1.1 (Withdrawal by Parties) of this Agreement, a Party may withdraw its membership in the Authority upon approval and execution of an amendment to this Agreement provided that the requirements of this Section 8.1.2 are strictly followed. A Party shall be deemed to have withdrawn its membership in the Authority effective one year (or earlier if approved by the Board) after the Board approves an amendment to this Agreement if the Director representing such Party has provided notice to the other Directors immediately preceding the Board's vote of the Party's intention to withdraw its membership in the Authority, should the amendment be approved by the Board.

8.1.3 Continuing Liability; Further Assurances. A Party that withdraws its membership in the Authority may be subject to certain continuing liabilities, as described in Section 8.5 (Continuing Liability; Refund) of this Agreement, including, but not limited to, power purchase agreements and other Authority contracts and operational obligations. The withdrawing Party and the Authority shall execute and deliver all further instruments and documents and take any further action that may be reasonably necessary, as determined by the Board, to effectuate the orderly withdrawal of such Party from membership in the Authority. The Board shall also consider, pursuant to Section 3.2.12, adoption of a policy that allows a withdrawing Party to negotiate assignment to the Party of costs of electric power or other resources procured on behalf of its customers by the Authority upon its withdrawal. In the implementation of this Section 8.1.3, the Parties intend, to the maximum extent possible, without compromising the viability of ongoing Authority operations, that any claims, demands, damages, or liabilities covered hereunder, be funded from the rates paid by CCA Program customers located within the service territory of the withdrawing Party, and not from the general fund of the withdrawing Party itself.

8.2 **Termination of CCA Program.** Nothing contained in Section 6 or elsewhere in this Agreement shall be construed to limit the discretion of the Authority to terminate the implementation or operation of the CCA Program at any time in accordance with any applicable requirements of state law.

8.3 **Involuntary Termination.** This Agreement may be terminated with respect to a Party for material non-compliance with provisions of this Agreement or Authority Documents upon a two-thirds vote of the entire Board excluding the vote of the Party subject to possible termination. Prior to any vote to terminate this Agreement with respect to a Party, written notice of the proposed termination and the reason(s) for such termination shall be delivered to the Party whose termination is proposed at least 30 days prior to the regular Board meeting at which such matter shall first be discussed as an agenda item. The written notice of proposed termination shall specify the particular provisions of this Agreement or the Authority Documents that the Party has allegedly violated. The Party, subject to possible termination, shall have the opportunity at the next regular Board meeting to respond to any reasons and allegations that may be cited as a basis for termination prior to a vote regarding termination. A Party that has had its membership in the Authority terminated may be subject to certain continuing liabilities, as described in Section 8.5 (Continuing Liability; Refund) of this Agreement.

8.4 **Mutual Termination.** This Agreement may be terminated by mutual agreement of all the Parties; provided, however, the foregoing shall not be construed as limiting the rights of a Party to withdraw its membership in the Authority, and thus terminate this Agreement with respect to such withdrawing Party, as described in Section 8.1 (Withdrawal) of this Agreement.

8.5 **Continuing Liability; Refund.** Upon a withdrawal or involuntary termination of a Party, the Party shall be responsible for any claims, demands, damages, or liabilities attributable to the Party through the effective date of its withdrawal or involuntary termination, it being agreed that the Party shall not be responsible for any claims, demands, damages, or liabilities commencing or arising after the effective date of the Party's withdrawal or involuntary termination. Notwithstanding the foregoing or any other provisions of this Agreement, such Party also shall be liable to the Authority for (a) any damages, losses, or costs incurred by the Authority which result directly from the Party's withdrawal or termination, including but not limited to costs arising from the resale of capacity, electricity, or any attribute thereof no longer needed to serve such Party's load; and (b) any costs or obligations associated with the Party's participation in any program in accordance with the program's terms, provided such costs or obligations were incurred prior to the withdrawal of the Party. From and after the date a Party provides notice of its withdrawal or is terminated, the Authority shall reasonably and in good faith seek to mitigate any costs and obligations to be incurred by the withdrawing or terminated Party under this Section through measures reasonable under the circumstances, provided that this obligation to mitigate does not impose any obligation on the Authority to transfer any cost or obligation directly attributable to the membership and withdrawal or termination of the withdrawing or terminated party to the ratepayers of the remaining members. Further, the liability of the withdrawing or terminated Party shall be based on actual costs or damages incurred by the Authority and shall not include any penalties or punitive charges imposed by the Authority. The Authority may withhold funds otherwise owing to the Party or may require the Party to deposit sufficient funds with the Authority, as reasonably determined by the Authority, to cover the Party's liability for the costs described above. The withdrawing or terminated Party agrees to pay any such deposit determined by the Authority. Any amount of the Party's funds held on deposit with the Authority above that which is required to pay any liabilities or obligations shall be returned to the Party. In the implementation of this Section 8.5, the Parties intend, to the maximum extent possible, without compromising the viability of ongoing Authority operations, that any claims, demands, damages, or liabilities covered hereunder, be funded from the rates paid by CCA Program customers located within the service territory of the withdrawing Party, and not from the general fund of the withdrawing Party itself. The liability of a withdrawing Party under this Section shall be only to the Authority and not to any other Party.

8.6 **Disposition of Authority Assets.** Upon termination of this Agreement and dissolution of the Authority by all Parties, after payment of all obligations of the Authority, the Board may sell or liquidate Authority property and shall distribute any remaining assets to the Parties in proportion to the contributions made by the existing Parties. Any assets provided by a Party to the Authority shall remain the asset of that Party and shall not be subject to distribution under this section.

9. MISCELLANEOUS PROVISIONS

9.1 **Dispute Resolution.** The Parties and the Authority shall make reasonable efforts to settle all disputes arising out of or in connection with this Agreement. Before exercising any remedy provided by law, a Party or the Parties and the Authority shall engage in nonbinding mediation in the manner agreed upon by the Party or Parties and the Authority. The Parties agree that each Party may specifically enforce this section. In the event that nonbinding mediation is not initiated or does not result in the settlement of a dispute within 60 days after the demand for mediation is made, any Party and the Authority may pursue any remedies provided by law.

9.2 **Liability of Directors, Officers, and Employees.** The Directors, officers, and employees of the Authority shall use ordinary care and reasonable diligence in the exercise of their powers and in the performance of their duties pursuant to this Agreement. No current or former Director, officer, or employee will be responsible for any act or omission by another Director, officer, or employee. The Authority shall defend, indemnify and hold harmless the individual current and former Directors, officers, and employees for any acts or omissions in the scope of their employment or duties in the manner provided by Government Code Section 995 et seq. Nothing in this section shall be construed to limit the defenses available under the law, to the Parties, the Authority, or its Directors, officers, or employees. In addition, pursuant to the Act, no Director shall be personally liable on the Authority's bonds or be subject to any personal liability or accountability by reason of the issuance of bonds.

9.3 **Insurance and Indemnification of Parties.** The Authority shall acquire such insurance coverage as is necessary to protect the interests of the Authority and the Parties. The Authority shall defend, indemnify and hold harmless the Parties and each of their respective governing board members, officers, agents and employees, from any and all claims, losses, damages, deductibles or self-insured retentions, costs, fines, penalties, injuries and liabilities of every kind arising directly or indirectly from the conduct, activities, operations, acts, errors, omissions or negligence of the Authority or its officers, employees, agents, contractors, licensees or volunteers.

9.4 **No Third Party Beneficiaries.** The provisions of this Agreement are for the sole benefit of the Parties and the Authority and not for the benefit of any other person or entity. No third party beneficiary shall be created by or arise from the provisions of this Agreement.

9.5 **Notices.** Any notice required or permitted to be made hereunder shall be in writing and shall be delivered in the manner prescribed herein at the principal place of business of each Party. The Parties may give notice by (1) personal delivery; (2) e-mail; (3) U.S. Mail, first class postage prepaid, or a faster delivery method; or (3) by any other method deemed appropriate by the Board.

Upon providing written notice to all Parties, any Party may change the designated address or e-mail for receiving notice.

All written notices or correspondence sent in the described manner will be deemed given to a party on whichever date occurs earliest: (1) the date of personal delivery; (2) the third business day following deposit in the U.S. mail, when sent by "first class" mail; or (3) the date of transmission, when sent by e-mail or facsimile.

9.6 **Successors.** This Agreement shall be binding upon and shall inure to the benefit of the successors of each Party.

9.7 **Assignment.** Except as otherwise expressly provided in this Agreement, the rights and duties of the Parties may not be assigned or delegated without the advance written consent of all of the other Parties, and any attempt to assign or delegate such rights or duties in contravention of this section shall be null and void. This Agreement shall inure to the benefit of, and be binding upon, the approved assigns of the Parties. This section does not prohibit a Party from entering into an independent agreement with another agency, person, or entity regarding the financing of that Party's contributions to the Authority, or the disposition of the proceeds which that Party receives under this Agreement, so long as such independent agreement does not affect, or purport to affect, the rights and duties of the Authority or the Parties under this Agreement.

9.8 **Amendment**. This Agreement may be amended by a written amendment approved by the Board in accordance with the Special Voting requirements of Section 4.12.

9.9 **Severability.** If any one or more of the terms, provisions, promises, covenants, or conditions of this Agreement were adjudged invalid or void by a court of competent jurisdiction, each and all of the remaining terms, provisions, promises, covenants, and conditions of this Agreement shall not be affected thereby and shall remain in full force and effect to the maximum extent permitted by law.

9.10 **Governing Law.** This Agreement is made and to be performed in the State of California, and as such California substantive and procedural law shall apply.

9.11 **Headings.** The section headings herein are for convenience only and are not to be construed as modifying or governing the language of this Agreement.

9.12 **Counterparts.** This Agreement may be executed in any number of counterparts, and upon execution by all Parties, each executed counterpart shall have the same force and effect as an original instrument and as if all Parties had signed the same instrument. Any signature page of this Agreement may be detached from any counterpart of this Agreement without impairing the legal effect of any signatures thereon and may be attached to another counterpart of this Agreement identical in form hereto but having attached to it one or more signature pages.

The Parties hereto have executed this Joint Powers Agreement establishing the Clean Energy Alliance.

CITY OF CARLSBAD

By: ______________________
City Manager

DATE: 10 OCT 19

ATTEST:

By: Tamara R. McMinn
for City Clerk

APPROVED AS TO FORM:

By: Celia A. Brewer
City Attorney

CITY OF Del Mar

By: [signature]
Scott W. Huth, City Manager

DATE: 11/4/2019

ATTEST:

By: [signature]
Ashley Jones, City Clerk

APPROVED AS TO FORM:

By: [signature]
Leslie E. Devaney, City Attorney

CITY OF SOLANA BEACH

By: ______________________
City Manager

DATE: 11-4-19

ATTEST:

By: ______________________
City Clerk

CITY OF SOLANA BEACH ★ CALIFORNIA ★ INCORPORATED JULY 1 1986

APPROVED AS TO FORM:

By: ______________________
City Attorney

Exhibit A: Definitions

"AB 117" means Assembly Bill 117 (Stat. 2002, Ch. 838, codified at Public Utilities Code Section 366.2), which created Community Choice Aggregation.

"Act" means the Joint Exercise of Powers Act of the State of California (Chapter 5, Division 7, Title 1 of the Government Code commencing with Section 6500).

"Agreement" means this Joint Powers Agreement.

"Authority" means the Clean Energy Alliance.

"Authority Document(s)" means document(s) duly adopted by the Board by resolution or motion implementing the powers, functions and activities of the Authority, including but not limited to the Operating Policies and Procedures, the annual budget, and plans and policies.

"Board" means the Board of Directors of the Authority.

"Community Choice Aggregation" or "CCA" means an electric service option available to cities, counties, and other public agencies pursuant to Public Utilities Code Section 366.2.

"CCA Program" means the Authority's Community Choice Aggregation program established, conducted and operated under Public Utilities Code Section 366.2.

"Days" shall mean calendar days unless otherwise specified by this Agreement.

"Director" means a member of the Board representing a Party appointed in accordance with Sections 4.1 (Board of Directors) and 4.2 (Appointment and Removal of Directors) of this Agreement.

"Effective Date" means the date on which the Agreement shall become effective and the Authority shall exist as a separate public agency, as further described in Section 2.1 (Effective Date and Term) of this Agreement.

"Founding Member" means any jurisdiction that becomes a member of the Authority before October 1, 2020, as identified in Exhibit B.

"Governing Body" means for any city, its City Council; and for any other public agency, the equivalent policy making body that exercises ultimate decision-making authority over such agency.

"Initial Costs" means reasonable and necessary implementation costs advanced by the Founding Members in support of the formation of the Authority and approved by the Board for reimbursement, which are (a) directly related to the establishment of the Authority and its CCA program, and (b) incurred by the Authority or its Members relating to the initial operation of the Authority, such as the hiring of the executive and operations staff, any required accounting, administrative, technical and legal services in support of the

Authority's initial formation activities or in support of the negotiation, preparation and approval of power purchase agreements, and activities associated with drafting and obtaining approval of the Authority's implementation plan. Initial Costs do not include costs associated with the investigation of the CCA model, attendance at routine planning meetings, or a Party's pre-formation reports related to their decision to pursue CCA or join the Authority. Initial costs also do not include the costs incurred by the City of Solana Beach relating to the termination of its CCA program. The Authority Board shall determine the repayment timing and termination date for the Initial Costs.

"Investor Owned Utilities" means a privately-owned electric utility whose stock is publicly traded and is subject to CPUC regulation.

"Parties" means, collectively, the signatories to this Agreement that have satisfied the conditions as defined above for "Founding Members" or in Section 2.4 (Addition of Parties) of this Agreement, such that they are considered members of the Authority.

"Party" means, singularly, a signatory to this Agreement that has satisfied the conditions as defined above for "Founding Members" or in Section 2.4 (Addition of Parties) of this Agreement, such that it is considered a member of the Authority.

Exhibit B: List of Founding Members

Any public agency that becomes a member by October 1, 2020

City of Carlsbad

City of Del Mar

City of Solana Beach

AMENDMENT NO. 1 TO CLEAN ENERGY ALLIANCE JOINT POWERS AGREEMENT

This Amendment No. 1 to the Clean Energy Alliance Joint Powers Agreement, dated November 4, 2019, by and among the City of Carlsbad, the City of Del Mar and the City of Solana Beach (hereinafter referred to as the "Agreement") amends the Agreement as follows:

1. Section 5.1 **Elected and Appointed Officers** is hereby amended to read:

"At the January meeting in each year, the Board shall elect a Chair and Vice Chair from among the Directors. For each fiscal year, the Board shall appoint a Secretary and a Treasurer as provided in Government Code Section 6505.5. Appointed officers shall not be elected officers of the Board.

2. Section 5.2 **Chair and Vice Chair** is hereby amended to amend the first sentence of this section to read:

"At the January meeting in each year, the Board shall elect a Chair and Vice Chair from among the Directors."

3. Except as specifically amended above, all other provisions of the Agreement shall remain in full force and effect.

This Amendment No. 1 was presented to the Board of Directors of the Clean Energy Alliance on July 29, 2021 and was adopted by the Board at its September 30, 2021 meeting.

ORDINANCE NO. 2021-12

AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF ESCONDIDO, CALIFORNIA, AUTHORIZING MEMBERSHIP IN CLEAN ENERGY ALLIANCE, A COMMUNITY CHOICE AGGREGATION PROGRAM

The City Council of the City of Escondido, California, DOES HEREBY ORDAIN as follows:

WHEREAS, California Public Utilities Code section 366.2 (the "Act") authorizes cities and counties to individually or jointly provide retail electric service to an aggregation of customers within their jurisdictions, which is referred to as Community Choice Aggregation ("CCA"); and

WHEREAS, the Community Choice Technical Feasibility Study, dated May 24, 2021 ("Feasibility Study"), determined that a Community Choice Aggregation program would be both technically and financially feasible and beneficial in the City of Escondido; and

WHEREAS, on October 27, 2021, the Escondido City Council adopted Resolution 2021-169 authorizing the City Manager to execute the Clean Energy Alliance Joint Powers Agreement, and related documents, for membership in the Clean Energy Alliance ("CEA") formed pursuant to the provisions of the Joint Exercise of Powers Act on or about November 4, 2019; and

WHEREAS, under Public Utilities Code section 366.2, customers have the right to opt-out of electric service through CEA and instead continue to receive electric service from the incumbent utility; and

WHEREAS, Public Utilities Code section 366.2(c)(12) provides that an entity which elects to implement a CCA program within its jurisdiction must do so by ordinance; and

WHEREAS, this ordinance is exempt from the requirements of the California Environmental Quality Act ("CEQA") pursuant to the State CEQA Guidelines, as (1) it is not a "project" and has no potential to result in a direct or reasonably foreseeable indirect physical change to the environment (14 Cal. Code Regs, § 15378(a)); (2) there is no possibility that the ordinance or its implementation would have a significant negative effect on the environment (14 Cal. Code Regs.§ 15061(b)(3)); and, (3) because it is an action taken by a regulatory agency to assure the maintenance, restoration, enhancement or protection of the environment. (14 Cal. Code Regs. § 15308).

NOW, THEREFORE, the City Council of the City of Escondido hereby ordains as follows:

SECTION 1. That the recitals set forth above are true and correct and are incorporated as though fully set forth herein.

SECTION 2. In order to provide a choice of electric service providers to the customers within the City, the City Council hereby elects pursuant to Public Utilities Code section 366.2(c)(12) to implement a Community Choice Aggregation (“CCA”) program within the jurisdiction of the City of Escondido, by participating in the Clean Energy Alliance (“CEA”), under the terms and conditions provided in its Clean Energy Alliance Joint Powers Agreement, as amended, on file with the City Clerk.

SECTION 3. This Ordinance was introduced by the City Council October 27, 2021, along with City Council Resolution No. 2021-169.

SECTION 4. SEPARABILITY. If any section, subsection sentence, clause, phrase or portion of this ordinance is held invalid or unconstitutional for any reason by any court of competent jurisdiction, such portion shall be deemed a separate, distinct and independent provision and such holding shall not affect the validity of the remaining portions.

SECTION 5. That as of the effective date of this ordinance, all ordinances or parts of ordinances in conflict herewith are hereby repealed.

SECTION 6. That the City Clerk is hereby directed to certify to the passage of this ordinance and to cause the same or a summary to be published one time within 15 days of its passage in a newspaper of general circulation for the City of Escondido.

SECTION 7. This Ordinance shall take effect and be in force on the thirtieth (30th) day from and after its final passage.

ESCONDIDO
City of Choice

CITY COUNCIL STAFF REPORT

Current Business Item No. 11 **October 27, 2021** **File No. 0875-55**

SUBJECT: Middle-Income Housing Program Project Proposals

DEPARTMENT: Community Development Department, Housing Division

RECOMMENDATION:

It is requested that the City Council adopt Resolution No. 2021-152, authorizing the City to become an additional member of the California Municipal Finance Authority ("CMFA") Special Financing Agency ("Agency"), supporting CMFA's issuance of bonds for the production, preservation, and protection of essential middle-income rental housing, and authorizing the Mayor to enter into a Public Benefits Agreement with CMFA for the acquisition on Solana on Grand, located at 1501 E. Grand Ave., for its conversion to middle income housing.

Staff has also prepared Resolution No. 2021-153, authorizing the City to become an additional member of the Agency, supporting CMFA's issuance of bonds for the production, preservation, and protection of essential middle-income rental housing, and authorizing the Mayor to enter into a Public Benefits Agreement with CMFA for the acquisition of Latitude33, located at 515 Meander Glen, for its conversion to middle income housing; and Resolution 2021-151, authorizing the City to become an additional member of the California Statewide Communities Development Authority ("CSCDA") Community Improvement Authority ("Authority"), supporting CSCDA's issuance of bonds for the production, preservation, and protection of essential middle-income rental housing, and authorizing the Mayor to enter into public benefits agreements with CSCDA for the acquisition of Rowan, located at 700 W. Grand Ave., Haven 76, located at 2414 S. Escondido Blvd, and Alcove, located at 650 N Centre City Pkwy, for their conversion to middle income housing.

At its discretion, the City Council may adopt any, all, or none of the above-referenced Resolutions, however Staff's recommendation is to adopt Resolution No. 2021-152. Adoption of the resolutions will enable the purchase of market rate housing to convert the units to 30-year deed-restricted middle income housing. Each project would provide income and rent-restricted rental housing for households earning between 80% to 120% of the Area Median Income ("AMI").

FISCAL ANALYSIS:

Staff has received three inquiries from investors and financing authorities in recent months related to the purchase of existing multi-family projects for use as income-restricted housing for moderate income households, making between 80% and 120% AMI ("Middle Income Housing"). All three of these projects would involve a Joint Powers Authority ("JPA"), either CSCDA Authority or CMFA Agency, issuing bonds for the production, preservation, and protection of essential middle-income rental housing. The JPA would issue government bonds to acquire market-rate apartment buildings which would then be converted to income- and rent-restricted housing for middle income households. Each JPA is a public entity separate and apart from its members, and any debts, liabilities, and obligations incurred by the JPA will not constitute debts, liabilities, or obligations of its member agencies. Bonds issued for any particular project will be indebtedness solely of the JPA, and payable only from revenues of the project. No financial expenditures, liabilities, or obligations are created by joining the JPA or executing any public benefit agreement.

If a property is purchased through the Middle-Income Housing Program, the JPA would become the owner of the property and the City would execute a Public Benefit Agreement specific to that property. During the bond period, the property may be exempt from paying property taxes. This will result in an initial loss of revenue to the City, as well as other taxing entities, including the County and school districts. The foregone property tax loss would enable the financial feasibility of acquiring properties to create housing opportunities for middle-income residents that might not otherwise exist. The State of California would make up the foregone property taxes to the school districts through the Local Control Funding Formula ("LCFF"). After operating expenses are paid, the project owner must pay to redeem the outstanding bonds and then may prepay project debt or pay fees enumerated in the Public Benefit Agreement. Surplus funds shall be transferred to the City, including an annual Host Charge fee. The Host Charge fee would be deposited into the City's General Fund. Under the terms of the Public Benefit Agreement, the City, at its sole discretion, may force a sale of the property between Year 15 and Year 30 (the end of the life of the bonds). If a property generates surplus cash flow through the proceeds of the sale of a property, the City will receive the surplus revenue, which shall be equitably shared (within the City's reasonable discretion) with the other taxing agencies to reimburse them for any foregone property tax revenue.

Keyser Marston Associates Inc. ("KMA") performed a financial analysis of each of the three projects, as described below.

<u>Solana at Grand</u>

CMFA/HomeFed Corporation ("CMFA/HomeFed") proposes purchasing Solana at Grand (located at 1501 E. Grand Ave.) for conversion to middle income housing. This property consists of 519 studio, one-, and two-bedroom units built approximately 35 years ago. Over the 30-year bond period, it is estimated that the City and other taxing entities would forego a total of $79.3 million ($40.4 million in 2021 dollars, assuming a discount rate of 4.5%) of ad valorem property tax revenues and property tax assessments. The project would pay $6.2 million in total annual Host Charge fees over the 30-year term. Using CMFA/HomeFed's cash flow projections, KMA estimates that the sale of the project at the end of the 30-year term could potentially yield significant net proceeds to the City, currently estimated at $153.2 million. However, the size of the net sales proceeds is very sensitive to the operations of the project, future market conditions, and other factors over which the City has no control. If this future value is discounted at a 10% rate to reflect risk and the time value of money, KMA estimates a net present value of $8.8 million. This project offers the highest *total* net sales proceeds after Year 30 to the City.

Latitude33

CMFA/Ascenda Capital ("CMFA/Ascenda") proposes purchasing Latitude33 (located at 515 Meander Glen; at the southeast corner of Centre City Parkway and Washington Avenue) for conversion to middle income housing. This property consists of 198 one-, two- and three-bedroom units built in 2012. Over the 30-year bond period, it is estimated that the City and other taxing entities would forego a total of $46.2 million ($23.5 million in 2021 dollars, assuming a discount rate of 4.5%) of ad valorem property tax revenues and property tax assessments. The project would pay $4.4 million in total annual Host Charge fees over the 30-year term. Using CMFA/Ascenda's cash flow projections, KMA estimates that the sale of the project at the end of the 30-year term could potentially yield significant net proceeds to the City, currently estimated at $120.6 million. However, the size of the net sales proceeds is very sensitive to the operations of the project, future market conditions, and other factors over which the City has no control. If this future value is discounted at a 10% rate to reflect risk and the time value of money, KMA estimates a net present value of $6.9 million. This project offers the highest *per unit* net sales proceeds in Year 30.

Alcove/Haven 76/Rowan

CSCDA/Waterford Property Company ("CSCDA/Waterford") proposes purchasing three properties, Alcove (located at 650 N. Centre City Pkwy.); Haven76 (located at 2414 S. Escondido Blvd.) and Rowan (located at 700 W. Grand Ave.) for conversion to middle income housing. The properties are all recently constructed Class A apartment complexes with a combined total of 314 one-, two-, and three-bedroom units. Over the 30-year bond period, it is estimated that the City and other taxing entities would forego a total of $72.5 million ($36.9 million in 2021 dollars, assuming a discount rate of 4.5%) of ad valorem property tax revenues and property tax assessments. The project would pay $4.8 million in total annual Host Charge fees over the 30-year term. Using CSCDA/Waterford's cash flow projections, KMA estimates that the sale of the project at the end of the 30-year term could potentially yield significant net proceeds to the City, currently estimated at $144.3 million. However, the size of the net sales proceeds is very sensitive to the operations of the project, future market conditions, and other factors over which the City has no control. If this future value is discounted at a 10% rate to reflect risk and the time value of money, KMA estimates a net present value of $8.3 million.

	Solana at Grand		Latitude33		Alcove/Haven 76/Rowan	
Number of Units	519 units		198 units		314 units	
	Project	Per Unit	Project	Per Unit	Project	Per Unit
Year 1 Foregone Taxes City School Districts Other Total	 $272,600 $1,106,800 $574,600 $1,954,000	 $3,765	 $163,500 $641,900 $333,000 $1,138,400	 $5,750	 $252,100 $1,006,500 $529,700 $1,788,300	 $5,695
Total Foregone Taxes (Year 1 – Year 30)	$79,318,000	$152,830	$46,224,000	$233,455	$72,493,000	$230,870
Total Host Charge Fees (Year 1 – Year 30)	$6,207,000	$11,960	$4,381,000	$22,125	$4,815,000	$15,335
Net Sales Proceeds, Year 15 (NPV)	($6,185,000)	($12,000)	($227,000)	($1,000)	($4,295,000)	($14,000)
Net Sales Proceeds, Year 30 (NPV)	$8,777,000	$17,000	$6,909,000	$35,000	$8,272,000	$26,000
Net Revenue to the City, Year 30 after Foregone Tax Repayments (NPV)	$6,426,000	$12,380	$5,922,000	$29,910	$5,678,000	$18,085

PREVIOUS ACTIONS:

On January 13, 2021, City Council adopted Resolution No. 2021-09, authorizing the City to become an Additional Member of the California Community Housing Agency (“CalCHA”); supporting CalCHA’s issuance of tax-exempt bonds for the production, preservation, and protection of essential middle-income rental housing; and authorizing the City Manager to enter into purchase option agreements with CalCHA for essential middle-income rental housing created within City limits. No specific project was approved through this resolution. CalCHA is a JPA who issues bonds for projects similar to those being considered, however is not involved in any of the projects described in this report.

On September 1, 2021, City Council gave direction to staff on the factors the City should be considering when reviewing and making recommendations on proposals related to the purchase of existing multi-family apartment projects for use as income-restricted housing for moderate income individuals. At this meeting, City Council prioritized the financial sustainability of the project (including the availability of funds to pay for any necessary capital improvements or maintenance and the potential monetary benefits to the City at sale), the reputation of the developer, ability to meet Regional Housing Needs Assessment (“RHNA”) obligations, and the age of the housing stock.

BACKGROUND:

The City encourages and supports a full range of housing options affordable to different income levels. The City has been able to support the creation of affordable housing for low-income residents at 30% AMI ($36,350 for a household of four), 50% AMI ($60,600 for a household of four), and 60% AMI ($72,720 for a household of four) using various affordable housing funds which leverage Low-Income Housing Tax Credit Programs. Because state and federal funding sources are almost exclusively targeted to households at or below 60% of AMI, there are limited subsidies or programs to produce or preserve the growing shortfall of below market rate rental housing for moderate and middle-income households. This has left a “missing middle,” comprised of households that earn too much to qualify for traditional affordable housing programs but not enough to afford market rate housing. An 80% AMI four-person household in San Diego County earns $97,000 per year and an 120% AMI four-person household earns $114,000 per year. The average rent in Escondido in June 2021 was $1,851 (all unit sizes, excluding rent restricted affordable housing). While the median market rent for a 2-bedroom ($1,888) or 3-bedroom ($2,315) apartment might be affordable to a middle income San Diego County resident, Escondido households tend to earn less than the County median and the pressure to find an affordable rent is strong.

Recently, the City has been approached by financial entities to use tax-exempt bonds to secure rental housing which would be deed-restricted for households earning between 80% and 120% AMI. Deed-restricted housing for moderate income individuals and families would create a balance between income and rent for an expanded portion of Escondido residents and would protect those renters from large rent increases throughout the affordability period. Middle-Income Housing Programs are typically structured so that no financial assistance is required from the local jurisdiction. Transactions are financed through the use of tax-exempt government bonds, referred to as Essential Housing Revenue Bonds (“Essential Bonds”). The Essential Bonds must be issued through a JPA of which the City must be a member. The City has no liability or financial obligation for the Essential Bonds. While the term of the Essential Bonds are typically 30-35 years, the City will have the right to require the owner to sell the project at any point between Year 15 and Year 30. The owner would be required to make best faith efforts to sell the project at a minimum agreed upon sales price. If the minimum sales price cannot be achieved, the owner will not be required to sell the project. If the project is sold, the net sales proceeds will be provided to the City and/or other taxing agencies. The use of Essential Bonds entitles all of the units in the project to be exempt from property taxes (aside from direct assessments). The owner will act as the program administrator of the Middle-Income Housing Program and will be entitled to fees that are defined in the agreements.

Although the City would be eligible to require the owner to sell the property at Year 15, none of the projects has a positive value in Year 15. This is a function of the costs to the projects, including the payment of the Host Charge, the owner’s agreement to reduce rents to 30% of income rather than the 35% initially proposed, and a healthy capital reserve set-aside. Although there are sufficient funds to pay the expenses of the project, the owner will not be able to significantly prepay the bonds. A property cannot realistically be sold until the sales proceeds exceed the debt on the property, which happens after Year 15. The City may require sale once the projects have a net positive value (when sale price is anticipated to exceed the cost to pay off remaining bonds), which occurs in Year 16 for Latitude33, Year 18 for Alcove/Haven 76/Rowan, and Year 19 for Solana at Grand. (At Year 15, Latitude33 has the least negative value ($277,000 NPV), followed by Alcove/Haven 76/Rowen ($4,295,000 NPV), then Solana at Grand ($6,185,000 NPV).) At Year 30, Solana at Grand would yeild the highest net proceeds ($8,777,000 NPV), followed by Alcove/Haven 76/Rowan ($8,272,000 NPV), then Latitude33 ($6,909,000).

The City will not be able to count these Middle Income Housing units towards the City's RHNA obligations. California Assembly Bill 787 ("AB 787") was designed to authorize planning agencies to take credit for up to 25% of a City's moderate-income RHNA obligation based on the number of units in an existing multifamily building that are converted to 55-year deed-restricted rental housing for moderate-income households. AB787 only applies to converted units that meet specified requirements, including that the rent for the unit prior to conversion was not affordable to very low, low-, or moderate-income households and the initial post-conversion rent for the unit is at least 10% less than the average monthly rent charged over the 12 months prior to conversion. Planning agencies may report conversions that occur on or after January 1, 2022. None of the projects being contemplated in this report meet the requirements to be counted as moderate-income housing units for RHNA purposes.

CMFA

CMFA was created on January 1, 2004, pursuant to a joint exercise of powers agreement to promote economic, cultural and community development, through the financing of economic development and charitable activities throughout California. To date, over 300 municipalities, including the City of Escondido have become members of CMFA. In order for the CMFA Special Finance Agency ("Agency") to have the authority to serve as the issuer of the bonds for the project, the City must become a member of the Agency. There are no costs associated with membership in the Agency and the City will not become exposed to any financial risk or liability through its membership in the Agency. Participation by the City in the Agency will not impact the City's appropriations limits and will not constitute any type of indebtedness by the City. The Agency issues government bonds to acquire market-rate apartment buildings which would then be converted to income and rent-restricted units for moderate/middle income households. CMFA has closed on middle income bond projects with different partners.

HomeFed Proposal: Solana at Grand

With HomeFed, CMFA proposes purchasing the 519-unit Solana at Grand project, which was built in 1985 and recently rehabilitated (the current owners invested approximately $14.2 million dollars in the complex). CMFA would issue approximately $206.0 million in Essential Bonds with no investment of cash equity from CMFA or HomeFed; all debt would be secured by the revenue generated by the properties. The bonds would be used to pay $167.5 million in acquisition costs, $10.4 million for capital expenses, $5.8 million in issuance costs, $5.0 million in subordinate contributions, $7.7 million in debt service reserve, $4.5 million in capitalized interest, $1.8 million initial payment for project administration, $1.5 million in coverage reserve funds, $800,000 in operating reserves, $500,000 in extraordinary expenses, and $500,000 for the operating account. The Project Administrator will receive an upfront fee of $1.8 million and an annual fee of $150,000. A $5.0 million Series B Bond carries an 8.0% annual interest rate and $400,000 in annual interest payments are paid with available cash flow. CMFA will receive an upfront bond issuance fee of $500,000. The City will receive 25% of CMFA's bond issuance fee estimated at $125,000; and an additional $125,000 will be allocated to non-profit organization(s) as directed by the City.

The project Property Conditions Report ("PCR") estimates a need for $2.1 million in improvements over the first 12 years. Using this finding, KMA extrapolated the PCR's estimate for the first 12 years to 35 years. The CMFA/HomeFed proposal includes an initial capital expense line item of $10.4 million with additional funds set aside into a capital reserve fund. The properties' funding for capital reserves appears to be adequate to meet the properties' needs throughout the bond period.

The properties would provide restricted rents for existing and future tenants earning less than 120% AMI (1/3 of the units would be restricted at 80% AMI, 1/3 of the units would be restricted at 100% AMI and 1/3 of the units would be restricted at 120% AMI). According to property records, 360 units are currently leased by households earning up to 80% AMI, 126 units are currently leased by households earning 81%-100% AMI, and 33 units are currently being leased by households earning 101%-120% AMI. Under the proposal, rents charged to existing tenants earning up to 80% AMI would be decreased by 8.7%, and rents charged to households earning between 81%-100% AMI would be decreased by 3.6%, and rents charged to households earning up to 120% AMI would be decreased by 1.4%. The overall average monthly savings for all tenants would be $86. The maximum rental rate to be charged to new tenants as spaces turn over are based on income limits published by the U.S. Department of Housing and Urban Development ("HUD"), and restricted rents for higher income households may exceed the current market-rate rents currently charged at the property. No existing tenants would be displaced under the program; as tenants leave the properties, new tenants will be income qualified and will receive lower rent. The City would monitor the properties to ensure that income/rent levels are met and to ensure physical maintenance of the properties.

Taxing agencies would forego approximately $79.3 million in property tax revenue over the 30-year term. The City's portion of the foregone taxes totals $11.1 million. In exchange for that investment, tenants at the properties would save approximately $96.0 million in rent relative to the projected rents of a market rate project. As a result, the amount by which rent savings exceeds foregone property taxes is approximately $16.7 million (or $1,070 per year per unit), resulting in the greatest public benefit.

Ascenda Proposal: Latitude33

With Ascenda, CMFA proposes purchasing the 198-unit Latitude33 project, which was built in 2012. CMFA would issue approximately $115.4 million in Essential Bonds with no investment of cash equity from CMFA or Ascenda; all debt would be secured by the revenue generated by the properties. The bonds would be used to pay $97.3 million in acquisition costs, $5.0 million in subordinate contribution, $3.3 million in debt service reserve, $2.7 million in cost of issuance, $2.0 million in capital expense fund, $2.0 million initial payment for project administration, $1.5 million in capitalized interest, $700,000 in coverage reserve funds, $500,000 in extraordinary expenses, $300,000 for the operating reserve fund, and $200,00 in an operating fund. The Project Administrator will receive an upfront fee of $2.0 million and an annual fee of $150,000. A $5.0 million Series B Bond carries an 8.0% annual interest rate and $400,000 in annual interest payments are paid with available cash flow. CMFA will receive an upfront bond issuance fee of $340,000 and an annual monitoring fee of $150,000. The City will receive 25% of CMFA's bond issuance fee estimated at $85,000; and an additional $85,000 will be allocated to a non-profit organization(s) as directed by the City.

The project PCR estimates a need for $1.8 million in improvements over the first 12 years. KMA has extrapolated the PCR's estimates for the first 12 years to 35 years. The properties' funding for capital reserves ($2.0 million) plus annual capital reserves contributions appear to be adequate to meet the properties' needs throughout the bond period.

The properties would provide restricted rents for existing and future tenants earning less than 120% AMI (1/3 of the units would be restricted at 80% AMI, 1/3 of the units would be restricted at 100% AMI and 1/3 of the units would be restricted at 120% AMI). Under the proposal, rents charged to existing tenants earning up to 80% AMI would be decreased by 10%, rents charged to households earning between 81%-100% AME would be decreased by 4.0%, and rents charged to households earning up to 120% AMI would not change. The overall average monthly savings for all tenants would be $112. The maximum rental rate to be charged to new tenants as spaces turn over are based on income limits published by HUD, and restricted rents for higher income households may exceed the current market-rate rents currently charged at the properties. No existing tenants would be displaced under the program; as tenants leave the property, new tenants will be income qualified and will receive lower rents. The City would monitor the properties to ensure that income/rent levels are met and to ensure physical maintenance of the properties.

Taxing agencies would forego approximately $46.2 million in property tax revenue over the 30-year term. The City's portion of the foregone taxes totals $6.6 million. In exchange for that investment, tenants at the properties would save approximately $40.9 million in rent relative to the projected rents of a market rate project. Foregone property taxes exceed rent savings by approximately $5.3 million (or $895 per year per unit). Although this is negative, this project offers the second greatest public benefit and rent reductions begin to exceed foregone taxes in year 26.

<u>CSCDA</u>

CSCDA is a JPA founded and sponsored by the League of California Cities ("League") and the California State Association of Counties ("CSAC"). CSCDA was created by the League and CSAC in 1988 to enable local government agencies and eligible private entities access to low-cost, tax-exempt financing for projects that provide a tangible public benefit, contribute to social and economic growth, and improve the overall quality of life in local communities throughout California. CSCDA is comprised of more than 530 cities, counties and special districts, including the City of Escondido, which has been a member since 1997. CSCDA has issued more than $65 billion in bonds through over 1,700 transactions across its diverse public benefit financing programs. CSCDA's Workforce Housing

Program acquires market-rate apartment buildings through issuance of government bonds. These properties are then converted to income- and rent-restricted housing for moderate/middle income households. CSCDA has worked with Waterford to close several middle-income bond projects.

Waterford Proposal: Alcove/Haven76/Rowan

With Waterford, CSCDA proposes purchasing three properties (Alcove, Haven 76, and Rowan) with a combined 314 units built over the last six years. CSCDA would issue approximately $184.2 million in Essential Bonds with no investment of cash equity from CSCDA or Waterford; all debt would be secured by the revenue generated by the properties. The bonds would be used to pay $153.9 million in acquisition costs, $6.4 million in debt service reserve, $5.7 million in issuance costs, $12.3 million in capital expenses, $1.3 million initial payment for project administration, $1.6 million in capitalized administration fees, $600,000 in operating reserves, $800,000 in extraordinary expenses, and $300,000 for the operating account. The Project Administrator will receive an upfront fee of $1.25 million and an annual fee of $200,000. A $4.0 million Series B Bond carries a 10% annual interest rate and $400,000 in annual interest payments are paid with available cash flow. CSCDA will receive an undisclosed upfront bond issuance fee and an annual fee of $200,000. An additional Project Administration fee of $20,000 will be charged to the project.

The project PCR estimates a need for $20.3 million in improvements over 35 years. The properties' funding for capital reserves ($12.3 million) plus annual reserve contributions appears to be adequate to meet the properties' needs throughout the bond period.

The properties would provide restricted rents for existing and future tenants earning less than 120% AMI (1/3 of the units would be restricted at 80% AMI, 1/3 of the units would be restricted at 100% AMI and 1/3 of the units would be restricted at 120% AMI). Under the proposal, rents charged to existing tenants earning up to 80% AMI would be decreased by 22.2%, rents charged to households earning between 81%-100% AMI would be decreased by 5.7%, and rents charged to households earning 120% AMI would be decreased by 1.1%. The overall average monthly savings for all tenants would be $257. The maximum rental rate to be charged to new tenants as spaces turn over are based on income limits published by HUD, and restricted rents for higher income households may exceed the current market-rate rents currently charged at the properties. Annual rent increases would be capped at no more than 4%. No existing tenants would be displaced under the program; as tenants leave the properties, new tenants will be income qualified and will receive lower rents. CSCDA/Waterford projects this will be achieved by Year 3. The City would monitor the properties to ensure that income/rent levels are met and to ensure physical maintenance of the properties.

Taxing agencies would forego approximately $72.5 million in property tax revenue over the 30-year term. The City's portion of the foregone taxes totals $10.2 million. In exchange for that investment, tenants at the properties would save approximately $63.6 million in rent relative to the projected rents of a market rate project. Foregone property taxes exceed rent savings by approximately $8.8 million (or $940 per year per unit) over the 30-year term. Rent reductions begin to exceed foregone property taxes in Year 26.

	Solana at Grand		**Latitude33**		**Alcove/Haven 76/Rowan**	
Number of Units	519 units		198 units		314 units	
Year Built	1986		2012		2019/2016/2020	
	Project	Per Unit	Project	Per Unit	Project	Per Unit
Total Foregone Taxes (Year 1 – Year 30)	$79,318,000	$152,830	$46,224,000	$233,455	$72,493,000	$230,870
Rent Reductions (Year 1 – Year 30)	$95,971,600	$184,915	$40,900,000	$206,565	$63,645,800	$202,695
Amount Rent Reductions exceed/(is less than) foregone taxes	$16,653,600	$32,090	($5,324,000)	$26,890	($8,847,200)	$28,175
Rent Reduction Exceeds Foregone Taxes	Year 6		Year 26		Year 26	
Percent Overall Monthly Savings	3.7% overall		5.1% overall		$9.7% overall	
Sufficient Capital Needs Funding	Adequate		Adequate		Adequate	

Overall, staff believes the Solana at Grand proposal best meets the priorities set by City Council on September 1, 2021. While the project is the oldest property, it has recently received $14.2 million in upgrades, substantially improving the amenities and complex appearance, and upgrading units. The financials on this project are strong. This project has the only positive public benefit analysis – over 30 years, tenant rent reductions will be $16.7 million greater than the uncollected property taxes. Additionally, the project will have the highest sales proceeds in Year 30 (with $6.4 million net revenue (NPV) to the City after the other taxing agencies are made whole). The project has adequate funds, through initial and ongoing capital reserves, to maintain and improve the property throughout the ownership period.

ENVIRONMENTAL STATUS

This action is categorically exempt from the California Environmental Quality Act (“CEQA”) pursuant to CEQA Guidelines sections 15301, 15060(c)(2), and 15060(c)(3), in that all of the facilities being considered with this program are existing residential facilities, and the City’s participation in purchasing the units will not alter or expand the existing use. In addition, because this request is primarily a financial transaction that will not result in a direct or reasonably foreseeable indirect physical change in the environment, it is not considered a “project” pursuant to section 15378(b)(5) of the CEQA Guidelines.

APPROVED AND ACKNOWLEDGED ELECTRONICALLY BY:
Adam Finestone, Interim Director of Community Development
10/21/21 1:25 p.m.
Karen Youel, Housing and Neighborhood Services Manager
10/21/21 1:26 p.m.

ATTACHMENTS:

1. Attachment “1”: KMA Analysis, CSCDA/Waterford Proposal: Alcove/Haven76/Rowan
2. Attachment “2”: KMA Analysis, CMFA/HomeFed Proposal: Solana at Grand
3. Attachment “3”: CMFA/Ascenda Proposal: Latitude33
4. Attachment “4”: Public Benefit Agreement – Escondido Solana at Grand
5. Attachment “5”: Public Benefit Agreement – Escondido Latitude
6. Attachment “6”: Public Benefit Agreement – Rowan Alcove/Haven CSDA
7. Resolution No. 2021-151
8. Resolution No. 2021-152
9. Resolution No. 2021-153

MIDDLE-INCOME HOUSING PROGRAM
Solana at Grand

Prepared for:

City of Escondido

Prepared by:

Keyser Marston Associates, Inc.

October 2021

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APPENDIX

I. INTRODUCTION

A. Objective

Solana at Grand

The City of Escondido (City) requested that Keyser Marston Associates, Inc. (KMA) evaluate the Middle-Income Housing Program (MIH Program) transaction (Proposed Transaction) proposed by the California Municipal Financing Authority (CMFA) and HomeFed Corporation (HomeFed). The Proposed Transaction would allow the CMFA Special Financing Agency, an affiliate joint powers authority of CMFA to acquire the Solana at Grand apartment complex (Property) for the purpose of converting the market-rate multi-family rental units to moderate/middle-income housing. HomeFed will serve as the Project Administrator for the Proposed Transaction. For the purposes of this report, CMFA and HomeFed are referred to collectively as the "Investors".

This report presents a general overview of the MIH Program, the Proposed Transaction, the probable costs and benefits to the City as a result of the Proposed Transaction, the financial feasibility of the Investors' proposal, compensation to the Investors, and a review of the Investors' proposed program parameters.

B. Property Description

As summarized below, the Property consist of 519 units built 15 years ago. The Property includes a total of 409,188 square feet (SF) of building area on a total of 21.67 acres. The Property features a mix of studio, one-, and two-bedroom units. (See also Appendix Table 1.)

Property Description	
	Solana at Grand
Address	1501 East Grand Avenue
Year Built	1986
Site Area	21.67 Acres
Gross Building Area	409,188 SF

Property Description	
	Solana at Grand
Average Unit Size	778 SF
Number of Stories	4 Stories
Number of Units	
Studio	78 Units
One Bedroom	170 Units
Two Bedroom	271 Units
Total	519 Units
Density	24.0 Units/Acre

C. Methodology

KMA performed the following key work tasks in completing this report.

- Reviewed financial pro forma information provided by the Investors, including estimates of sources and uses of funds, the purchase price of the Property, proposed reduction in rental rates, anticipated operating projections, and anticipated reversion value to the City upon conveyance. The Investors also provided a recent property tax assessment, appraisal, and property condition report for the Property.

- Submitted multiple data requests to the Investors and reviewed additional responses, documents, and updated financial information provided by the Investors.

- Reviewed trade area apartment market information from CoStar Group and other industry data sources.

- Reviewed San Diego County Controller data on ad valorem property taxes and property tax assessments that apply to the Property.

- Prepared independent financial pro forma models estimating financial returns to the City.

D. Report Organization

This report has been organized as follows:

- Following this Introduction, Section II presents the KMA key findings and recommendations.

- Section III presents an overview of the MIH Program.
- The Proposed Transaction is described in Section IV.
- Section V discusses the potential impacts of the Proposed Transaction to the City.
- Section VI reviews the Investors' compensation.
- Section VII evaluates the Investors' affordable housing proposal.
- Projections of foregone property tax revenue are presented in Section VIII.
- Section IX presents the financial feasibility analysis of the Investors' proposal.
- Finally, Section X details limiting conditions pertaining to this assignment.
- Our detailed technical analyses are presented in the Appendix.

II. KEY FINDINGS AND RECOMMENDATIONS

A. Key Findings

Affordable Housing Proposal

1. The proposed MIH Program for the Property would provide restricted rents for existing and future tenants earning less than 120% of Area Median Income (AMI).

2. Under the Investors' proposal, in-place rents currently charged to existing tenants would be decreased by an average of 3.7%, with an average monthly savings of $86.

3. The maximum rental rates to be charged to new tenants as spaces turn over are based on income limits published by the United States Department of Housing and Urban Development (HUD). These rent ceilings exceed the current in-place rents charged at the Property.

4. The proposed MIH Program relies on natural turnover to income-qualify tenants. The Investors' cash flow model illustrates that this will be achieved by Year 4.

5. The City will not be able to count these MIH units towards its Regional Housing Needs Assessment (RHNA) obligation.

Financial Feasibility

1. Over a 30-year period, it is estimated that the City and other taxing entities would forego a total of $79.3 million (M) -- or $40.4 M in 2021 dollars of -- ad valorem property tax revenues and property tax assessments, assuming a discount rate of 4.5% to reflect public agency cost of funds over the long term.

2. The projected performance of the Property is dependent on numerous factors. Small deviations from projected rent increases, interest income, and operating expenses could have significant impacts on the Property's ability to pay down the outstanding bond principal and yield sales revenue to reimburse the City for foregone property tax revenue.

3. The Property's funding for capital reserves appears adequate to meet the Property's needs over a 35-year time horizon.

4. Using the Investors' cash flow projections, KMA estimates that the sale of the Project at the end of the 30-year term could potentially yield significant proceeds to the City, currently estimated at $153.2 M (future value). However, the size of the net sales proceeds is very sensitive to the

operations of the Project, future market conditions, and other factors over which the City has no control. If this future value is discounted at a 10% rate to reflect real estate performance risk and the time value of money, KMA estimates a net present value in Year 0 of $8.8 M.

5. The proposed financing for the Property does not require an investment of cash equity and all debt is secured solely by the revenue generated by the Property. The structure of the transaction provides significant upfront compensation to the Investors. In contrast, the potential financial returns to the bond holders, the City, and other taxing agencies are entirely at risk and subject to the financial performance of the Property.

6. The City will receive 25% of CMFA's issuance fee, currently estimated at $125,000. An additional $125,000 will also be allocated to non-profit organization(s) as directed by the City.

7. The City will receive an annual host fee of $154,500, escalating at 2.0% per year. Cumulative host fee payments to the City are estimated to total $6.2 M (future value) over a 30-year period.

8. Over a 30-year projection period, total revenues received by the City from 25% of the CMFA issuance fee, the annual host fee, and net sales proceeds are estimated to exceed foregone property taxes to the City by $148.4 M (future value). If these future value estimates of foregone property taxes vs. revenues to the City are discounted to reflect real estate performance risk and the time value of money, KMA estimates the net present value of net revenues to the City in Year 0 at $6.4 M.

B. Recommendations

Given these considerations, if the City elects to participate in the proposed MIH Program for the Property, KMA recommends the following:

1. The Property Condition Report address the Property's needs for a 35-year term and the financing plan for the Property provide sufficient funding to cover these anticipated needs.

2. Any refinancing of the Property's debt be subject to the City's approval.

3. The Property be required to submit proposed rent increases to the City for approval to ensure that the affordability restrictions are enforced.

4. The bond underwriting assumptions be reviewed by an underwriter retained by the City and the City's Financial/Municipal Advisor.

5. The City should have oversight or monitoring rights with respect to property maintenance, building repairs, and ongoing capital upgrades.

III. OVERVIEW OF MIDDLE-INCOME HOUSING PROGRAM

In recent years, a number of financial entities have been submitting proposals to local jurisdictions to use tax-exempt bonds coupled with a property tax-exemption to secure rental housing for households earning up to 120% AMI. These programs are generally referred to as Middle-Income Housing Programs (MIH Programs). It is important to understand that the MIH Program terms vary from jurisdiction-to-jurisdiction based on negotiations between the parties.

This section presents an overview of the MIH Program. The purpose of the MIH Program is to acquire existing market-rate apartment projects and then restrict the units to households earning 120% AMI or less. To accomplish this, the MIH Program is typically structured as follows:

1. No cash financial assistance is required to be provided by the participating local jurisdiction.

2. The units in the project must all be rented at an affordable housing cost to households earning less than 120% AMI. The mix of income restrictions to be applied to the project are the subject of negotiations between the investors and the local jurisdiction.

3. All MIH Program transactions are financed through the use of tax-exempt government bonds. These tax-exempt bonds are referred to as Essential Housing Revenue Bonds (Essential Bonds):

   (a) The Essential Bonds must be issued through a Joint Powers Authority (JPA) of which the local jurisdiction is a member.

   (b) The participating local jurisdiction has no liability or financial obligation for the Essential Bonds.

4. The Essential Bonds are typically issued for a 30- to 35-year term, but the local jurisdiction has the right to require the investor(s) to sell the project (or the local jurisdiction can purchase the project) at any point between Year 15 and the end of the bond term:

   (a) If the local jurisdiction exercises the option, a minimum sales price is agreed upon between the parties.

   (b) The investor(s) will then be required to make best faith efforts to sell the project. If a sale at or above the minimum sales price cannot be achieved, then the investor(s) will not be required to sell the project.

   (c) To the extent that the project is sold, and the sales proceeds exceed the minimum sales price, the remaining sales proceeds will be provided to the participating local jurisdiction and/or other taxing agencies.

5. The use of Essential Bonds entitles 100% of the units in the project to be exempt from property taxes (aside from direct assessments).

6. The Essential Bonds are typically underwritten at a 100%-110% debt service coverage (DSC) ratio. In other words, the debt service payments are equal to approximately 100% of the project's estimated Net Operating Income (NOI):

   (a) During the first several years, the debt service is comprised of interest-only debt service payments.

   (b) The debt service payments escalate as the NOI increases.

   (c) The use of a 100% DSC ratio and interest only payments in the early years implicitly requires rents to continually increase in order for the project to support principal payments in future years. While the bond issuance includes capitalized interest and debt service reserves to be drawn upon in cases of cash flow shortfall, the premise of the financial structure assumes that rents must increase each year.

7. The investor(s), or a party related to the investor(s), acts as the program administrator of the MIH Program. In that role, the program administrator is entitled to fees that are defined in the agreements between the local jurisdiction and the investor(s).

8. The investor(s) typically target Class A market-rate apartment projects for the MIH Program. These types of projects are typically generating significant property tax revenue to the local jurisdiction and the other taxing agencies.

IV. PROPOSED TRANSACTION

The Investors propose to acquire the Property for the purpose of converting the market-rate units to moderate/middle-income housing. The Investors plan to achieve this through the following actions:

- The City will enter into a Public Benefit Agreement (Agreement) with the JPA. The Agreement defines the terms under which the City can acquire the Property after Year 15.

- The Investors anticipate that the JPA will issue approximately $206.0 M in Essential Bonds for the Proposed Transaction, consisting of both Series A and Series B bonds. The proposed sources and uses of funds for acquisition of the Property are presented below. The financing plan proposed for the Property does not require an investment of cash equity from the Investors; all debt is secured solely by the revenue generated by the Property.

Proposed Sources and Uses		
	Total	**Per Unit**
Sources		
Principal	$197.9 M	$381,000
Original Issuance Premium	$8.1 M	$16,000
Gross Bond(s) Amount	**$206.0 M**	**$397,000**
Uses		
Project Acquisition Account	$167.5 M	$323,000
Capital Expense Fund	$10.4 M	$20,000
Senior Debt Service Reserve	$7.7 M	$15,000
Cost of Issuance	$5.8 M	$11,000
Series B Bond	$5.0 M	$10,000
Capitalized Interest	$4.5 M	$9,000
Initial Payment to Project Administration	$1.8 M	$3,000
Coverage Reserve Fund	$1.5 M	$3,000
Operating Reserve	$0.8 M	$1,000
Extraordinary Expense Fund	$0.5 M	$1,000
Operating Fund	$0.5 M	$1,000
Additional Proceeds	$0.0 M	$3
Total Uses (Rounded)	**$206.0 M**	**$397,000**

- The Investors' estimated acquisition cost of $167.5 M includes a purchase price of $166.5 M and related closing costs. The purchase price is evidenced by a Letter of Intent between Eagle Rose

Owner, LLC (Seller) and HomeFed Corporation executed on June 10, 2021. The purchase price reflects an average of $321,000 per unit, or $407 per SF of building area. The Investors also provided an appraisal for the Property, prepared by Newmark Knight Frank on August 24, 2021. The appraisal determined the total market value for the Property to be $166.5 M, the same amount as the Purchase Price.

- Partner Engineering and Science, Inc. prepared a Property Conditions Report (PCR) for the Property on August 24, 2021. The PCR identified the immediate need for carbon monoxide alarms for each unit, at a total estimated cost of $18,165. Over the next 12 years, rehabilitation costs for the Property were estimated to total $2.1 M for site improvements, replacement and modernization of mechanical and electrical systems, and the replacement of interior elements such as carpet, vinyl, and kitchen appliances. The Investors' Proposed Transaction includes an initial Capital Expense item of $10.4 M, or $20,000 per unit and annual capital reserve deposits of $300 per unit escalating at 3.0% per year for Years 1-15 and $1,000 per unit for Years 16-35 (no escalation). These funds can be applied toward the repair/rehabilitation needs identified in the PCR.

Rehabilitation Costs (1)	
	Solana at Grand
Date of PCR	August 24, 2021
Immediate Repairs Long-Term (1 – 12 Years)(1)	$18,165 $2.1 M
Total	$2.1 M
(1) Reflects estimated costs in 2021 dollars. Source: Partner Engineering and Science, Inc. Property Condition Report, August 24, 2021.	

- The anticipated term of the Essential Bonds is up to 35 years. The Investors' financial model illustrates that the Series A Bond will be fully paid off in Year 34.

- Based on review of the Agreement, it is the KMA understanding that the Investors may refinance the Property at a future date without approval of the City. This provision could potentially impact the amount of outstanding indebtedness on the Property at the time of sale or reversion to the City.

- Once acquired by the Investors, the Property would be exempt from paying all property taxes (aside from direct assessments).

- The Investors will then restrict the rents to households earning up to 80% AMI to 120% AMI, as shown below:

Proposed Affordability Mix	
	Solana at Grand
Units @ Maximum 80% AMI	173 Units
Units @ Maximum 100% AMI	173 Units
Units @ Maximum 120% AMI	173 Units
Total	519 Units
Average Affordability	100% AMI

- It is important to note that no existing tenants at the Property will be displaced during the process. The MIH Program relies on natural turnover of units to replace market-rate units with income-restricted units. The Investors' financial model projects that this will be achieved by Year 4.

- At any point between Year 15 and the end of the bond term, the City has the right to require the Investors to sell the Property. If the City exercises this option, a minimum sales price is agreed upon between the parties. The Investors are then required to make best faith efforts to sell the Property. If the Property is sold, and the sales proceeds exceed the minimum sales price, the remaining sales proceeds will be provided to the City and/or the other taxing agencies.

V. POTENTIAL IMPACTS OF PROPOSED TRANSACTION

This section presents an overview of the potential benefits and risks associated with the City's participation in the Proposed Transaction.

A. Potential Benefits of City Participation in Proposed Transaction

The potential benefits to the City as a result of participation in the proposed MIH Program for the Property include the following factors:

- The JPA is the entity that will issue the Essential Bonds. As such, there will be no direct financial risk to the City if the Essential Bonds are not repaid.
- The City can obtain income-restricted units for at least 15 years and may be able to extend the affordability covenants beyond the initial term of the MIH Program.
- The sale of the Property may generate excess sales proceeds that the City and/or taxing agencies can use at their own discretion, detailed in Section IX.B.
- The proposed structure targets households earning up to 80% AMI to 120% AMI, an income band that is typically not served by other affordable housing programs, which target incomes of 80% AMI and below. The current in-place rents are lower than these income levels for the Proposed Transaction.

B. Potential Issues Related to City Participation in Proposed Transaction

The following are issues related to the proposed financial structure, level and type of affordability, and loss of property tax revenue for the City to consider with respect to the proposed MIH Program for the Property.

Financial Structure

- The proposed MIH Program for the Property is based on very aggressive underwriting assumptions, including unrated bonds, and no equity investment provided by the Investors.
- The proposed MIH Program caps annual rent increases for affordable households at no more than 4.0% per year. However, the City's financial benefits are predicated on a future sale of the Property that fully repays any outstanding debt. As such, variations in rent growth or operating expense will have an impact on the potential sales proceeds in Years 15 to 35.

- Regardless of the legal structure intended to isolate the City from the Property ownership and operations, the City will be the most public-facing entity of the transaction.

- The projected performance of the Property is dependent on numerous factors. Small deviations from projected rent increases, interest income, and operating expenses could have significant impacts on the Property's ability to pay down the outstanding bond principal, reimburse the City and/or other taxing agencies for foregone property tax revenues, and/or generate surplus sales proceeds for the City.

- The City will not have any oversight or monitoring rights with respect to property maintenance, building repairs, and ongoing capital upgrades. If the Property reverts to the City at the end of the bond term, the City may inherit deferred maintenance liabilities beyond its control.

- If the City participates in multiple MIH Program transactions, this could have the effect of inflating the local real estate market, as sellers may seek higher market-rate offers that are made possible by a prospective property tax-exemption.

- The Investors collect fees, which are not tied to the Investors' performance or development risk, discussed in Section VI.

Level and Type of Affordability

- The issuance of Essential Bonds through the JPA is a form of acquisition financing. As such, the MIH Program nominally repurposes existing rental housing rather than producing new units.

- The Investors' proposed affordable rent limits are not aligned with the City's affordability standards. Moreover, current in-place rents are lower than the proposed maximum rent restrictions. See detailed discussion in Section VII.

- The affordability restrictions terminate when the Essential Bonds are fully repaid (typically between 30 to 35 years), unless a sale is completed earlier. In contrast, most typical affordable housing projects use tax-exempt bond financing and/or Low Income Housing Tax Credits and therefore have a 55-year affordability covenant.

- For typical affordable housing units, the goal is to keep rents as low as possible with annual increases tracking to increases in household income levels. The structure of the Proposed Transaction is predicated on rents increasing each year – where higher increases in rents are marketed as more beneficial to the City. This notion appears to go against typical affordable housing policies.

- There are no enforcement mechanisms for the City to utilize if the Investors do not comply with income qualification of tenants on an annual basis.

- It is the KMA understanding that the City cannot count these MIH units towards its Regional Housing Needs Assessment (RHNA) obligation.

Foregone Property Tax Revenue

- The proposed MIH Program's structure requires that the Property become exempt from property taxes while the Essential Bonds are outstanding. As such, both the City as well as other taxing entities would receive no property tax revenue from the Property during this period. Refer to Section VIII below for detailed calculations.

- The sale of the Property towards the end of the Series A Bond term could potentially reimburse the other taxing entities for their foregone tax revenues and yield significant net proceeds to the City. Using the Investors' October 11, 2021 cash flow projection, KMA prepared a preliminary calculation of a sale at Year 30 and distribution of sales proceeds. As shown in the table below, the City could receive approximately $153.2 M (Year 30 dollars) in net sales proceeds if the Property is sold at fair market value and all other taxing agencies are reimbursed for foregone property taxes. However, the size of the net sales proceeds to the City is very sensitive to the operations of the Project, future market conditions, and other factors over which the City has no control. For example, the Investors' projections rely on the assumption that the Property's NOI and corresponding value will continue to increase. This continued increase is dependent on assumed performance parameters in the Investors' cash flow model such as rent increases (projected at 3.0% annually) and operating expenses (estimated at 32% of Effective Gross Income [EGI]) that are outside of the City's control.

Projected Revenue to City – Year 30	
Exit Net Operating Income (NOI) (1)	$16.7 M
Add: Host Fee No Longer Applicable	$0.3 M
(Less) Adjusted Property Tax Payment (2)	($3.2) M
Adjusted NOI	$13.8 M
Projected Sale Proceeds @ 5.0% Capitalization Rate (3)	**$276.1 M**
Add: Senior Debt Service Reserve – Returned (1)	$7.7 M
(Less) Series A Bonds Remaining (1)	($55.6) M
(Less) Series B Bonds Remaining (1)	($6.8) M
Net Sales Proceeds	**$221.4 M**
(Less) Reimbursement of Property Tax/Assessments to other Taxing Entities (4)	($68.2) M
Net Sales Proceeds to City at Year 30	**$153.1 M**

(1) Investors' estimate.
(2) KMA estimate; reflects 1.156% tax rate.
(3) Per Investors; reflects high (conservative) capitalization rate.
(4) KMA estimate.

VI. COMPENSATION TO INVESTORS

A. Payments to the Investors

As noted above, the Property's financing does not require an investment of cash equity and all debt is secured solely by the revenue generated by the Property. However, the Investors collect high fees, which are not tied to the Investors' performance or development risk. These fees are summarized as follows:

- An upfront fee of $1.8 M to the Project Administrator.
- An annual Project Administrator Fee of $150,000.
- An upfront issuance fee of $500,000 ($250,000 net to CMFA after $125,000 distributed to the City; and an additional $125,000 allocated to non-profit(s) directed by the City).
- A $5.0 M fee payable through a Series B Bond. The Series B Bond carries an 8.0% annual interest rate, and the $400,000 in annual interest payments are paid with available cash flow. This annual interest payment to the Investors acts similarly to a preferred equity return. The Investors' projections illustrate that the Series B Bond will be fully paid in Year 29 after the Series A Bond is repaid in full, unless a sale occurs sooner.

B. Funds for Capital Improvements

To date, the current owners of the Property have invested $14.2 M toward interior and exterior renovations. As indicated above, the Proposed Transaction includes upfront funding for capital improvements limited to the $10.4 M Capital Expense funded with bond proceeds. In addition, the Investors are proposing to set aside annual reserve contributions of $300 per unit, escalating at 3.0% per year during Years 1 to 15 and $1,000 per unit for Years 16 to 35 (no escalation).

The Property Conditions Report (PCR) estimated a need for $2.1 M of improvements over the first 12 years. Using this finding, KMA extrapolated the PCR's estimate for the first 12 years to 35 years. Extrapolating the PCR's estimate to 35 years appears to indicate that the Property will have adequate capital reserves to fund future capital improvements that would be needed as the Property ages.

VII. AFFORDABLE HOUSING PROPOSAL

Pursuant to the Proposed Transaction, a regulatory agreement would be recorded against the Property that would restrict the occupancy and monthly rents to households earning no more than 120% AMI. Annual rent increases for income-qualified tenants would be limited to no more than the increase in the AMI or 4.0%, whichever is less. The income and rent restrictions would be in place for the term of the bonds.

Maximum Allowable Rents

The Investors' proposed methodology for calculating affordable rents relies on the income limits published annually by HUD and utilized by the California Tax Credit Allocation Committee (TCAC). The Investors have assumed an income allocation to housing factor of 30% and no utility allowance for the tenants.

It is important to note that the current in-place rents are lower than the Investors' proposed rent restrictions. In other words, current rents at the Property already qualify as affordable rents under the Investors' proposed maximum rent restrictions.

	Studio	One Bedroom	Two Bedroom
I. Maximum Rents – Per Investors' Proposal			
80% of AMI	$1,698	$1,940	$2,182
100% of AMI	$2,123	$2,425	$2,728
120% of AMI	$2,547	$2,910	$3,273
Average	$2,123	$2,425	$2,728
II. In-Place Rents – Per Investors' Proposal			
In-Place Market Rents	$1,390	$1,593	$1,861

(1) Based on HUD income limits and an income allocation to housing factor of 35%.
Assumes no utility allowance for tenants.

Pro Forma Rents

While all units in the Property will be subject to the income and rent limits noted above, the Investors are proposing to further adjust current in-place rental rates for all income eligible households as follows:

- The rental rates charged to households with incomes that do not exceed 80% AMI would be reduced by an average of 8.7%.

- The rental rates charged to households with incomes that do not exceed 100% AMI would be reduced by an average of 3.6%.

- The rental rates charged to households with incomes that do not exceed 120% AMI would increase from in-place rent levels to current asking market rents at the Property, resulting in an average increase of 1.4%.

As shown below, with the rent adjustments, the rents for existing income-eligible tenants would average $1,330 for studios, $1,530 for one-bedroom units, and $1,799 for two-bedroom units, for an average rent of $1,640 across all units. As such, while the proposed rents for existing income-eligible tenants below 100% AMI will be reduced, under standard practices, the Investors would be permitted to charge new tenants the maximum affordability levels permitted at the lesser of the increase in the AMI or 4.0%.

	In-Place Market Rents	Discount	In-Place Market Rent after Discount
I. Studio			
80% of AMI	$1,390	9.4%	$1,260
100% of AMI	$1,390	4.3%	$1,330
120% of AMI	$1,390	+0.7%	$1,400
II. One Bedroom			
80% of AMI	$1,593	9.0%	$1,449
100% of AMI	$1,593	4.0%	$1,530
120% of AMI	$1,593	+1.1%	$1,610
III. Two Bedroom			
80% of AMI	$1,861	8.4%	$1,704
100% of AMI	$1,861	3.3%	$1,799
120% of AMI	$1,861	+1.7%	$1,893
IV. All Units			
Average	$1,702	3.7%	$1,640

VIII. FOREGONE PROPERTY TAX REVENUE

The Investors have assumed a purchase price of purchase price of $166.5 M. The purchase price is evidenced by a Letter of Intent between Eagle Rose Owner, LLC (Seller) and HomeFed Corporation executed on June 10, 2021.

KMA has assumed that absent the Proposed Transaction, the Property would sell to another buyer at market value for continued operation as market-rate apartments without affordability covenants or property tax exemption. Therefore, KMA has used this proposed purchase price as the estimated assessed value of the Property in order to calculate the annual lost property tax as a result of the Proposed Transaction. Future foregone property taxes were calculated using each taxing entity's share of the 1.0% property tax plus voter approved bonds and taxes (i.e., Unified School, Community College, Metro Water District), as summarized below. The KMA calculations do not consider additional foregone tax revenues in the form of property tax in-lieu of Vehicle License Fees (VLF). (See Appendix Tables 2 and 3 for detailed calculations.)

Foregone Annual Property Tax Revenue, 2021 Dollars		
I. General Levy (1.0% of Assessed Value) – Annual Tax Revenue		
A. City	**$233,000**	**14.0%**
B. Schools/Education		
General Elementary Escondido Union	$458,000	27.5%
High Escondido Union	$348,000	20.9%
Palomar Community College	$104,000	6.3%
All Other Education	$28,000	1.7%
Total Schools/Education	**$938,000**	**56.3%**
C. Remaining Taxing Agencies	**$495,000**	**29.7%**
D. Total General Levy – Annual Tax Revenue	**$1,666,000**	**100.0%**
II. Voter Approved Bonds and Taxes – Annual Revenue		
A. City	$34,000	0.02065%
B. School	$147,000	0.08834%
C. Other	$69,000	0.04150%
D. Total Voter Approved Bonds and Taxes – Annual Revenue	**$250,000**	**0.15049%**
III. Total Foregone Annual Property Tax Revenue (Rounded)	**$1,916,000**	

As shown, potential lost property tax on an annual basis for the City, school districts/education, and other taxing agencies totals approximately $1.9 M, and is broken out as described below:

- The City, including voter approved bonds and taxes, is estimated to lose approximately $267,000 in annual property tax revenue.

- School districts/education are estimated to lose approximately $1,085,000 in annual property tax revenue. It is KMA's understanding that school districts that are affected by the proposed MIHP CMFA program receive additional revenue from the state to off-set any loss of property tax revenues.

School Districts/Education	
General Elementary Escondido Union	$458,000
High Escondido Union	$348,000
Voter Approved School Bonds and Taxes *	$147,000
Palomar Community College	$104,000
All Other Education	$28,000
Total School Districts/Education	**$1,085,000**

*Reflects voter approved bonds and taxes

- The remaining taxing agencies, including County General, Palomar Health, and the Regional Occupational Centers, are estimated to lose $564,000 annually.

As noted previously, it is assumed that the Property may be sold beginning in Year 15 through the end of the bond term. As such, KMA has illustrated the probable future loss of property tax revenue for the periods from Years 1 through 15 and Years 1 through 30, respectively, as presented below.

Future Foregone Property Tax Revenue				
	YEARS 0-15		YEARS 0-30	
	Future Value	Net Present Value in Year 0 (1)	Future Value	Net Present Value in Year 0 (1)
City of Escondido	$4.7 M	$3.3 M	$11.1 M	$5.6 M
School Districts/Education (2)	$19.1 M	$13.5 M	$44.9 M	$22.9 M
Remaining Taxing Agencies	$9.9 M	$7.0 M	$23.3 M	$11.9 M
Total Property Tax Revenue	**$33.8 M**	**$23.8 M**	**$79.3 M**	**$40.4 M**

(1) Assumes a discount rate of 4.5%.
(2) School districts may receive additional revenue from the State to offset any loss of property tax revenues.

IX. FINANCIAL FEASIBILITY OF INVESTORS' PROPOSAL

A. Comparison of Foregone Property Tax to Rent Savings Created by MIH Program

KMA compared the magnitude of foregone property tax revenues to the cumulative value of the rent savings achieved. In summary, the taxing agencies would forego approximately $79.3 M in property tax revenue over a 30-year time horizon. The City's portion of foregone tax revenue totals $11.1 M over this period. In exchange for that public investment, tenants at the Property would save approximately $96.0 M in rent relative to the KMA estimates of achievable rents had the Property continued to operate as a market-rate project. The KMA estimates are based on market rent figures obtained from CoStar Group and assumed to be phased in over a five-year period. As a result, the amount by which rent savings exceed foregone property tax revenues is approximately $16.7 M. (See Appendix Table 4 for detailed calculations.)

Rent Savings Created by MIH Program Compared to Foregone Property Tax	
	Years 0 – 30 Cumulative
Rent Savings	
Rental Income Assuming 100% Market-Rate (1)	$582.2 M
Rental Income with MIH Program Rent Restrictions (2)	$486.3 M
Rent Savings Due to MIH Program	$96.0 M
Foregone Property Tax Payments	$79.3 M
Amount by which Rent Savings Exceeds Foregone Property Tax	$16.7 M

(1) Based on CoStar Group estimate of market rents. Assumes five-year phase-in of in-place rents to market-rents.
(2) Reflects Investors' pro forma rents, i.e., in-place discounted rents subject to the Investors' proposed maximum rent restrictions.

B. Potential Sales Proceeds Available to the City

KMA estimated the net sales proceeds that could potentially be available to the City upon a sale at the end of a 30-year term based on the cash flow projections prepared by the Investors. As shown below, KMA estimates that the Property could potentially support a sales price of approximately $276.1 M, assuming a conservative market capitalization rate of 5.0%. Moreover, it is assumed that capital improvements would not be needed to ready the Property for sale. (See Appendix Tables 5 through 7.)

The Investors project that there will be $62.4 M in outstanding debt on the Series A and Series B bonds at the end of Year 30. The Investors also project that the Senior Debt Service Reserve balance of $7.7 M would be available for distribution to the City. Based on these additional assumptions, the net sales proceeds at Year 30 are estimated to total $221.4 M.

Under the MIH Program, reimbursing any of the other taxing agencies for foregone property tax revenues during the regulatory period is at the discretion of the City. Foregone property taxes for all taxing agencies other than the City are estimated to total $68.2 M. If the City were to reimburse all taxing entities, the net remaining proceeds to the City would total approximately $153.2 M. Under these projections, the City's investment of $11.1 M of property tax revenues could yield a profit of $142.1 M. If the City were to elect to not provide any reimbursement to other taxing agencies, the net proceeds to the City would total $221.4 M. Under this approach, the City's investment of $11.1 M of property tax revenues could yield a profit of $210.3 M. In either case, the sale of the Property could yield a large profit margin to the City.

The City should also consider the future net proceeds on a present value basis. Discounting the $153.2 M in net sales proceeds to the City at Year 30 using a 10% annual discount rate to reflect real estate performance risk and uncertainty yields a present value to the City in Year 0 of approximately $8.8 M.

For illustrative purposes, KMA also modeled a sale at the end of Year 15, using the Investors' cash flow projection. As shown below, it is estimated that sales proceeds would fall short of the amount needed to retire the outstanding balance on the bonds and reimburse the taxing entities, leaving the City with a *negative* $25.8 M in net proceeds (Year 15 dollars).

Potential Net Sales Proceeds at Sale of the Property		
	Year 15	**Year 30**
I. Sales Proceeds		
Exit Net Operating Income (1)	$10.6 M	$16.7 M
Add: Host Fee No Longer Applicable	$0.2 M	$0.3 M
(Less) Adjusted Property Tax Payment @ 1.156% (2)	($2.0) M	($3.2) M
Adjusted Net Operating Income	$8.8 M	$13.8 M
Capitalization Rate (3)	5.0%	5.0%
Project Value	$176.3 M	$276.1 M
Debt Service Reserve – Returned	$7.7 M	$7.7 M
(Less) Bonds Outstanding 2020A (1)	($174.0) M	($55.6) M
(Less) Bonds Outstanding 2020B (1)	($6.8) M	($6.8) M
Net Sales Proceeds	$3.2 M	$221.4 M
Per Unit	$6,000	$427,000
Per SF GBA	$8	$541
II. Potential Reimbursement of Foregone Property Tax Revenues		
Reimbursement of Property Tax to All Other Taxing Entities (at the discretion of the City)	($29.1) M	($68.2) M
III. Net Sales Proceeds to the City – Future Value	**($25.8) M**	**$153.2 M**
Per Unit	**($50,000)**	**$295,000**
Per SF GBA	**($63)**	**$374**
IV. Net Sales Proceeds to the City with Time Value of Money and Risk Factor (discounted at 10%)	**($6.2) M**	**$8.8 M**
Per Unit	**($12,000)**	**$17,000**
Per SF GBA	**($15)**	**$21**

(1) Investors' estimate.
(2) KMA estimate.
(3) Per Investors; reflects high (conservative) capitalization rate.

It is also likely that the City would consider re-selling the Property to a non-profit entity to continue as an affordable housing development. Under this scenario, if the City does not require payment of a purchase price because of the income restrictions on the Property, the Property would not generate any revenues to the City and the taxing entities would not be reimbursed for the foregone property tax revenues that were abated over the 30-year term. Instead, sales proceeds in Year 30, projected at $427,000 per unit or

$541 per SF, would likely be used toward capital improvements needed to keep the Property in good condition.

C. **Total Potential Revenues to City**

KMA also compared the magnitude of the City's share of foregone property tax revenues to total revenues received by the City. In summary, the City would forego approximately $11.1 M in property tax revenues over the 30-year term. In exchange for that investment, the City is projected to receive $125,000 in an upfront fee provided by the Investors, $6.2 M in annual host fees over a 30-year term, and $153.2 M in net sales proceeds in Year 30. As a result, the amount by which revenues to the City exceed foregone tax revenue to the City is estimated at approximately $148.4 M. On a present value basis, discounting the $148.4 M in net revenues to the City at Year 30 yields a present value to the City in Year 0 of approximately $6.4 M. (See Appendix Table 9 for detail.)

Foregone Property Tax to City Compared to Revenues to City	
	Years 1 – 30 Cumulative
Foregone Property Tax Payments to City (1)	$11.1 M
Revenues to City (1)	
Upfront Fee	$125,000
City Host Fee	$6.2 M
Net Sales Proceeds at Year 30	$153.2 M
Total Revenues to City	$159.5 M
Amount by which Revenues to City Exceed City Foregone Property Taxes (1)	$148.4 M
Net Present Value in Year 0 (2)	$6.4 M

(1) Future value.
(2) Assumes a discount rate of 4.5% for foregone property tax payments, upfront fee, and annual host fee; and a 10.0% discount rate for sales proceeds to the City.

X. LIMITING CONDITIONS

1. Value estimates assume that property titles are good and marketable; no title search has been made, nor has KMA attempted to determine property ownership. The value estimates are given without regard to any questions of boundaries, encumbrances, liens, or encroachments.

2. Property tax projections reflect KMA's understanding of the assessment and tax apportionment procedures employed by the County. The County procedures are subject to change as a reflection of policy revisions or legislative mandate. While we believe our estimates to be reasonable, taxable values resulting from actual appraisals may vary from the amounts assumed in the projections.

3. No assurances are provided by KMA as to the certainty of the projected tax revenues shown in this document. Actual revenues may be higher or lower than what has been projected and are subject to valuation changes resulting from new developments or transfers of ownership not specifically identified herein, actual resolution of outstanding appeals, future filing of appeals, or the non-payment of taxes due.

4. KMA is not advising or recommending any action be taken by the City with respect to any prospective, new, or existing municipal financial products or issuance of municipal securities (including with respect to the structure, timing, terms, and other similar matters concerning such financial products or issues).

5. KMA is not acting as a Municipal Advisor to the City and does not assume any fiduciary duty hereunder, including, without limitation, a fiduciary duty to the City pursuant to Section 15B of the Exchange Act with respect to the services provided hereunder and any information and material contained in KMA's work product.

6. The City shall discuss any such information and material contained in KMA's work product with any and all internal and/or external advisors and experts, including its own Municipal Advisors, that it deems appropriate before acting on the information and material.

TABLE 1

PROJECT DESCRIPTION
MIDDLE-INCOME HOUSING PROGRAM - SOLANA AT GRAND
CITY OF ESCONDIDO

I.	**Property Address**	1501 East Grand Avenue					
II.	**Site Area**	21.67	Acres				
III.	**Gross Building Area**						
	Net Rentable	403,967	SF	99%			
	Circulaton/Common Area	5,221	SF	1%			
	Total Building Area	409,188	SF	100%			
IV.	**Number of Stories**	4	Stories				
V.	**Number of Units**	Number of Units				Average Unit Size	
	Studio	78	Units	15%		440	SF
	One Bedroom	170	Units	33%		646	SF
	Two Bedroom	271	Units	52%		959	SF
	Total Units	519	Units	100%		778	SF
VI.	**Density**	24.0	Units/Acre				
VII.	**Proposed Affordability Mix**						
	Units @ 80% of AMI	173	Units	33%			
	Units @ 100% of AMI	173	Units	33%			
	Units @ 120% of AMI	173	Units	33%			
	Total	519	Units	100%			
	Average Affordability	100%	of AMI				
VIII.	**Parking**						
	Carports	714	Spaces				
	Surface	200	Spaces				
	Total Parking	914	Spaces				
	Parking Ratio	1.76	Spaces/Unit				

TABLE 2

FOREGONE TAX REVENUE - FY 2021 DOLLARS
MIDDLE-INCOME HOUSING PROGRAM - SOLANA AT GRAND
CITY OF ESCONDIDO

I. Property Address	1501 E Grand Ave					
II. Year Built	1986					
III. Number of Units	519 Units					
IV. Assessed Value	**Total**	**Per Unit**				
Total (1)	$166,500,000	$321,000				
V. Property Tax Rate @ 1.00%	$1,665,000					
VI. Total Foregone Tax Revenue (2)	**TAX RATE AREA 004224**					
A. Breakout of 1.0% Property Tax (3)	**City**	**Schools**	**Other**	**Total**	**%**	
County General	---	---	$433,000	$433,000	26.01%	
North County Cemetary	---	---	$7,000	$7,000	0.43%	
Gen Elem Escondido Union	---	$458,000	---	$458,000	27.50%	
High Escondido Union	---	$348,000	---	$348,000	20.87%	
Palomar Community College	---	$104,000	---	$104,000	6.27%	
County School Service	---	$12,000	---	$12,000	0.74%	
County School Service - Capital Outlay	---	$3,000	---	$3,000	0.19%	
Childrens Institutions Tuition	---	$3,000	---	$3,000	0.16%	
Regional Occupational Centers	---	---	$8,000	$8,000	0.47%	
Trainable Mentally Retarded Minors High School	---	$4,000	---	$4,000	0.21%	
Physically Handicapped Minors High School Comp	---	$5,000	---	$5,000	0.33%	
Vistas Project	---	---	$300	$300	0.02%	
Autistic Pupils Minors High School Comp	---	$160	---	$160	0.01%	
Development Centers for Handicapped EC56811 High	---	$800	---	$800	0.05%	
Educational Revenue Augmentation Fund	---	$0	---	$0	0.00%	
Escondido City	$233,000	---	---	$233,000	13.99%	
Palomar Health	---	---	$39,000	$39,000	2.32%	
Resource Conservation Dist of Greater San Diego C	---	---	$1,400	$1,400	0.09%	
Ricnon Del Diablo Municipal Water District	---	---	$0	$0	0.00%	
CWA Rincon Del Diablo Muni Water Dist	---	---	$6,000	$6,000	0.36%	
Total (Rounded)	**$233,000**	**$938,000**	**$495,000**	**$1,666,000**	**100.00%**	
B. Voter Approved Bonds and Taxes (1)						
Gen Bond Escondido - Prop K - 2020A Ref	---	$0	---	$0	0.00%	
Hi Bond Escondido - Prop T - Series 2009B	---	$0	---	$0	0.00%	
Gen Bond Escondido - Prop E - 2014A	---	$3,000	---	$3,000	0.18%	
Hi Bond Escondido - Prop T - 2011C	---	$2,000	---	$2,000	0.11%	
Escondido City Public Safety Fac Imp Refunding Bnd	$34,000	---	---	$34,000	2.07%	
Gen Bond Escondido - Prop E - Ser 2014B	---	$16,000	---	$16,000	0.95%	
Palomar Community College - Prop M - 2015 Ref	---	$6,000	---	$6,000	0.39%	
Gen Bond Escondido - Prop K - 2017 Ref	---	$23,000	---	$23,000	1.37%	
Palomar Community College - Prop M - 2006B	---	$4,000	---	$4,000	0.24%	
MWD D/S Remainder of SDCWA	---	---	$6,000	$6,000	0.35%	
Palomar Health 2005A - Debt Service	---	---	$63,000	$63,000	3.80%	
Hi Bond Escondido - Prop T - Series 2009A	---	$52,000	---	$52,000	3.12%	
Palomar Community College - Prop M - 2020 Ref	---	$9,000	---	$9,000	0.55%	
Gen Bond Escondido - Prop E - 2014 C	---	$7,000	---	$7,000	0.41%	
Palomar Community College - Prop M - Ser 2006C	---	$2,000	---	$2,000	0.12%	
Hi Bond Escondido - Prop A - 1996A Ref	---	$0	---	$0	0.00%	
Palomar Community College - Prop M - 2017 Ref	---	$4,000	---	$4,000	0.24%	
Gen Bond Escondido - Prop E - 2021 Ref	---	$12,000	---	$12,000	0.75%	
Palomar Community College - Prop M - 2017D	---	$7,000	---	$7,000	0.41%	
Total Voter Approved Bonds and Taxes (Rounded)	**$34,000**	**$147,000**	**$69,000**	**$250,000**	**15.049%**	
C. Total Foregone Tax Revenue (Rounded)	**$267,000**	**$1,085,000**	**$564,000**	**$1,916,000**		

(1) Source: Per Appraisal, September 2, 2021.
(2) Property will not be exempt from fixed charges, including Mosquito Surveillance, Vector Disease Control, and Water Standby Charges.
(3) Source: County of San Diego Auditor & Controller - Property Tax Services.

TABLE 3

FUTURE FOREGONE TAX REVENUE - YEARS 1-30
MIDDLE-INCOME HOUSING PROGRAM - SOLANA AT GRAND
CITY OF ESCONDIDO

Assumptions	
Assessed Value Escalation @	*2.00%*
Discount Rate	*4.50%*

	1	2	3	4	5	6	7	8	9	10
I. Assessed Value	$169,830,000	$173,227,000	$176,692,000	$180,226,000	$183,831,000	$187,508,000	$191,258,000	$195,083,000	$198,985,000	$202,965,000
II. Breakout of 1.0% Property Tax										
County General	$441,700	$450,500	$459,500	$468,700	$478,100	$487,700	$497,400	$507,400	$517,500	$527,900
North County Cemetary	$7,200	$7,400	$7,500	$7,700	$7,800	$8,000	$8,100	$8,300	$8,500	$8,600
Gen Elem Escondido Union	$467,000	$476,300	$485,800	$495,600	$505,500	$515,600	$525,900	$536,400	$547,100	$558,100
High Escondido Union	$354,500	$361,500	$368,800	$376,200	$383,700	$391,400	$399,200	$407,200	$415,300	$423,600
Palomar Community College	$106,500	$108,600	$110,800	$113,000	$115,200	$117,600	$119,900	$122,300	$124,700	$127,200
County School Service	$12,600	$12,900	$13,100	$13,400	$13,700	$13,900	$14,200	$14,500	$14,800	$15,100
County School Service - Capital Outlay	$3,200	$3,200	$3,300	$3,400	$3,400	$3,500	$3,600	$3,600	$3,700	$3,800
Childrens Institutions Tuition	$2,700	$2,700	$2,800	$2,800	$2,900	$3,000	$3,000	$3,100	$3,100	$3,200
Regional Occupational Centers	$8,000	$8,200	$8,400	$8,500	$8,700	$8,900	$9,100	$9,200	$9,400	$9,600
Trainable Mentally Retarded Minors High School	$3,600	$3,700	$3,800	$3,800	$3,900	$4,000	$4,100	$4,200	$4,200	$4,300
Physically Handicapped Minors High School Comp	$5,600	$5,700	$5,800	$5,900	$6,000	$6,200	$6,300	$6,400	$6,500	$6,700
Vistas Project	$300	$300	$300	$300	$300	$300	$400	$400	$400	$400
Autistic Pupils Minors High School Comp	$200	$200	$200	$200	$200	$200	$200	$200	$200	$200
Development Centers for Handicapped EC56811 High	$800	$800	$800	$900	$900	$900	$900	$900	$900	$1,000
Educational Revenue Augmentation Fund	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Escondido City	$237,500	$242,300	$247,100	$252,100	$257,100	$262,300	$267,500	$272,800	$278,300	$283,900
Palomar Health	$39,400	$40,100	$40,900	$41,800	$42,600	$43,500	$44,300	$45,200	$46,100	$47,000
Resource Conservation Dist of Greater San Diego C	$1,500	$1,500	$1,500	$1,600	$1,600	$1,600	$1,700	$1,700	$1,700	$1,800
Ricnon Del Diablo Municipal Water District	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
CWA Rincon Del Diablo Muni Water Dist	$6,100	$6,200	$6,400	$6,500	$6,600	$6,700	$6,900	$7,000	$7,200	$7,300
Total	**$1,698,400**	**$1,732,100**	**$1,766,800**	**$1,802,400**	**$1,838,200**	**$1,875,300**	**$1,912,700**	**$1,950,800**	**$1,989,600**	**$2,029,700**
III. Voter Approved Bonds and Taxes (1)										
Gen Bond Escondido - Prop K - 2020A Ref	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Hi Bond Escondido - Prop T - Series 2009B	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Gen Bond Escondido - Prop E - 2014A	$3,100	$3,200	$3,200	$3,300	$3,400	$3,400	$3,500	$3,600	$3,600	$3,700
Hi Bond Escondido - Prop T - 2011C	$1,900	$1,900	$1,900	$2,000	$2,000	$2,000	$2,100	$2,100	$2,200	$2,200
Escondido City Public Safety Fac Imp Refunding Bnd	$35,100	$35,800	$36,500	$37,200	$38,000	$38,700	$39,500	$40,300	$41,100	$41,900
Gen Bond Escondido - Prop E - Ser 2014B	$16,000	$16,400	$16,700	$17,000	$17,400	$17,700	$18,100	$18,400	$18,800	$19,200
Palomar Community College - Prop M - 2015 Ref	$6,600	$6,700	$6,800	$7,000	$7,100	$7,300	$7,400	$7,500	$7,700	$7,900
Gen Bond Escondido - Prop K - 2017 Ref	$23,300	$23,700	$24,200	$24,700	$25,200	$25,700	$26,200	$26,700	$27,300	$27,800
Palomar Community College - Prop M - 2006B	$4,100	$4,200	$4,300	$4,400	$4,400	$4,500	$4,600	$4,700	$4,800	$4,900
MWD D/S Remainder of SDCWA	$5,900	$6,100	$6,200	$6,300	$6,400	$6,600	$6,700	$6,800	$7,000	$7,100
Palomar Health 2005A - Debt Service	$64,500	$65,800	$67,100	$68,500	$69,900	$71,300	$72,700	$74,100	$75,600	$77,100
Hi Bond Escondido - Prop T - Series 2009A	$53,100	$54,100	$55,200	$56,300	$57,400	$58,600	$59,700	$60,900	$62,200	$63,400
Palomar Community College - Prop M - 2020 Ref	$9,300	$9,500	$9,700	$9,900	$10,100	$10,300	$10,500	$10,700	$10,900	$11,100
Gen Bond Escondido - Prop E - 2014 C	$7,000	$7,100	$7,200	$7,400	$7,500	$7,700	$7,800	$8,000	$8,200	$8,300
Palomar Community College - Prop M - Ser 2006C	$2,000	$2,000	$2,100	$2,100	$2,200	$2,200	$2,300	$2,300	$2,300	$2,400
Hi Bond Escondido - Prop A - 1996A Ref	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Palomar Community College - Prop M - 2017 Ref	$4,100	$4,100	$4,200	$4,300	$4,400	$4,500	$4,600	$4,700	$4,800	$4,900
Gen Bond Escondido - Prop E - 2021 Ref	$12,700	$13,000	$13,200	$13,500	$13,800	$14,000	$14,300	$14,600	$14,900	$15,200
Palomar Community College - Prop M - 2017D	$6,900	$7,100	$7,200	$7,400	$7,500	$7,700	$7,800	$8,000	$8,100	$8,300
Total	**$255,600**	**$260,700**	**$265,700**	**$271,300**	**$276,700**	**$282,200**	**$287,800**	**$293,400**	**$299,500**	**$305,400**
IV. Total Foregone Tax Revenue (Rounded)	**$1,954,000**	**$1,992,800**	**$2,032,500**	**$2,073,700**	**$2,114,900**	**$2,157,500**	**$2,200,500**	**$2,244,200**	**$2,289,100**	**$2,335,100**
V. Breakout of Foregone Tax Revenue by Entity										
City	$272,600	$278,100	$283,600	$289,300	$295,100	$301,000	$307,000	$313,100	$319,400	$325,800
Schools	$1,106,800	$1,128,600	$1,151,100	$1,174,500	$1,197,800	$1,221,900	$1,246,200	$1,271,000	$1,296,300	$1,322,500
Other	$574,600	$586,100	$597,800	$609,900	$622,000	$634,600	$647,300	$660,100	$673,400	$686,800
Total (Rounded)	**$1,954,000**	**$1,992,800**	**$2,032,500**	**$2,073,700**	**$2,114,900**	**$2,157,500**	**$2,200,500**	**$2,244,200**	**$2,289,100**	**$2,335,100**

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TABLE 3

FUTURE FOREGONE TAX REVENUE - YEARS 1-30
MIDDLE-INCOME HOUSING PROGRAM - SOLANA AT GRAND
CITY OF ESCONDIDO

Assumptions	
Assessed Value Escalation @	*2.00%*
Discount Rate	*4.50%*

	11	12	13	14	15	16	17	18	19	20
I. Assessed Value	$207,024,000	$211,164,000	$215,387,000	$219,695,000	$224,089,000	$228,571,000	$233,142,000	$237,805,000	$242,561,000	$247,412,000
II. Breakout of 1.0% Property Tax										
County General	$538,400	$549,200	$560,200	$571,400	$582,800	$594,500	$606,400	$618,500	$630,900	$643,500
North County Cemetary	$8,800	$9,000	$9,200	$9,400	$9,500	$9,700	$9,900	$10,100	$10,300	$10,500
Gen Elem Escondido Union	$569,200	$580,600	$592,200	$604,100	$616,200	$628,500	$641,100	$653,900	$667,000	$680,300
High Escondido Union	$432,100	$440,700	$449,500	$458,500	$467,700	$477,100	$486,600	$496,300	$506,300	$516,400
Palomar Community College	$129,800	$132,400	$135,000	$137,700	$140,500	$143,300	$146,200	$149,100	$152,100	$155,100
County School Service	$15,400	$15,700	$16,000	$16,300	$16,700	$17,000	$17,300	$17,700	$18,000	$18,400
County School Service - Capital Outlay	$3,900	$3,900	$4,000	$4,100	$4,200	$4,300	$4,400	$4,400	$4,500	$4,600
Childrens Institutions Tuition	$3,300	$3,300	$3,400	$3,500	$3,500	$3,600	$3,700	$3,800	$3,800	$3,900
Regional Occupational Centers	$9,800	$10,000	$10,200	$10,400	$10,600	$10,800	$11,000	$11,300	$11,500	$11,700
Trainable Mentally Retarded Minors High School	$4,400	$4,500	$4,600	$4,700	$4,800	$4,900	$5,000	$5,100	$5,200	$5,300
Physically Handicapped Minors High School Comp	$6,800	$6,900	$7,100	$7,200	$7,400	$7,500	$7,700	$7,800	$8,000	$8,100
Vistas Project	$400	$400	$400	$400	$400	$400	$400	$400	$400	$500
Autistic Pupils Minors High School Comp	$200	$200	$200	$200	$200	$200	$200	$200	$200	$200
Development Centers for Handicapped EC56811 High	$1,000	$1,000	$1,000	$1,000	$1,100	$1,100	$1,100	$1,100	$1,200	$1,200
Educational Revenue Augmentation Fund	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Escondido City	$289,500	$295,300	$301,200	$307,300	$313,400	$319,700	$326,100	$332,600	$339,300	$346,000
Palomar Health	$48,000	$48,900	$49,900	$50,900	$51,900	$53,000	$54,000	$55,100	$56,200	$57,300
Resource Conservation Dist of Greater San Diego C	$1,800	$1,800	$1,900	$1,900	$1,900	$2,000	$2,000	$2,100	$2,100	$2,100
Ricnon Del Diablo Municipal Water District	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
CWA Rincon Del Diablo Muni Water Dist	$7,400	$7,600	$7,700	$7,900	$8,100	$8,200	$8,400	$8,600	$8,700	$8,900
Total	**$2,070,200**	**$2,111,400**	**$2,153,700**	**$2,196,900**	**$2,240,900**	**$2,285,800**	**$2,331,500**	**$2,378,100**	**$2,425,700**	**$2,474,000**
III. Voter Approved Bonds and Taxes (1)										
Gen Bond Escondido - Prop K - 2020A Ref	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Hi Bond Escondido - Prop T - Series 2009B	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Gen Bond Escondido - Prop E - 2014A	$3,800	$3,900	$3,900	$4,000	$4,100	$4,200	$4,300	$4,400	$4,400	$4,500
Hi Bond Escondido - Prop T - 2011C	$2,300	$2,300	$2,300	$2,400	$2,400	$2,500	$2,500	$2,600	$2,600	$2,700
Escondido City Public Safety Fac Imp Refunding Bnd	$42,800	$43,600	$44,500	$45,400	$46,300	$47,200	$48,100	$49,100	$50,100	$51,100
Gen Bond Escondido - Prop E - Ser 2014B	$19,600	$20,000	$20,400	$20,800	$21,200	$21,600	$22,000	$22,500	$22,900	$23,400
Palomar Community College - Prop M - 2015 Ref	$8,000	$8,200	$8,300	$8,500	$8,700	$8,800	$9,000	$9,200	$9,400	$9,600
Gen Bond Escondido - Prop K - 2017 Ref	$28,400	$28,900	$29,500	$30,100	$30,700	$31,300	$31,900	$32,600	$33,200	$33,900
Palomar Community College - Prop M - 2006B	$5,000	$5,100	$5,200	$5,300	$5,400	$5,500	$5,600	$5,800	$5,900	$6,000
MWD D/S Remainder of SDCWA	$7,200	$7,400	$7,500	$7,700	$7,800	$8,000	$8,200	$8,300	$8,500	$8,700
Palomar Health 2005A - Debt Service	$78,700	$80,200	$81,800	$83,500	$85,200	$86,900	$88,600	$90,400	$92,200	$94,000
Hi Bond Escondido - Prop T - Series 2009A	$64,700	$66,000	$67,300	$68,600	$70,000	$71,400	$72,800	$74,300	$75,800	$77,300
Palomar Community College - Prop M - 2020 Ref	$11,400	$11,600	$11,800	$12,100	$12,300	$12,500	$12,800	$13,100	$13,300	$13,600
Gen Bond Escondido - Prop E - 2014 C	$8,500	$8,700	$8,800	$9,000	$9,200	$9,400	$9,600	$9,800	$9,900	$10,100
Palomar Community College - Prop M - Ser 2006C	$2,400	$2,500	$2,500	$2,600	$2,600	$2,700	$2,800	$2,800	$2,900	$2,900
Hi Bond Escondido - Prop A - 1996A Ref	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Palomar Community College - Prop M - 2017 Ref	$4,900	$5,000	$5,100	$5,300	$5,400	$5,500	$5,600	$5,700	$5,800	$5,900
Gen Bond Escondido - Prop E - 2021 Ref	$15,500	$15,800	$16,100	$16,500	$16,800	$17,100	$17,500	$17,800	$18,200	$18,500
Palomar Community College - Prop M - 2017D	$8,500	$8,600	$8,800	$9,000	$9,200	$9,300	$9,500	$9,700	$9,900	$10,100
Total	**$311,700**	**$317,800**	**$323,800**	**$330,800**	**$337,300**	**$343,900**	**$350,800**	**$358,100**	**$365,000**	**$372,300**
IV. Total Foregone Tax Revenue (Rounded)	**$2,381,900**	**$2,429,200**	**$2,477,500**	**$2,527,700**	**$2,578,200**	**$2,629,700**	**$2,682,300**	**$2,736,200**	**$2,790,700**	**$2,846,300**
V. Breakout of Foregone Tax Revenue by Entity										
City	$332,300	$338,900	$345,700	$352,700	$359,700	$366,900	$374,200	$381,700	$389,400	$397,100
Schools	$1,349,100	$1,375,800	$1,403,000	$1,431,500	$1,460,300	$1,489,300	$1,519,200	$1,549,700	$1,580,500	$1,612,000
Other	$700,500	$714,500	$728,800	$743,500	$758,200	$773,500	$788,900	$804,800	$820,800	$837,200
Total (Rounded)	**$2,381,900**	**$2,429,200**	**$2,477,500**	**$2,527,700**	**$2,578,200**	**$2,629,700**	**$2,682,300**	**$2,736,200**	**$2,790,700**	**$2,846,300**

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TABLE 3

FUTURE FOREGONE TAX REVENUE - YEARS 1-30
MIDDLE-INCOME HOUSING PROGRAM - SOLANA AT GRAND
CITY OF ESCONDIDO

Assumptions	
Assessed Value Escalation @	*2.00%*
Discount Rate	*4.50%*

	21	22	23	24	25	26	27	28	29	30
I. Assessed Value	$252,360,000	$257,407,000	$262,555,000	$267,806,000	$273,162,000	$278,625,000	$284,198,000	$289,882,000	$295,680,000	$301,594,000
II. Breakout of 1.0% Property Tax										
County General	$656,300	$669,500	$682,900	$696,500	$710,400	$724,700	$739,100	$753,900	$769,000	$784,400
North County Cemetary	$10,800	$11,000	$11,200	$11,400	$11,600	$11,900	$12,100	$12,300	$12,600	$12,800
Gen Elem Escondido Union	$693,900	$707,800	$721,900	$736,400	$751,100	$766,100	$781,400	$797,100	$813,000	$829,300
High Escondido Union	$526,700	$537,200	$548,000	$558,900	$570,100	$581,500	$593,200	$605,000	$617,100	$629,500
Palomar Community College	$158,200	$161,400	$164,600	$167,900	$171,300	$174,700	$178,200	$181,700	$185,400	$189,100
County School Service	$18,800	$19,100	$19,500	$19,900	$20,300	$20,700	$21,100	$21,500	$22,000	$22,400
County School Service - Capital Outlay	$4,700	$4,800	$4,900	$5,000	$5,100	$5,200	$5,300	$5,400	$5,500	$5,600
Childrens Institutions Tuition	$4,000	$4,100	$4,100	$4,200	$4,300	$4,400	$4,500	$4,600	$4,700	$4,800
Regional Occupational Centers	$12,000	$12,200	$12,400	$12,700	$12,900	$13,200	$13,500	$13,700	$14,000	$14,300
Trainable Mentally Retarded Minors High School	$5,400	$5,500	$5,600	$5,700	$5,800	$5,900	$6,100	$6,200	$6,300	$6,400
Physically Handicapped Minors High School Comp	$8,300	$8,500	$8,600	$8,800	$9,000	$9,200	$9,300	$9,500	$9,700	$9,900
Vistas Project	$500	$500	$500	$500	$500	$500	$500	$500	$500	$600
Autistic Pupils Minors High School Comp	$200	$200	$300	$300	$300	$300	$300	$300	$300	$300
Development Centers for Handicapped EC56811 High	$1,200	$1,200	$1,200	$1,300	$1,300	$1,300	$1,400	$1,400	$1,400	$1,400
Educational Revenue Augmentation Fund	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Escondido City	$353,000	$360,000	$367,200	$374,600	$382,100	$389,700	$397,500	$405,400	$413,500	$421,800
Palomar Health	$58,500	$59,600	$60,800	$62,100	$63,300	$64,600	$65,900	$67,200	$68,500	$69,900
Resource Conservation Dist of Greater San Diego C	$2,200	$2,200	$2,300	$2,300	$2,400	$2,400	$2,500	$2,500	$2,600	$2,600
Ricnon Del Diablo Municipal Water District	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
CWA Rincon Del Diablo Muni Water Dist	$9,100	$9,300	$9,400	$9,600	$9,800	$10,000	$10,200	$10,400	$10,600	$10,900
Total	**$2,523,800**	**$2,574,100**	**$2,625,400**	**$2,678,100**	**$2,731,600**	**$2,786,300**	**$2,842,100**	**$2,898,600**	**$2,956,700**	**$3,016,000**
III. Voter Approved Bonds and Taxes (1)										
Gen Bond Escondido - Prop K - 2020A Ref	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Hi Bond Escondido - Prop T - Series 2009B	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Gen Bond Escondido - Prop E - 2014A	$4,600	$4,700	$4,800	$4,900	$5,000	$5,100	$5,200	$5,300	$5,400	$5,500
Hi Bond Escondido - Prop T - 2011C	$2,800	$2,800	$2,900	$2,900	$3,000	$3,000	$3,100	$3,200	$3,200	$3,300
Escondido City Public Safety Fac Imp Refunding Bnd	$52,100	$53,200	$54,200	$55,300	$56,400	$57,500	$58,700	$59,900	$61,100	$62,300
Gen Bond Escondido - Prop E - Ser 2014B	$23,800	$24,300	$24,800	$25,300	$25,800	$26,300	$26,900	$27,400	$27,900	$28,500
Palomar Community College - Prop M - 2015 Ref	$9,800	$10,000	$10,200	$10,400	$10,600	$10,800	$11,000	$11,200	$11,400	$11,700
Gen Bond Escondido - Prop K - 2017 Ref	$34,600	$35,300	$36,000	$36,700	$37,400	$38,200	$38,900	$39,700	$40,500	$41,300
Palomar Community College - Prop M - 2006B	$6,100	$6,200	$6,400	$6,500	$6,600	$6,700	$6,900	$7,000	$7,200	$7,300
MWD D/S Remainder of SDCWA	$8,800	$9,000	$9,200	$9,400	$9,600	$9,800	$9,900	$10,100	$10,300	$10,600
Palomar Health 2005A - Debt Service	$95,900	$97,800	$99,800	$101,800	$103,800	$105,900	$108,000	$110,200	$112,400	$114,600
Hi Bond Escondido - Prop T - Series 2009A	$78,800	$80,400	$82,000	$83,700	$85,300	$87,000	$88,800	$90,600	$92,400	$94,200
Palomar Community College - Prop M - 2020 Ref	$13,900	$14,100	$14,400	$14,700	$15,000	$15,300	$15,600	$15,900	$16,200	$16,600
Gen Bond Escondido - Prop E - 2014 C	$10,300	$10,600	$10,800	$11,000	$11,200	$11,400	$11,700	$11,900	$12,100	$12,400
Palomar Community College - Prop M - Ser 2006C	$3,000	$3,000	$3,100	$3,200	$3,200	$3,300	$3,400	$3,400	$3,500	$3,600
Hi Bond Escondido - Prop A - 1996A Ref	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Palomar Community College - Prop M - 2017 Ref	$6,000	$6,200	$6,300	$6,400	$6,500	$6,700	$6,800	$6,900	$7,100	$7,200
Gen Bond Escondido - Prop E - 2021 Ref	$18,900	$19,300	$19,700	$20,100	$20,500	$20,900	$21,300	$21,700	$22,100	$22,600
Palomar Community College - Prop M - 2017D	$10,300	$10,500	$10,700	$11,000	$11,200	$11,400	$11,600	$11,900	$12,100	$12,300
Total	**$379,700**	**$387,400**	**$395,300**	**$403,300**	**$411,100**	**$419,300**	**$427,800**	**$436,300**	**$444,900**	**$454,000**
IV. Total Foregone Tax Revenue (Rounded)	**$2,903,500**	**$2,961,500**	**$3,020,700**	**$3,081,400**	**$3,142,700**	**$3,205,600**	**$3,269,900**	**$3,334,900**	**$3,401,600**	**$3,470,000**
V. Breakout of Foregone Tax Revenue by Entity										
City	$405,100	$413,200	$421,400	$429,900	$438,500	$447,200	$456,200	$465,300	$474,600	$484,100
Schools	$1,644,300	$1,677,200	$1,710,800	$1,745,200	$1,779,900	$1,815,400	$1,852,000	$1,888,800	$1,926,500	$1,965,200
Other	$854,100	$871,100	$888,500	$906,300	$924,300	$943,000	$961,700	$980,800	$1,000,500	$1,020,700
Total (Rounded)	**$2,903,500**	**$2,961,500**	**$3,020,700**	**$3,081,400**	**$3,142,700**	**$3,205,600**	**$3,269,900**	**$3,334,900**	**$3,401,600**	**$3,470,000**

Prepared by: Keyser Marston Associates, Inc.
Filename: i:/Escondido_MIHP Pro Forma Analysis_SOLANA - 10-20-21;10/20/2021;mdt

TABLE 4

RENT SAVINGS CREATED BY MIH PROGRAM COMPARED TO FOREGONE PROPERTY TAX
MIDDLE-INCOME HOUSING PROGRAM - SOLANA AT GRAND
CITY OF ESCONDIDO

	Escalation Factor
Market Rents	3.0%
Affordable Rents	3.0%
Property Taxes	2.0%

	A		B		C.	D	E = C - D	F	G = F - E
Year	**Market Rents** (1)		**In-Place Rents** (2)		**Market Rents after Turnover**	**Pro Forma Rents** (3)	**Difference (Rent Savings)**	**Foregone Property Tax Payments** (4)	**Difference**
1	0%	$12,331,000	100%	$10,920,000	$10,920,000	$10,408,000	$512,000	$1,954,000	$1,442,000
2	20%	$12,701,000	80%	$11,248,000	$11,538,600	$10,621,000	$917,600	$1,993,000	$1,075,400
3	40%	$13,082,000	60%	$11,585,000	$12,183,800	$10,856,000	$1,327,800	$2,033,000	$705,200
4	60%	$13,474,000	40%	$11,933,000	$12,857,600	$11,162,000	$1,695,600	$2,074,000	$378,400
5	80%	$13,878,000	20%	$12,291,000	$13,560,600	$11,496,000	$2,064,600	$2,115,000	$50,400
6	100%	$14,294,000	0%	$12,660,000	$14,294,000	$11,841,000	$2,453,000	$2,157,000	($296,000)
7	100%	$14,723,000	0%	$13,040,000	$14,723,000	$12,197,000	$2,526,000	$2,200,000	($326,000)
8	100%	$15,165,000	0%	$13,431,000	$15,165,000	$12,562,000	$2,603,000	$2,244,000	($359,000)
9	100%	$15,620,000	0%	$13,834,000	$15,620,000	$12,939,000	$2,681,000	$2,289,000	($392,000)
10	100%	$16,089,000	0%	$14,249,000	$16,089,000	$13,327,000	$2,762,000	$2,335,000	($427,000)
11	100%	$16,572,000	0%	$14,676,000	$16,572,000	$13,728,000	$2,844,000	$2,382,000	($462,000)
12	100%	$17,069,000	0%	$15,116,000	$17,069,000	$14,139,000	$2,930,000	$2,430,000	($500,000)
13	100%	$17,581,000	0%	$15,569,000	$17,581,000	$14,563,000	$3,018,000	$2,479,000	($539,000)
14	100%	$18,108,000	0%	$16,036,000	$18,108,000	$15,000,000	$3,108,000	$2,529,000	($579,000)
15	100%	$18,651,000	0%	$16,517,000	$18,651,000	$15,450,000	$3,201,000	$2,580,000	($621,000)
16	100%	$19,211,000	0%	$17,013,000	$19,211,000	$15,914,000	$3,297,000	$2,632,000	($665,000)
17	100%	$19,787,000	0%	$17,523,000	$19,787,000	$16,391,000	$3,396,000	$2,685,000	($711,000)
18	100%	$20,381,000	0%	$18,049,000	$20,381,000	$16,883,000	$3,498,000	$2,739,000	($759,000)
19	100%	$20,992,000	0%	$18,590,000	$20,992,000	$17,389,000	$3,603,000	$2,794,000	($809,000)
20	100%	$21,622,000	0%	$19,148,000	$21,622,000	$17,911,000	$3,711,000	$2,850,000	($861,000)
21	100%	$22,271,000	0%	$19,722,000	$22,271,000	$18,448,000	$3,823,000	$2,907,000	($916,000)
22	100%	$22,939,000	0%	$20,314,000	$22,939,000	$19,002,000	$3,937,000	$2,965,000	($972,000)
23	100%	$23,627,000	0%	$20,923,000	$23,627,000	$19,572,000	$4,055,000	$3,024,000	($1,031,000)
24	100%	$24,336,000	0%	$21,551,000	$24,336,000	$20,159,000	$4,177,000	$3,084,000	($1,093,000)
25	100%	$25,066,000	0%	$22,198,000	$25,066,000	$20,764,000	$4,302,000	$3,146,000	($1,156,000)
26	100%	$25,818,000	0%	$22,864,000	$25,818,000	$21,387,000	$4,431,000	$3,209,000	($1,222,000)
27	100%	$26,593,000	0%	$23,550,000	$26,593,000	$22,028,000	$4,565,000	$3,273,000	($1,292,000)
28	100%	$27,391,000	0%	$24,257,000	$27,391,000	$22,689,000	$4,702,000	$3,338,000	($1,364,000)
29	100%	$28,213,000	0%	$24,985,000	$28,213,000	$23,370,000	$4,843,000	$3,405,000	($1,438,000)
30	100%	$29,059,000	0%	$25,735,000	$29,059,000	$24,071,000	$4,988,000	$3,473,000	($1,515,000)
Total, Years 1 - 30		**$586,644,000**		**$519,527,000**	**$582,238,600**	**$486,267,000**	**$95,971,600**	**$79,318,000**	**($16,653,600)**

(1) Gross Scheduled Income based on CoStar Group estimate of Market Rents escalated at 3.0% per year.
(2) Gross Scheduled Income based on 2021 In-Place Rents escalated at 3.0% per year.
(3) Gross Scheduled Income assuming turnover to In-Place Discounted rents.
(4) Based on proposed purchase price escalated at 2.0% per year.

TABLE 5

NET OPERATING INCOME - YEARS 15 AND 30
MIDDLE-INCOME HOUSING PROGRAM - SOLANA AT GRAND
CITY OF ESCONDIDO

			Year 15		Year 30	
I. Residential Income				**Total**		**Total**
Gross Scheduled Income (GSI)	519 Units		$2,481 /Unit/Month	$15,450,000	$3,865 /Unit/Month	$24,071,000
RUBS			$144 /Unit/Month	$898,000	$224 /Unit/Month	$1,398,000
Add: Other Income			$72 /Unit/Month	$450,000	$113 /Unit/Month	$702,000
Total GSI				$16,798,000		$26,171,000
II. Effective Gross Income						
(Less) Concessions				$0		
(Less) Vacancy			4.6% of GSI	($773,000)	4.6% of GSI	($1,204,000)
(Less) Bad Debt			0.9% of GSI	($155,000)	0.9% of GSI	($241,000)
(Less) Non-Revenue Units				($60,000)		($93,000)
Total Effective Gross Income (EGI)				$15,810,000		$24,633,000
III. Operating Expenses						
(Less) Operating Expenses (1)			$8,393 /Unit/Year	(4,356,000)	$12,921 /Unit/Year	($6,706,000)
(Less) Management Fee			$721 /Unit/Year	($374,000)	$1,123 /Unit/Year	($583,000)
(Less) Insurance			$449 /Unit/Year	($233,000)	$697 /Unit/Year	($362,000)
(Less) Property Taxes/Assessments			$4 /Unit/Year	($2,000)	$4 /Unit/Year	($2,000)
(Less) Host City Fee			$389 /Unit/Year	($202,000)	$524 /Unit/Year	($272,000)
Total Expenses			$9,956 /Unit/Year	($5,167,000)	$15,270 /Unit/Year	($7,925,000)
			33% of EGI		32% of EGI	
IV. Net Operating Income (NOI)				**$10,643,000**		**$16,708,000**

(1) Includes general administrative, marketing, repair and maintenance turnover, utilities, payroll, contracts, and other expenses.

Attachment "1"

Item 11.

TABLE 6

ESTIMATE OF NET OPERATING INCOME, YEARS 1-30
MIDDLE-INCOME HOUSING PROGRAM - SOLANA AT GRAND
CITY OF ESCONDIDO

Assumptions	*Before 100% Turnover*	*After 100% Turnover*
Market Rent Escalation	*3.00%*	*3.00%*
Affordable Rent Escalation	*3.00%*	*3.00%*
Operating Expense Escalation	*3.00%*	*3.00%*

	0	1	2	3	4	5	6	7	8	9	10
I. Effective Gross Income (EGI) - Residential											
Assumed Turnover		*50%*	*75%*	*95%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*
A. 80% AMI											
Non-Converted Units	173	87	43	9	0	0	0	0	0	0	0
Assumed Monthly Rent	$1,702	$1,702	$1,753	$1,806	$1,860	$1,916	$1,973	$2,033	$2,094	$2,156	$2,221
Annual Rent	$3,533,800	$1,767,000	$910,000	$187,000	$0	$0	$0	$0	$0	$0	$0
Converted Units	0	87	130	164	173	173	173	173	173	173	173
Assumed Monthly Rent	$1,554	$1,554	$1,600	$1,648	$1,698	$1,749	$1,801	$1,855	$1,911	$1,968	$2,027
Annual Rent	$0	$1,613,000	$2,492,000	$3,251,000	$3,525,000	$3,630,000	$3,739,000	$3,852,000	$3,967,000	$4,086,000	$4,209,000
Total Rental Income - 80% AMI	$3,533,800	$3,380,000	$3,402,000	$3,438,000	$3,525,000	$3,630,000	$3,739,000	$3,852,000	$3,967,000	$4,086,000	$4,209,000
B. 100% AMI											
Non-Converted Units	173	87	43	9	0	0	0	0	0	0	0
Assumed Monthly Rent	$1,702	$1,702	$1,753	$1,806	$1,860	$1,916	$1,973	$2,033	$2,094	$2,156	$2,221
Annual Rent	$3,533,800	$1,767,000	$910,000	$187,000	$0	$0	$0	$0	$0	$0	$0
Converted Units	0	87	130	164	173	173	173	173	173	173	173
Assumed Monthly Rent	$1,640	$1,640	$1,689	$1,740	$1,792	$1,846	$1,901	$1,958	$2,017	$2,078	$2,140
Annual Rent	$0	$1,702,000	$2,630,000	$3,432,000	$3,721,000	$3,832,000	$3,947,000	$4,066,000	$4,187,000	$4,313,000	$4,442,000
Total Rental Income - 100% AMI	$3,533,800	$3,469,000	$3,540,000	$3,619,000	$3,721,000	$3,832,000	$3,947,000	$4,066,000	$4,187,000	$4,313,000	$4,442,000
C. 120% AMI											
Non-Converted Units	173	87	43	9	0	0	0	0	0	0	0
Assumed Monthly Rent	$1,702	$1,702	$1,753	$1,806	$1,860	$1,916	$1,973	$2,033	$2,094	$2,156	$2,221
Annual Rent	$3,533,800	$1,767,000	$910,000	$187,000	$0	$0	$0	$0	$0	$0	$0
Converted Units	0	87	130	164	173	173	173	173	173	173	173
Assumed Monthly Rent	$1,726	$1,726	$1,778	$1,832	$1,886	$1,943	$2,001	$2,061	$2,123	$2,187	$2,253
Annual Rent	$0	$1,792,000	$2,769,000	$3,612,000	$3,916,000	$4,034,000	$4,155,000	$4,279,000	$4,408,000	$4,540,000	$4,676,000
Total Rental Income - 120% AMI	$3,533,800	$3,559,000	$3,679,000	$3,799,000	$3,916,000	$4,034,000	$4,155,000	$4,279,000	$4,408,000	$4,540,000	$4,676,000
D. Total Gross Scheduled Income (GSI)	$10,601,400	$10,408,000	$10,621,000	$10,856,000	$11,162,000	$11,496,000	$11,841,000	$12,197,000	$12,562,000	$12,939,000	$13,327,000
E. RUBS		$593,000	$611,000	$629,000	$648,000	$668,000	$688,000	$709,000	$730,000	$752,000	$774,000
F. Add: Other Income		$298,000	$307,000	$316,000	$325,000	$335,000	$345,000	$356,000	$366,000	$377,000	$388,000
G. (Less) Concessions		($98,000)	($100,000)	($79,000)	$0	$0	$0	$0	$0	$0	$0
H. (Less) Vacancy		($520,000)	($531,000)	($543,000)	($558,000)	($575,000)	($592,000)	($610,000)	($628,000)	($647,000)	($666,000)
I. (Less) Bad Debt		(624,000)	(212,000)	(109,000)	(112,000)	(115,000)	(118,000)	(122,000)	(126,000)	(129,000)	(133,000)
J. (Less) Non-Revenue Units		($40,000)	($41,000)	($42,000)	($43,000)	($44,000)	($46,000)	($47,000)	($48,000)	($50,000)	($51,000)
K. Effective Gross Income (EGI)		$10,017,000	$10,655,000	$11,028,000	$11,422,000	$11,765,000	$12,118,000	$12,483,000	$12,856,000	$13,242,000	$13,639,000
II. (Less) Operating Expenses (1)		($3,562,000)	($3,661,000)	($3,755,000)	($3,853,000)	($3,951,000)	($4,078,000)	($4,183,000)	($4,291,000)	($4,402,000)	($4,516,000)
III. Net Operating Income		**$6,455,000**	**$6,994,000**	**$7,273,000**	**$7,569,000**	**$7,814,000**	**$8,040,000**	**$8,300,000**	**$8,565,000**	**$8,840,000**	**$9,123,000**

(1) Includes Host City Fee at $150,000 in Year 0, escalated annually by 2.0%.

TABLE 6

ESTIMATE OF NET OPERATING INCOME, YEARS 1-30
MIDDLE-INCOME HOUSING PROGRAM - SOLANA AT GRAND
CITY OF ESCONDIDO

Assumptions	Before 100% Turnover	After 100% Turnover
Market Rent Escalation	3.00%	3.00%
Affordable Rent Escalation	3.00%	3.00%
Operating Expense Escalation	3.00%	3.00%

	11	12	13	14	15	16	17	18	19	20
I. Effective Gross Income (EGI) - Residential										
Assumed Turnover	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
A. 80% AMI										
Non-Converted Units	0	0	0	0	0	0	0	0	0	0
Assumed Monthly Rent	$2,288	$2,356	$2,427	$2,500	$2,575	$2,652	$2,732	$2,814	$2,898	$2,985
Annual Rent	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Converted Units	173	173	173	173	173	173	173	173	173	173
Assumed Monthly Rent	$2,088	$2,151	$2,215	$2,282	$2,350	$2,421	$2,493	$2,568	$2,645	$2,725
Annual Rent	$4,335,000	$4,465,000	$4,599,000	$4,737,000	$4,879,000	$5,025,000	$5,176,000	$5,331,000	$5,491,000	$5,656,000
Total Rental Income - 80% AMI	$4,335,000	$4,465,000	$4,599,000	$4,737,000	$4,879,000	$5,025,000	$5,176,000	$5,331,000	$5,491,000	$5,656,000
B. 100% AMI										
Non-Converted Units	0	0	0	0	0	0	0	0	0	0
Assumed Monthly Rent	$2,288	$2,356	$2,427	$2,500	$2,575	$2,652	$2,732	$2,814	$2,898	$2,985
Annual Rent	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Converted Units	173	173	173	173	173	173	173	173	173	173
Assumed Monthly Rent	$2,204	$2,270	$2,338	$2,409	$2,481	$2,555	$2,632	$2,711	$2,792	$2,876
Annual Rent	$4,576,000	$4,713,000	$4,854,000	$5,000,000	$5,150,000	$5,305,000	$5,464,000	$5,628,000	$5,796,000	$5,970,000
Total Rental Income - 100% AMI	$4,576,000	$4,713,000	$4,854,000	$5,000,000	$5,150,000	$5,305,000	$5,464,000	$5,628,000	$5,796,000	$5,970,000
C. 120% AMI										
Non-Converted Units	0	0	0	0	0	0	0	0	0	0
Assumed Monthly Rent	$2,288	$2,356	$2,427	$2,500	$2,575	$2,652	$2,732	$2,814	$2,898	$2,985
Annual Rent	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Converted Units	173	173	173	173	173	173	173	173	173	173
Assumed Monthly Rent	$2,320	$2,390	$2,461	$2,535	$2,611	$2,690	$2,770	$2,853	$2,939	$3,027
Annual Rent	$4,817,000	$4,961,000	$5,110,000	$5,263,000	$5,421,000	$5,584,000	$5,751,000	$5,924,000	$6,102,000	$6,285,000
Total Rental Income - 120% AMI	$4,817,000	$4,961,000	$5,110,000	$5,263,000	$5,421,000	$5,584,000	$5,751,000	$5,924,000	$6,102,000	$6,285,000
D. Total Gross Scheduled Income (GSI)	$13,728,000	$14,139,000	$14,563,000	$15,000,000	$15,450,000	$15,914,000	$16,391,000	$16,883,000	$17,389,000	$17,911,000
E. RUBS	$798,000	$821,000	$846,000	$871,000	$898,000	$925,000	$952,000	$981,000	$1,010,000	$1,041,000
F. Add: Other Income	$400,000	$412,000	$424,000	$437,000	$450,000	$464,000	$478,000	$492,000	$507,000	$522,000
G. (Less) Concessions	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
H. (Less) Vacancy	($686,000)	($707,000)	($728,000)	($750,000)	($773,000)	($796,000)	($820,000)	($844,000)	($869,000)	($896,000)
I. (Less) Bad Debt	(137,000)	(141,000)	(146,000)	(150,000)	(155,000)	(159,000)	(164,000)	(169,000)	(174,000)	(179,000)
J. (Less) Non-Revenue Units	($53,000)	($54,000)	($56,000)	($58,000)	($60,000)	($61,000)	($63,000)	($65,000)	($67,000)	($69,000)
K. Effective Gross Income (EGI)	$14,050,000	$14,470,000	$14,903,000	$15,350,000	$15,810,000	$16,287,000	$16,774,000	$17,278,000	$17,796,000	$18,330,000
II. (Less) Operating Expenses (1)	($4,660,000)	($4,781,000)	($4,906,000)	($5,034,000)	($5,167,000)	($5,605,000)	($5,738,000)	($5,875,000)	($6,016,000)	($6,161,000)
III. Net Operating Income	**$9,390,000**	**$9,689,000**	**$9,997,000**	**$10,316,000**	**$10,643,000**	**$10,682,000**	**$11,036,000**	**$11,403,000**	**$11,780,000**	**$12,169,000**

(1) Includes Host City Fee at $150,000 in Year 0, escalated annually by 2.0%.

TABLE 6

ESTIMATE OF NET OPERATING INCOME, YEARS 1-30
MIDDLE-INCOME HOUSING PROGRAM - SOLANA AT GRAND
CITY OF ESCONDIDO

Assumptions	*Before 100% Turnover*	*After 100% Turnover*
Market Rent Escalation	*3.00%*	*3.00%*
Affordable Rent Escalation	*3.00%*	*3.00%*
Operating Expense Escalation	*3.00%*	*3.00%*

	21	22	23	24	25	26	27	28	29	30
I. Effective Gross Income (EGI) - Residential										
Assumed Turnover	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*
A. 80% AMI										
Non-Converted Units	0	0	0	0	0	0	0	0	0	0
Assumed Monthly Rent	$3,074	$3,167	$3,262	$3,360	$3,460	$3,564	$3,671	$3,781	$3,895	$4,011
Annual Rent	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Converted Units	173	173	173	173	173	173	173	173	173	173
Assumed Monthly Rent	$2,806	$2,890	$2,977	$3,066	$3,158	$3,253	$3,351	$3,451	$3,555	$3,662
Annual Rent	$5,826,000	$6,001,000	$6,181,000	$6,366,000	$6,557,000	$6,754,000	$6,956,000	$7,165,000	$7,380,000	$7,601,000
Total Rental Income - 80% AMI	$5,826,000	$6,001,000	$6,181,000	$6,366,000	$6,557,000	$6,754,000	$6,956,000	$7,165,000	$7,380,000	$7,601,000
B. 100% AMI										
Non-Converted Units	0	0	0	0	0	0	0	0	0	0
Assumed Monthly Rent	$3,074	$3,167	$3,262	$3,360	$3,460	$3,564	$3,671	$3,781	$3,895	$4,011
Annual Rent	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Converted Units	173	173	173	173	173	173	173	173	173	173
Assumed Monthly Rent	$2,962	$3,051	$3,143	$3,237	$3,334	$3,434	$3,537	$3,643	$3,752	$3,865
Annual Rent	$6,149,000	$6,334,000	$6,524,000	$6,720,000	$6,921,000	$7,129,000	$7,343,000	$7,563,000	$7,790,000	$8,024,000
Total Rental Income - 100% AMI	$6,149,000	$6,334,000	$6,524,000	$6,720,000	$6,921,000	$7,129,000	$7,343,000	$7,563,000	$7,790,000	$8,024,000
C. 120% AMI										
Non-Converted Units	0	0	0	0	0	0	0	0	0	0
Assumed Monthly Rent	$3,074	$3,167	$3,262	$3,360	$3,460	$3,564	$3,671	$3,781	$3,895	$4,011
Annual Rent	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Converted Units	173	173	173	173	173	173	173	173	173	173
Assumed Monthly Rent	$3,118	$3,212	$3,308	$3,407	$3,509	$3,615	$3,723	$3,835	$3,950	$4,068
Annual Rent	$6,473,000	$6,667,000	$6,867,000	$7,073,000	$7,286,000	$7,504,000	$7,729,000	$7,961,000	$8,200,000	$8,446,000
Total Rental Income - 120% AMI	$6,473,000	$6,667,000	$6,867,000	$7,073,000	$7,286,000	$7,504,000	$7,729,000	$7,961,000	$8,200,000	$8,446,000
D. Total Gross Scheduled Income (GSI)	$18,448,000	$19,002,000	$19,572,000	$20,159,000	$20,764,000	$21,387,000	$22,028,000	$22,689,000	$23,370,000	$24,071,000
E. RUBS	$1,072,000	$1,104,000	$1,137,000	$1,171,000	$1,206,000	$1,242,000	$1,280,000	$1,318,000	$1,358,000	$1,398,000
F. Add: Other Income	$538,000	$554,000	$570,000	$588,000	$605,000	$623,000	$642,000	$661,000	$681,000	$702,000
G. (Less) Concessions	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
H. (Less) Vacancy	($922,000)	($950,000)	($979,000)	($1,008,000)	($1,038,000)	($1,069,000)	($1,101,000)	($1,134,000)	($1,169,000)	($1,204,000)
I. (Less) Bad Debt	(184,000)	(190,000)	(196,000)	(202,000)	(208,000)	(214,000)	(220,000)	(227,000)	(234,000)	(241,000)
J. (Less) Non-Revenue Units	($71,000)	($73,000)	($75,000)	($78,000)	($80,000)	($82,000)	($85,000)	($87,000)	($90,000)	($93,000)
K. Effective Gross Income (EGI)	$18,881,000	$19,447,000	$20,029,000	$20,630,000	$21,249,000	$21,887,000	$22,544,000	$23,220,000	$23,916,000	$24,633,000
II. (Less) Operating Expenses (1)	($6,336,000)	($6,490,000)	($6,649,000)	($6,812,000)	($6,981,000)	($7,179,000)	($7,357,000)	($7,541,000)	($7,730,000)	($7,925,000)
III. Net Operating Income	**$12,545,000**	**$12,957,000**	**$13,380,000**	**$13,818,000**	**$14,268,000**	**$14,708,000**	**$15,187,000**	**$15,679,000**	**$16,186,000**	**$16,708,000**

(1) Includes Host City Fee at $150,000 in Year 0, escalated annually by 2.0%.

Prepared by: Keyser Marston Associates, Inc.
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TABLE 7

ESTIMATE OF CASH FLOW AVAILABLE FOR BOND DEBT SERVICE, YEARS 1-30
MIDDLE-INCOME HOUSING PROGRAM - SOLANA AT GRAND
CITY OF ESCONDIDO

	0	1	2	3	4	5	6	7	8	9	10
I. Cash Flow Available for Debt Service											
A. Net Operating Income (NOI)		$6,455,000	$6,994,000	$7,273,000	$7,569,000	$7,814,000	$8,040,000	$8,300,000	$8,565,000	$8,840,000	$9,123,000
B. Investment Income		$145,000	$133,000	$127,000	$122,000	$121,000	$121,000	$121,000	$121,000	$121,000	$121,000
II. Bond Payments											
A. A Bond											
Bonds Outstanding		$192,923,000	$192,923,000	$192,923,000	$192,923,000	$192,923,000	$192,923,000	$192,883,000	$192,583,000	$192,003,000	$191,123,000
Interest Accrual	4.0%	$7,700,000	$7,717,000	$7,717,000	$7,717,000	$7,717,000	$7,717,000	$7,715,000	$7,703,000	$7,680,000	$7,645,000
Interest Payment from NOI		($6,455,000)	($6,994,000)	($7,273,000)	($7,569,000)	($7,717,000)	($7,717,000)	($7,715,000)	($7,703,000)	($7,680,000)	($7,645,000)
Investment Income Release		($145,000)	($133,000)	($127,000)	($122,000)	$0	$0	$0	$0	$0	$0
Capitalized Interest Release	$4,496,000	($1,100,000)	($590,000)	($317,000)	($26,000)	$0	$0	$0	$0	$0	$0
Coverage Reserve Release		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Debt Service Reserve Release		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Investment Income Remaining		$0	$0	$0	$0	$218,000	$444,000	$706,000	$983,000	$1,281,000	$1,599,000
B. B Bond											
B Bonds Outstanding	*$5,000,000*	$5,000,000	$5,400,000	$5,800,000	$6,200,000	$6,600,000	$6,782,000	$6,782,000	$6,782,000	$6,782,000	$6,782,000
Interest Accrual	8.00%	$400,000	$400,000	$400,000	$400,000	$400,000	$400,000	$400,000	$400,000	$400,000	$400,000
Interest Payment		$0	$0	$0	$0	($218,000)	($400,000)	($400,000)	($400,000)	($400,000)	($400,000)
B Bonds Outstanding		*$5,400,000*	*$5,800,000*	*$6,200,000*	*$6,600,000*	*$6,782,000*	*$6,782,000*	*$6,782,000*	*$6,782,000*	*$6,782,000*	*$6,782,000*
III. Net Cash Flow After Bond Redemption											
Funds Remaining for B Bond Payment		$400,000	$400,000	$400,000	$400,000	$400,000	$400,000	$400,000	$400,000	$400,000	$400,000
(Less) Interest Paid on B Bond		$0	$0	$0	$0	($218,000)	($400,000)	($400,000)	($400,000)	($400,000)	($400,000)
Remaining B Bond Interest		$400,000	$400,000	$400,000	$400,000	$182,000	$0	$0	$0	$0	$0
Cash Flow After B Bond Interest Payment		$0	$0	$0	$0	$0	$44,000	$306,000	$583,000	$881,000	$1,199,000
Amount for A Bond Paydown		$0	$0	$0	$0	$0	$40,000	$300,000	$580,000	$880,000	$1,190,000
Trailing Excess NOI		$0	$0	$0	$0	$0	$4,000	$6,000	$3,000	$1,000	$9,000
A Bond Amount in Prior Year		$192,923,000	$192,923,000	$192,923,000	$192,923,000	$192,923,000	$192,923,000	$192,883,000	$192,583,000	$192,003,000	$191,123,000
(Less) Amount for A Bond Paydown		$0	$0	$0	$0	$0	($40,000)	($300,000)	($580,000)	($880,000)	($1,190,000)
Outstanding A Bond Amount	*$192,923,000*	*$192,923,000*	*$192,923,000*	*$192,923,000*	*$192,923,000*	*$192,923,000*	*$192,883,000*	*$192,583,000*	*$192,003,000*	*$191,123,000*	*$189,933,000*

TABLE 7

ESTIMATE OF CASH FLOW AVAILABLE FOR BOND DEBT SERVI E, YEARS 1-30
MIDDLE-INCOME HOUSING PROGRAM - SOLANA AT GRAND
CITY OF ESCONDIDO

	11	12	13	14	15	16	17	18	19	20
I. Cash Flow Available for Debt Service										
A. Net Operating Income (NOI)	$9,390,000	$9,689,000	$9,997,000	$10,316,000	$10,643,000	$10,682,000	$11,036,000	$11,403,000	$11,780,000	$12,169,000
B. Investment Income	$105,000	$88,000	$88,000	$88,000	$88,000	$88,000	$88,000	$88,000	$88,000	$88,000
II. Bond Payments										
A. A Bond										
Bonds Outstanding	$189,933,000	$184,433,000	$182,433,000	$180,053,000	$177,253,000	$174,013,000	$170,613,000	$166,723,000	$162,303,000	$157,333,000
Interest Accrual	$7,597,000	$7,377,000	$7,297,000	$7,202,000	$7,090,000	$6,961,000	$6,825,000	$6,669,000	$6,492,000	$6,293,000
Interest Payment from NOI	($7,597,000)	($7,377,000)	($7,297,000)	($7,202,000)	($7,090,000)	($6,961,000)	($6,825,000)	($6,669,000)	($6,492,000)	($6,293,000)
Investment Income Release	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Capitalized Interest Release	($2,463,000)	$0	$0	$0	$0	$0	$0	$0	$0	$0
Coverage Reserve Release	(1,543,000)	$0	$0	$0	$0	$0	$0	$0	$0	$0
Debt Service Reserve Release	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Investment Income Remaining	$5,904,000	$2,400,000	$2,788,000	$3,202,000	$3,641,000	$3,809,000	$4,299,000	$4,822,000	$5,376,000	$5,964,000
B. B Bond										
B Bonds Outstanding	$6,782,000	$6,782,000	$6,782,000	$6,782,000	$6,782,000	$6,782,000	$6,782,000	$6,782,000	$6,782,000	$6,782,000
Interest Accrual	$400,000	$400,000	$400,000	$400,000	$400,000	$400,000	$400,000	$400,000	$400,000	$400,000
Interest Payment	($400,000)	($400,000)	($400,000)	($400,000)	($400,000)	($400,000)	($400,000)	($400,000)	($400,000)	($400,000)
B Bonds Outstanding	*$6,782,000*	*$6,782,000*	*$6,782,000*	*$6,782,000*	*$6,782,000*	*$6,782,000*	*$6,782,000*	*$6,782,000*	*$6,782,000*	*$6,782,000*
III. Net Cash Flow After Bond Redemption										
Funds Remaining for B Bond Payment	$400,000	$400,000	$400,000	$400,000	$400,000	$400,000	$400,000	$400,000	$400,000	$400,000
(Less) Interest Paid on B Bond	($400,000)	($400,000)	($400,000)	($400,000)	($400,000)	($400,000)	($400,000)	($400,000)	($400,000)	($400,000)
Remaining B Bond Interest	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Cash Flow After B Bond Interest Payment	$5,504,000	$2,000,000	$2,388,000	$2,802,000	$3,241,000	$3,409,000	$3,899,000	$4,422,000	$4,976,000	$5,564,000
Amount for A Bond Paydown	$5,500,000	$2,000,000	$2,380,000	$2,800,000	$3,240,000	$3,400,000	$3,890,000	$4,420,000	$4,970,000	$5,560,000
Trailing Excess NOI	$4,000	$0	$8,000	$2,000	$1,000	$9,000	$9,000	$2,000	$6,000	$4,000
A Bond Amount in Prior Year	$189,933,000	$184,433,000	$182,433,000	$180,053,000	$177,253,000	$174,013,000	$170,613,000	$166,723,000	$162,303,000	$157,333,000
(Less) Amount for A Bond Paydown	($5,500,000)	($2,000,000)	($2,380,000)	($2,800,000)	($3,240,000)	($3,400,000)	($3,890,000)	($4,420,000)	($4,970,000)	($5,560,000)
Outstanding A Bond Amount	*$184,433,000*	*$182,433,000*	*$180,053,000*	*$177,253,000*	*$174,013,000*	*$170,613,000*	*$166,723,000*	*$162,303,000*	*$157,333,000*	*$151,773,000*

TABLE 7

ESTIMATE OF CASH FLOW AVAILABLE FOR BOND DEBT SERVI E, YEARS 1-30
MIDDLE-INCOME HOUSING PROGRAM - SOLANA AT GRAND
CITY OF ESCONDIDO

	21	22	23	24	25	26	27	28	29	30
I. Cash Flow Available for Debt Service										
A. Net Operating Income (NOI)	$12,545,000	$12,957,000	$13,380,000	$13,818,000	$14,268,000	$14,708,000	$15,187,000	$15,679,000	$16,186,000	$16,708,000
B. Investment Income	$88,000	$88,000	$88,000	$88,000	$88,000	$88,000	$88,000	$88,000	$88,000	$88,000
II. Bond Payments										
A. A Bond										
Bonds Outstanding	$151,773,000	$145,613,000	$138,793,000	$131,283,000	$123,033,000	$114,003,000	$104,173,000	$93,473,000	$81,853,000	$69,253,000
Interest Accrual	$6,071,000	$5,825,000	$5,552,000	$5,251,000	$4,921,000	$4,560,000	$4,167,000	$3,739,000	$3,274,000	$2,770,000
Interest Payment from NOI	($6,071,000)	($5,825,000)	($5,552,000)	($5,251,000)	($4,921,000)	($4,560,000)	($4,167,000)	($3,739,000)	($3,274,000)	($2,770,000)
Investment Income Release	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Capitalized Interest Release	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Coverage Reserve Release	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Debt Service Reserve Release	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Investment Income Remaining	$6,562,000	$7,220,000	$7,916,000	$8,655,000	$9,435,000	$10,236,000	$11,108,000	$12,028,000	$13,000,000	$14,026,000
B. B Bond										
B Bonds Outstanding	$6,782,000	$6,782,000	$6,782,000	$6,782,000	$6,782,000	$6,782,000	$6,782,000	$6,782,000	$6,782,000	$6,782,000
Interest Accrual	$400,000	$400,000	$400,000	$400,000	$400,000	$400,000	$400,000	$400,000	$400,000	$400,000
Interest Payment	($400,000)	($400,000)	($400,000)	($400,000)	($400,000)	($400,000)	($400,000)	($400,000)	($400,000)	($400,000)
B Bonds Outstanding	*$6,782,000*	*$6,782,000*	*$6,782,000*	*$6,782,000*	*$6,782,000*	*$6,782,000*	*$6,782,000*	*$6,782,000*	*$6,782,000*	*$6,782,000*
III. Net Cash Flow After Bond Redemption										
Funds Remaining for B Bond Payment	$400,000	$400,000	$400,000	$400,000	$400,000	$400,000	$400,000	$400,000	$400,000	$400,000
(Less) Interest Paid on B Bond	($400,000)	($400,000)	($400,000)	($400,000)	($400,000)	($400,000)	($400,000)	($400,000)	($400,000)	($400,000)
Remaining B Bond Interest	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Cash Flow After B Bond Interest Payment	$6,162,000	$6,820,000	$7,516,000	$8,255,000	$9,035,000	$9,836,000	$10,708,000	$11,628,000	$12,600,000	$13,626,000
Amount for A Bond Paydown	$6,160,000	$6,820,000	$7,510,000	$8,250,000	$9,030,000	$9,830,000	$10,700,000	$11,620,000	$12,600,000	$13,620,000
Trailing Excess NOI	$2,000	$0	$6,000	$5,000	$5,000	$6,000	$8,000	$8,000	$0	$6,000
A Bond Amount in Prior Year	$151,773,000	$145,613,000	$138,793,000	$131,283,000	$123,033,000	$114,003,000	$104,173,000	$93,473,000	$81,853,000	$69,253,000
(Less) Amount for A Bond Paydown	($6,160,000)	($6,820,000)	($7,510,000)	($8,250,000)	($9,030,000)	($9,830,000)	($10,700,000)	($11,620,000)	($12,600,000)	($13,620,000)
Outstanding A Bond Amount	*$145,613,000*	*$138,793,000*	*$131,283,000*	*$123,033,000*	*$114,003,000*	*$104,173,000*	*$93,473,000*	*$81,853,000*	*$69,253,000*	*$55,633,000*

TABLE 8

NET SALES PROCEEDS TO CITY AT YEARS 15 AND 30
MIDDLE-INCOME HOUSING PROGRAM - SOLANA AT GRAND
CITY OF ESCONDIDO

Assumptions	
Market Rent Esc.	*3.00%*
Affordable Rent Esc.	*3.00%*
Operating Expense Esc.	*3.00%*
Turnover	
Year 1	*50%*
Year 2	*75%*
Year 3	*95%*
Year 4	*100%*
Year 5	*100%*

	Year 15	Year 30
I. Adjusted Net Operating Income (NOI)		
Exit Net Operating Income (NOI)	$10,643,000	$16,708,000
Add: Host Fee No Longer Applicable	$202,000	$272,000
(Less) Taxes @ 1.151%	($2,029,000)	($3,177,000)
Adjusted NOI	$8,816,000	$13,803,000
Assumed Capitalization Rate	*5.00%*	*5.00%*
II. Project Value	$176,320,000	$276,060,000
III. Add: Debt Service Reserve - Returned	$7,717,000	$7,717,000
IV. (Less) Bonds Outstanding 2020A	($174,013,000)	($55,633,000)
V. (Less) Bonds Outstanding 2020B	($6,782,000)	($6,782,000)
VI. Net Sales Proceeds	$3,242,000	$221,362,000
VII. (Less) Reimbursement of Property Tax/ Assessments to Other Taxing Entities	($29,075,000)	($68,207,000)
VIII. Net Sales Proceeds to City		
A. Future Value	**($25,833,000)**	**$153,155,000**
Per Unit	**($50,000)**	**$295,000**
Per SF GBA	**($63)**	**$374**
B. Net Present Value in Year 0 (1)	**($6,185,000)**	**$8,777,000**
Per Unit	**($12,000)**	**$17,000**
Per SF GBA	**($15)**	**$21**

(1) Assumes a 10.0% discount rate.

Prepared by: Keyser Marston Associates, Inc.
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TABLE 9

ESTIMATE OF CITY FOREGONE PROPERTY TAX PAYMENTS VS. REVENUES TO CITY
MIDDLE-INCOME HOUSING PROGRAM - SOLANA AT GRAND
CITY OF ESCONDIDO

Year	City Foregone Property Tax Payments	Revenues to City: Upfront Fee	Revenues to City: Annual Host Fee	Revenues to City: Sales Proceeds at Year 30	Revenues to City: Total Revenues	Net Revenues to City
1	($272,600)	$125,000	$153,000	$0	$278,000	$5,400
2	($278,100)	$0	$156,060	$0	$156,060	($122,040)
3	($283,600)	$0	$159,181	$0	$159,181	($124,419)
4	($289,300)	$0	$162,365	$0	$162,365	($126,935)
5	($295,100)	$0	$165,612	$0	$165,612	($129,488)
6	($301,000)	$0	$168,924	$0	$168,924	($132,076)
7	($307,000)	$0	$172,303	$0	$172,303	($134,697)
8	($313,100)	$0	$175,749	$0	$175,749	($137,351)
9	($319,400)	$0	$179,264	$0	$179,264	($140,136)
10	($325,800)	$0	$182,849	$0	$182,849	($142,951)
11	($332,300)	$0	$186,506	$0	$186,506	($145,794)
12	($338,900)	$0	$190,236	$0	$190,236	($148,664)
13	($345,700)	$0	$194,041	$0	$194,041	($151,659)
14	($352,700)	$0	$197,922	$0	$197,922	($154,778)
15	($359,700)	$0	$201,880	$0	$201,880	($157,820)
16	($366,900)	$0	$205,918	$0	$205,918	($160,982)
17	($374,200)	$0	$210,036	$0	$210,036	($164,164)
18	($381,700)	$0	$214,237	$0	$214,237	($167,463)
19	($389,400)	$0	$218,522	$0	$218,522	($170,878)
20	($397,100)	$0	$222,892	$0	$222,892	($174,208)
21	($405,100)	$0	$227,350	$0	$227,350	($177,750)
22	($413,200)	$0	$231,897	$0	$231,897	($181,303)
23	($421,400)	$0	$236,535	$0	$236,535	($184,865)
24	($429,900)	$0	$241,266	$0	$241,266	($188,634)
25	($438,500)	$0	$246,091	$0	$246,091	($192,409)
26	($447,200)	$0	$251,013	$0	$251,013	($196,187)
27	($456,200)	$0	$256,033	$0	$256,033	($200,167)
28	($465,300)	$0	$261,154	$0	$261,154	($204,146)
29	($474,600)	$0	$266,377	$0	$266,377	($208,223)
30	($484,100)	$0	$271,704	$153,155,000	$153,426,704	$152,942,604
Total, Years 1 - 30	**($11,059,100)**	**$125,000** (1)	**$6,206,916**	**$153,155,000**	**$159,486,916**	**$148,427,816**
Net Present Value (NPV) in Year 0						
Discount Rate	**4.5%**	**4.5%**	**4.5%**	**10.0%**		
NPV	**($5,631,000)**	**$120,000**	**$3,160,000**	**$8,777,000**	**$12,057,000**	**$6,426,000**

(1) Upfront fee of $125,000 will also be allocated to nonprofit organizations at the direction of the City.

MIDDLE-INCOME HOUSING PROGRAM
Latitude33

Prepared for:

City of Escondido

Prepared by:

Keyser Marston Associates, Inc.

October 2021

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APPENDIX

I. INTRODUCTION

A. Objective

Latitude33 Apartments

The City of Escondido (City) requested that Keyser Marston Associates, Inc. (KMA) evaluate the Middle-Income Housing Program (MIH Program) transaction (Proposed Transaction) proposed by the California Municipal Financing Authority (CMFA) and Ascenda Capital (Ascenda). The Proposed Transaction would allow the CMFA Special Finance Agency, an affiliate joint powers authority of CMFA, to acquire the Latitude33 apartment complex (Property) for the purpose of converting the market-rate multi-family rental units to moderate/middle-income housing. Ascenda will serve as the Project Administrator for the Proposed Transaction. For the purposes of this report, CMFA and Ascenda are referred to collectively as the “Investors”.

This report presents a general overview of the MIH Program, the Proposed Transaction, the probable costs and benefits to the City as a result of the Proposed Transaction, the financial feasibility of the Investors’ proposal, compensation to the Investors, and a review of the Investors’ proposed program parameters.

B. Property Description

As summarized below, the Property consist of 198 units built in 2012. The Property includes a total of 235,000 square feet (SF) of building area on a total of 8.91 acres. The Property features a mix of one-, two-, and three-bedroom units. (See also Appendix Table 1.)

Property Description	
	Latitude33 Apartments
Address	515 Meander Glen
Year Built	2012
Site Area	8.91 Acres
Gross Building Area	235,000 SF
Average Unit Size	1,179 SF
Number of Stories	3 - 5 Stories

Property Description	
	Latitude33 Apartments
Number of Units	
One Bedroom	24 Units
Two Bedroom	139 Units
Three Bedroom	35 Units
Total	198 Units
Density	22 Units/Acre

C. Methodology

KMA performed the following key work tasks in completing this report.

- Reviewed financial pro forma information provided by the Investors, including estimates of sources and uses of funds, the purchase price of the Property, proposed reduction in rental rates, anticipated operating projections, and anticipated reversion value to the City upon conveyance. The Investors also provided recent property tax assessments, an appraisal, and a property condition report for the Property.

- Submitted multiple data requests to the Investors and reviewed additional responses, documents, and updated financial information provided by the Investors.

- Reviewed trade area apartment market information from CoStar Group and other industry data sources.

- Reviewed San Diego County Controller data on ad valorem property taxes and property tax assessments that apply to the Property.

- Prepared independent financial pro forma models estimating financial returns to the City.

D. Report Organization

This report has been organized as follows:

- Following this Introduction, Section II presents the KMA key findings and recommendations.

- Section III presents an overview of the MIH Program.

- The Proposed Transaction is described in Section IV.
- Section V discusses the potential impacts of the Proposed Transaction to the City.
- Section VI reviews the Investors' compensation.
- Section VII evaluates the Investors' affordable housing proposal.
- Projections of foregone property tax revenue are presented in Section VIII.
- Section IX presents the financial feasibility analysis of the Investors' proposal.
- Finally, Section X details limiting conditions pertaining to this assignment.
- Our detailed technical analyses are presented in the Appendix.

II. KEY FINDINGS AND RECOMMENDATIONS

A. Key Findings

Affordable Housing Proposal

1. The proposed MIH Program for the Property would provide restricted rents for existing and future tenants earning less than 120% of Area Median Income (AMI).

2. Under the Investors' proposal, in-place rents currently charged to existing tenants would be decreased by an average of 5.1%, with an average monthly savings of $112.

3. The maximum rental rates to be charged to new tenants as spaces turn over are based on income limits published by the United States Department of Housing and Urban Development (HUD). In many cases, these rent ceilings exceed the current in-place rents charged at the Property.

4. The proposed MIH Program relies on natural turnover to income-qualify tenants. The Investors' cash flow model illustrates that this will be achieved by Year 1.

5. The City will not be able to count these MIH units towards its Regional Housing Needs Assessment (RHNA) obligation.

Financial Feasibility

1. Over a 30-year period, it is estimated that the City and other taxing entities would forego a total of $46.2 million (M) -- or $23.5 M in 2021 dollars -- of ad valorem property tax revenues and property tax assessments, assuming a discount rate of 4.5% to reflect public agency cost of funds over the long term.

2. The projected performance of the Property is dependent on numerous factors. Small deviations from projected rent increases, interest income, and operating expenses could have significant impacts on the Property's ability to pay down the outstanding bond principal and yield sales revenue to reimburse the City for foregone property tax revenue.

3. The Property's funding for capital reserves appears adequate to meet the Property's needs over a 35-year time horizon.

4. Using the Investors' cash flow projections, KMA estimates that the sale of the Project at the end of the 30-year term could potentially yield significant proceeds to the City, currently estimated at $120.6 M (future value). However, the size of the net sales proceeds is very sensitive to the

operations of the Project, future market conditions, and other factors over which the City has no control. If this future value is discounted at a 10% rate to reflect real estate performance risk and the time value of money, KMA estimates a net present value in Year 0 of $6.9 M.

5. The proposed financing for the Property does not require an investment of cash equity and all debt is secured solely by the revenue generated by the Property. The structure of the transaction provides significant upfront compensation to the Investors. In contrast, the potential financial returns to the bond holders, the City, and other taxing agencies are entirely at risk and subject to the financial performance of the Property.

6. The City will receive 25% of CMFA's issuance fee, currently estimated at $84,876. An additional $84,876 will also be allocated to non-profit organization(s) as directed by the City.

7. The City will receive an annual host fee of $109,000, escalating at 2.0% per year. Cumulative host fee payments to the City are estimated to total $4.4 M (future value) over a 30-year period.

8. Over a 30-year projection period, total revenues received by the City from 25% of the CMFA issuance fee, the annual host fee, and net sales proceeds are estimated to exceed foregone property taxes to the City by $118.4 M (future value). If these future value estimates of foregone property taxes vs. revenues to the City are discounted to reflect real estate performance risk and the time value of money, KMA estimates the net present value of net revenues to the City in Year 0 at $5.9 M.

B. Recommendations

Given these considerations, if the City elects to participate in the proposed MIH Program for the Property, KMA recommends the following:

1. The Property Conditions Report address the Property's needs for a 35-year term and the financing plan for the Property provide funding to cover these anticipated needs.

2. Any refinancing of the Property's debt be subject to the City's approval.

3. The Property be required to submit proposed rent increases to the City for approval to ensure that the affordability restrictions are enforced.

4. The bond underwriting assumptions be reviewed by an underwriter retained by the City and the City's Financial/Municipal Advisor.

5. The City should have oversight or monitoring rights with respect to property maintenance, building repairs, and ongoing capital upgrades.

III. OVERVIEW OF MIDDLE-INCOME HOUSING PROGRAM

In recent years, a number of financial entities have been submitting proposals to local jurisdictions to use tax-exempt bonds coupled with a property tax-exemption to secure rental housing for households earning up to 120% AMI. These programs are generally referred to as Middle-Income Housing Programs (MIH Programs). It is important to understand that the MIH Program terms vary from jurisdiction-to-jurisdiction based on negotiations between the parties.

This section presents an overview of the MIH Program. The purpose of the MIH Program is to acquire existing market-rate apartment projects and then restrict the units to households earning 120% AMI or less. To accomplish this, the MIH Program is typically structured as follows:

1. No cash financial assistance is required to be provided by the participating local jurisdiction.

2. The units in the project must all be rented at an affordable housing cost to households earning less than 120% AMI. The mix of income restrictions to be applied to the project are the subject of negotiations between the investors and the local jurisdiction.

3. All MIH Program transactions are financed through the use of tax-exempt government bonds. These tax-exempt bonds are referred to as Essential Housing Revenue Bonds (Essential Bonds):

   (a) The Essential Bonds must be issued through a Joint Powers Authority (JPA) of which the local jurisdiction is a member.

   (b) The participating local jurisdiction has no liability or financial obligation for the Essential Bonds.

4. The Essential Bonds are typically issued for a 30- to 35-year term, but the local jurisdiction has the right to require the investor(s) to sell the project (or the local jurisdiction can purchase the project) at any point between Year 15 and the end of the bond term:

   (a) If the local jurisdiction exercises the option, a minimum sales price is agreed upon between the parties.

   (b) The investor(s) will then be required to make best faith efforts to sell the project. If a sale at or above the minimum sales price cannot be achieved, then the investor(s) will not be required to sell the project.

   (c) To the extent that the project is sold, and the sales proceeds exceed the minimum sales price, the remaining sales proceeds will be provided to the participating local jurisdiction and/or other taxing agencies.

5. The use of Essential Bonds entitles 100% of the units in the project to be exempt from property taxes (aside from direct assessments).

6. The Essential Bonds are typically underwritten at a 100%-110% debt service coverage (DSC) ratio. In other words, the debt service payments are equal to approximately 100% of the project's estimated Net Operating Income (NOI):

   (a) During the first several years, the debt service is comprised of interest-only debt service payments.

   (b) The debt service payments escalate as the NOI increases.

   (c) The use of a 100% DSC ratio and interest only payments in the early years implicitly requires rents to continually increase in order for the project to support principal payments in future years. While the bond issuance includes capitalized interest and debt service reserves to be drawn upon in case of cash flow shortfall, the premise of the financial structure assumes that rents must increase each year.

7. The investor(s), or a party related to the investor(s), acts as the program administrator of the MIH Program. In that role, the program administrator is entitled to fees that are defined in the agreements between the local jurisdiction and the investor(s).

8. The investor(s) typically target Class A market-rate apartment projects for the MIH Program. These types of projects are typically generating significant property tax revenue to the local jurisdiction and the other taxing agencies.

IV. PROPOSED TRANSACTION

The Investors propose to acquire the Property for the purpose of converting the market-rate units to moderate/middle-income housing. The Investors plan to achieve this through the following actions:

- The City will enter into a Public Benefit Agreement (Agreement) with the JPA. The Agreement defines the terms under which the City can acquire the Property after Year 15.

- The Investors anticipate that the JPA will issue approximately $115.4 M in Essential Bonds for the Proposed Transaction, consisting of both Series A and Series B bonds. The proposed sources and uses of funds for acquisition of the Property are presented below. The financing plan proposed for the Property does not require an investment of cash equity from the Investors; all debt is secured solely by the revenue generated by the Property.

Proposed Sources and Uses		
	Total	**Per Unit**
Sources		
Principal	$115.4 M	$583,000
Original Issuance Premium	$0.0 M	$0
Gross Bond(s) Amount	**$115.4 M**	**$583,000**
Uses		
Project Acquisition Account	$97.0 M	$490,000
Series B Bond	$5.0 M	$25,000
Senior Debt Service Reserve	$3.3 M	$17,000
Cost of Issuance	$2.7 M	$13,000
Capital Expense Fund	$2.0 M	$10,000
Initial Payment to Project Administration	$2.0 M	$10,000
Capitalized Interest	$1.5 M	$8,000
Coverage Reserve Fund	$0.7 M	$3,000
Extraordinary Expense Fund	$0.5 M	$3,000
Closing Costs	$0.3 M	$2,000
Operating Reserve Fund	$0.3 M	$2,000
Operating Fund	$0.2 M	$1,000
Total Uses (Rounded)	**$115.4 M**	**$583,000**

- The Investors have assumed a purchase price of $97.0 M for the Property. The purchase price is evidenced by a Purchase Agreement between Latitude Del, LLC (Seller) and Ascenda Capital LLC executed on July 16, 2021. The purchase price reflects an average of $490,000 per unit, or $413 per SF of building area. The Investors also provided an appraisal for the Property, prepared by Newmark Knight Frank on July 22, 2021. The appraisal determined the total market value for the Property to be $97.0 M, the same amount as the Purchase Price.

- AEI Consultants prepared a Property Conditions Report (PCR) for the Property on August 2, 2021. As shown below, the costs for immediate repairs were estimated to total $6,000, short-term (Years 0-1) rehabilitation costs were estimated to total $25,300, and long-term (Years 1-12) needs were estimated to total $1.8 M. The Investors' Proposed Transaction includes an initial Capital Expense Fund of $2.0 M and annual capital reserve deposits of $500 per unit escalating at 3.0% per year for Years 1-12 and $1,000 per unit for Years 13-35 (not escalated). These funds can be applied toward the repair/rehabilitation needs identified in the PCR.

Rehabilitation Costs (1)	
	Latitude33 Apartments
Date of PCR	August 2, 2021
Immediate Repairs	$6,035
Short Term (0-1 Years)	$25,300
Long-Term (1 – 12 Years)	$1.8 M
Total	$1.8 M

(1) Reflects estimated costs in 2021 dollars.

Source: AEI Consultants, Property Condition Report, August 2, 2021.

- The anticipated term of the Essential Bonds is up to 35 years. The Investors' financial model illustrates that the Series A Bond will be fully paid off in Year 30.

- Based on review of the Agreement, it is the KMA understanding that the Investors may refinance the Property at a future date without approval of the City. This provision could potentially impact the amount of outstanding indebtedness on the Property at the time of sale or reversion to the City.

- Once acquired by the Investors, the Property would be exempt from paying all property taxes (aside from direct assessments).

- The Investors will then restrict the rents to households earning up to 80% AMI to 120% AMI, as shown below:

Proposed Affordability Mix	
	Latitude33 Apartments
Units @ Maximum 80% AMI	68 Units
Units @ Maximum 100% AMI	66 Units
Units @ Maximum 120% AMI	64 Units
Total	198 Units
Average Affordability	100% AMI

- It is important to note that no existing tenants at the Property will be displaced during the process. The MIH Program relies on natural turnover of units to replace market-rate units with income-restricted units. The Investors' financial model projects that this will be achieved by Year 1.

- At any point between Year 15 and the end of the bond term, the City has the right to require the Investors to sell the Property. If the City exercises this option, a minimum sales price is agreed upon between the parties. The Investors are then required to make best faith efforts to sell the Property. If the Property is sold, and the sales proceeds exceed the minimum sales price, the remaining sales proceeds will be provided to the City and/or the other taxing agencies.

V. POTENTIAL IMPACTS OF PROPOSED TRANSACTION

This section presents an overview of the potential benefits and risks associated with the City's participation in the Proposed Transaction.

A. Potential Benefits of City Participation in Proposed Transaction

The potential benefits to the City as a result of participation in the proposed MIH Program for the Property include the following factors:

- The JPA is the entity that will issue the Essential Bonds. As such, there will be no direct financial risk to the City if the Essential Bonds are not repaid.

- The City can obtain income-restricted units for at least 15 years and may be able to extend the affordability covenants beyond the initial term of the MIH Program.

- The sale of the Property may generate excess sales proceeds that the City and/or taxing agencies can use at their own discretion, detailed in Section IX.B.

- The proposed structure targets households earning up to 80% AMI to 120% AMI, an income band that is typically not served by other affordable housing programs, which target incomes of 80% AMI and below.

B. Potential Issues Related to City Participation in Proposed Transaction

The following are issues related to the proposed financial structure, level and type of affordability, and loss of property tax revenue for the City to consider with respect to the proposed MIH Program for the Property.

Financial Structure

- The proposed MIH Program for the Property is based on very aggressive underwriting assumptions, including unrated bonds, and no equity investment provided by the Investors.

- The proposed MIH Program caps annual rent increases for affordable households at no more than 4.0% per year. However, the City's financial benefits are predicated on a future sale of the Property that fully repays any outstanding debt. As such, variations in rent growth or operating expense will have an impact on the potential sales proceeds in Years 15 to 35.

- Regardless of the legal structure intended to isolate the City from the Property ownership and operations, the City will be the most public-facing entity of the transaction.

- The projected performance of the Property is dependent on numerous factors. Small deviations from projected rent increases, interest income, and operating expenses could have significant impacts on the Property's ability to pay down the outstanding bond principal, reimburse the City and/or other taxing agencies for foregone property tax revenues, and/or generate surplus sales proceeds for the City.

- The City will not have any oversight or monitoring rights with respect to property maintenance, building repairs, and ongoing capital upgrades. If the Property reverts to the City at the end of the bond term, the City may inherit deferred maintenance liabilities beyond its control.

- If the City participates in multiple MIH Program transactions, this could have the effect of inflating the local real estate market, as sellers may seek higher market-rate offers that are made possible by a prospective property tax-exemption.

- The Investors collect fees, which are not tied to the Investors' performance or development risk, discussed in Section VI.

Level and Type of Affordability

- The issuance of Essential Bonds through the JPA is a form of acquisition financing. As such, the MIH Program nominally repurposes existing rental housing rather than producing new units.

- The Investors' proposed affordable rent limits are not aligned with the City's affordability standards. Moreover, current in-place rents for 144 of the Property's 198 units are lower than the proposed maximum rent restrictions. See detailed discussion in Section VII.

- The affordability restrictions terminate when the Essential Bonds are fully repaid (typically between 30 to 35 years), unless a sale is completed earlier. In contrast, most typical affordable housing projects use tax-exempt bond financing and/or Low Income Housing Tax Credits and therefore have a 55-year affordability covenant.

- For typical affordable housing units, the goal is to keep rents as low as possible with annual increases tracking to increases in household income levels. The structure of the Proposed Transaction is predicated on rents increasing each year – where higher increases in rents are marketed as more beneficial to the City. This notion appears to go against typical affordable housing policies.

- There are no enforcement mechanisms for the City to utilize if the Investors do not comply with income qualification of tenants on an annual basis.

- It is the KMA understanding that the City cannot count these MIH units towards its Regional Housing Needs Assessment (RHNA) obligation.

Foregone Property Tax Revenue

- The proposed MIH Program's structure requires that the Property become exempt from property taxes while the Essential Bonds are outstanding. As such, both the City as well as other taxing entities would receive no property tax revenue from the Property during this period. Refer to Section VIII below for detailed calculations.

- The sale of the Property towards the end of the Series A Bond term could potentially reimburse the other taxing entities for their foregone tax revenues and yield significant net proceeds to the City. Using the Investors' October 8, 2021 cash flow projection, KMA prepared a preliminary calculation of a sale at Year 30 and distribution of sales proceeds. As shown in the table below, the City could receive approximately $120.6. M (Year 30 dollars) in net sales proceeds if the Property is sold at fair market value and all other taxing agencies are reimbursed for foregone property taxes. However, the size of the net sales proceeds to the City is very sensitive to the operations of the Project, future market conditions, and other factors over which the City has no control. For example, the Investors' projections rely on the assumption that the Property's NOI and corresponding value will continue to increase. This continued increase is dependent on assumed performance parameters in the Investors' cash flow model such as rent increases (projected at 3.0% annually) and operating expenses (estimated at 21% of Effective Gross Income [EGI]) that are outside of the City's control.

Projected Revenue to City – Year 30	
Exit Net Operating Income (NOI) (1)	$10.1 M
(Less) Adjusted Property Tax Payment (2)	($1.9) M
Adjusted NOI	$8.2 M
Projected Sale Proceeds @ 5.0% Capitalization Rate (3)	**$164.6 M**
Add: Senior Debt Service Reserve – Returned (1)	$0.0 M
(Less) Series A Bonds Remaining (1)	($0.0) M
(Less) Series B Bonds Remaining (1)	($4.5) M
Net Sales Proceeds	**$160.1 M**
(Less) Reimbursement of Property Tax/Assessments to other Taxing Entities (4)	($39.5) M
Net Sales Proceeds to City at Year 30	**$120.6 M**

(1) Investors' estimate.
(2) KMA estimate; reflects 1.156% tax rate.
(3) Per Investors; reflects high (conservative) capitalization rate.
(4) KMA estimate.

VI. COMPENSATION TO INVESTORS

A. Payments to the Investors

As noted above, the Property's financing does not require an investment of cash equity and all debt is secured solely by the revenue generated by the Property. However, the Investors collect high fees, which are not tied to the Investors' performance or development risk. These fees are summarized as follows:

- An upfront fee of $2.0 M to the Project Administrator.
- An annual Project Administrator Fee of $150,000.
- An annual CMFA Monitoring Fee of $150,000.
- An upfront issuance fee of $339,505 ($169,752 net to CMFA after $84,876 distributed to the City; and an additional $84,876 allocated to non-profit(s) directed by the City).
- A $5.0 M fee payable through a Series B Bond. The Series B Bond carries an 8.0% annual interest rate, and the $400,000 in annual interest payments are paid with available cash flow. This annual interest payment to the Investors acts similarly to a preferred equity return. The Investors' projections illustrate that the Series B Bond will be fully paid in Year 30 after the Series A Bond is repaid in full, unless a sale occurs sooner.

B. Funds for Capital Improvements

As indicated above, upfront funding for capital improvements is limited to the $2.0 M Capital Expense funded with bond proceeds. In addition, the Investors are proposing to set aside annual capital reserve contributions of $500 per unit escalating at 3.0% per year for Years 1-12 and $1,000 per unit for Years 13-35 (no escalation).

The Property Conditions Report (PCR) estimated a need for $1.8 M of improvements over the first 12 years. Using this finding, KMA extrapolated the PCR's estimate for the first 12 years to 35 years. Extrapolating the PCR's estimate to 35 years appears to indicate that the Property will have adequate capital reserves to fund future capital improvements that would be needed as the Property ages.

VII. AFFORDABLE HOUSING PROPOSAL

Pursuant to the Proposed Transaction, a regulatory agreement would be recorded against the Property that would restrict the occupancy and monthly rents to households earning no more than 120% AMI. Annual rent increases for income-qualified tenants would be limited to no more than the increase in the AMI or 4.0%, whichever is less. The income and rent restrictions would be in place for the term of the bonds.

Maximum Allowable Rents

The Investors' proposed methodology for calculating affordable rents relies on the income limits published annually by HUD and utilized by the California Tax Credit Allocation Committee (TCAC). The Investors have assumed an income allocation to housing factor of 30% and no utility allowance for the tenants.

It is important to note that the current in-place rents at the Property are lower than the Investors' proposed maximum rent restrictions for households at 100% and 120% AMI, but higher than the proposed maximum rent restrictions for households at 80% AMI. In other words, two-thirds of the units at the Property already qualify as affordable rents under the Investors' proposed maximum rent restrictions.

	One Bedroom	Two Bedroom	Three Bedroom
I. Maximum Rents – Per Investors' Proposal (1)			
80% of AMI	$1,940	$2,182	$2,424
100% of AMI	$2,425	$2,728	$3,030
120% of AMI	$2,910	$3,273	$3,636
Average	$2,425	$2,716	$3,013
II. In-Place Rents – Per Investors' Proposal			
In-Place Rents	$1,945	$2,273 (2)	$2,806

(1) Based on HUD income limits and an income allocation to housing factor of 30%. Assumes no utility allowance for tenants.
(2) Reflects weighted-average.

Pro Forma Rents

While all units in the Property will be subject to the income and rent limits noted above, the Investors are proposing to further decrease current in-place rental rates for some income-eligible households as follows:

- The rental rates charged to households with incomes that do not exceed 80% AMI would be reduced by an average of 10.0%.

- The rental rates charged to households with incomes that do not exceed 100% AMI would be reduced by an average of 4.0%.

- The rental rates charged to households with incomes that do not exceed 120% AMI will not be reduced.

As shown below, with the rent reductions, the rents for existing income-eligible tenants would average $1,861 for one-bedroom units, $2,171 for two-bedroom units, and $2,635 for three-bedroom units, for an average rent of $2,215 across all units. As such, while the proposed rents for existing income-eligible tenants will be reduced, under standard practices, the Investors would be permitted to charge new tenants the maximum affordability levels permitted at the lesser of the increase in the AMI or 4.0%.

	In-Place Rents	Discount	In-Place Rents after Discount
I. One Bedroom			
80% of AMI	$1,945	8.9%	$1,773
100% of AMI	$1,945	4.2%	$1,864
120% of AMI	$1,945	0.0%	$1,945
II. Two Bedroom			
80% of AMI	$2,273 (1)	10.0%	$2,066
100% of AMI	$2,273 (1)	4.2%	$2,180
120% of AMI	$2,273 (1)	0.0%	$2,273
III. Three Bedroom			
80% of AMI	$2,806	13.6%	$2,424
100% of AMI	$2,806	4.2%	$2,690
120% of AMI	$2,806	0.0%	$2,806
IV. All Units			
Average	$2,327	5.1%	$2,215
(1) Reflects weighted average.			

VIII. FOREGONE PROPERTY TAX REVENUE

The Investors have assumed a purchase price of $97.0 M for the Property. The purchase price is evidenced by a Purchase Agreement between Latitude Del, LLC (Seller) and Ascenda Capital LLC executed on July 16, 2021.

KMA has assumed that absent the Proposed Transaction, the Property would sell to another buyer at market value for continued operation as market-rate apartments without affordability covenants or property tax exemption. Therefore, KMA has used the proposed purchase price as the estimated assessed value of the Property in order to calculate the annual lost property tax as a result of the Proposed Transaction. Future foregone property taxes were calculated using each taxing entity's share of the 1.0% property tax plus voter approved bonds and taxes (i.e., Unified School, Community College, Metro Water District), as summarized below. The KMA calculations do not consider additional foregone tax revenues in the form of property tax in-lieu of Vehicle License Fees (VLF). (See Appendix Tables 2 and 3 for detailed calculations.)

Foregone Annual Property Tax Revenue, 2021 Dollars		
I. General Levy (1.0% of Assessed Value) – Annual Tax Revenue		
A. City	**$140,000**	**14.5%**
B. Schools/Education		
General Elementary Escondido Union	$265,000	27.4%
High Escondido Union	$201,000	20.8%
Palomar Community College	$61,000	6.2%
All Other Education	$16,000	1.7%
Total Schools/Education	**$544,000**	**56.0%**
C. Remaining Taxing Agencies	**$286,000**	**29. 5%**
D. Total General Levy – Annual Tax Revenue	**$970,000**	**100.0%**
II. Voter Approved Bonds and Taxes – Annual Revenue		
A. City	$20,000	0.02065%
B. School	$86,000	0.08834%
C. Other	$40,000	0.04150%
D. Total Voter Approved Bonds and Taxes – Annual Revenue	**$146,000**	**0.15049%**
III. Total Foregone Annual Property Tax Revenue (Rounded)	**$1,116,000**	

As shown, potential lost property tax on an annual basis for the City, school districts/education, and other taxing agencies totals approximately $1,116,000, and is broken out as described below:

- The City, including voter approved bonds and taxes, is estimated to lose approximately $160,000 in annual property tax revenue.

- School districts/education are estimated to lose approximately $630,000 in annual property tax revenue. It is KMA's understanding that school districts that are affected by the proposed MIHP program receive additional revenue from the state to off-set any loss of property tax revenues.

School Districts/Education	
General Elementary Escondido Union	$265,000
High Escondido Union	$201,000
Palomar Community College	$61,000
Voter Approved School Bonds and Taxes *	$86,000
All Other Education	$17,000
Total School Districts/Education	**$630,000**
*Reflects voter approved bonds and taxes	

- The remaining taxing agencies, including County General, Palomar Health, and the Regional Occupational Centers, are estimated to lose $326,000 annually.

As noted previously, it is assumed that the Property may be sold beginning in Year 15 through the end of the bond term. As such, KMA has illustrated the probable future loss of property tax revenue for the periods from Years 1 through 15 and Years 1 through 30, respectively, as presented below.

Future Foregone Property Tax Revenue				
	YEARS 0-15		**YEARS 0-30**	
	Future Value	**Net Present Value in Year 0** (1)	**Future Value**	**Net Present Value in Year 0** (1)
City of Escondido	$2.8 M	$2.0 M	$6.6 M	$3.4 M
School Districts/Education (2)	$11.1 M	$7.8 M	$26.0 M	$13.3 M
Remaining Taxing Agencies	$5.8 M	$4.1 M	$13.5 M	$6.9 M
Total Property Tax Revenue	**$19.7 M**	**$13.9 M**	**$46.2 M**	**$23.5 M**

(1) Assumes a discount rate of 4.5%.
(2) School districts may be able to receive additional revenue from the State to offset any loss of property tax revenues.

IX. FINANCIAL FEASIBILITY OF INVESTORS' PROPOSAL

A. Comparison of Foregone Property Tax to Rent Savings Created by MIH Program

KMA compared the magnitude of foregone property tax revenues to the cumulative value of the rent savings achieved. In summary, the taxing agencies would forego approximately $46.2 M in total property tax revenue over a 30-year time horizon. The City's portion of foregone tax revenue totals $6.6 M over this period. In exchange for that public investment, tenants at the Property would save approximately $40.9 M in rent relative to the KMA estimates of achievable rents had the Property continued to operate as a market-rate project. The KMA estimates are based on market rent figures obtained from CoStar Group and assumed to be phased in over a five-year period. As a result, the amount by which foregone property tax revenues exceed rent savings is estimated at approximately $5.3 M. (See Appendix Table 4 for detailed calculations.)

Rent Savings Created by MIH Program Compared to Foregone Property Tax	
	Years 1 – 30 Cumulative
Rent Savings	
Rental Income Assuming 100% Market-Rate (1)	$298.8 M
Rental Income with MIH Program Rent Restrictions (2)	$257.9 M
Rent Savings Due to MIH Program	$40.9 M
Foregone Property Tax Payments	$46.2 M
Amount by which Forgone Property Tax Exceeds Rent Savings	$5.3 M

(1) Based on CoStar Group estimate of market rents. Assumes five-year phase-in of in-place rents to market rents.
(2) Reflects Investors' pro forma rents, i.e., in-place discounted rents subject to the Investors' proposed maximum rent restrictions.

B. Potential Sales Proceeds Available to the City

KMA estimated the net sales proceeds that could potentially be available to the City upon a sale at the end of a 30-year term based on the cash flow projections prepared by the Investors. As shown below, KMA estimates that the Property could potentially support a sales price of approximately $164.6 M, assuming a conservative market capitalization rate of 5.0%. Moreover, it is assumed that capital improvements would not be needed to ready the property for sale. (See Appendix Tables 5 through 7.)

The Investors project that there will be $4.5 M in outstanding debt on the Series B bond at the end of Year 30. Based on these additional assumptions, the net sales proceeds at Year 30 are estimated to total $160.1 M.

Under the MIH Program, reimbursing any of the other taxing agencies for foregone property tax revenues during the regulatory period is at the discretion of the City. Foregone property taxes for all taxing agencies other than the City are estimated to total $39.5 M. If the City were to reimburse all taxing entities, the net remaining proceeds to the City would total approximately $120.6 M. Under these projections, the City's investment of $6.6 M of property tax revenues could yield a profit of $114.0 M. If the City were to elect to not provide any reimbursement to other taxing agencies, the net proceeds to the City would total $160.1 M. Under this approach, the City's investment of $6.6 M of property tax revenues could yield a profit of $153.5 M. In either case, the sale of the Property could yield a large profit margin to the City.

The City should also consider the future net proceeds on a present value basis. Discounting the $120.6 M in net sales proceeds to the City at Year 30 using a 10% annual discount rate to reflect real estate performance risk and uncertainty yields a present value to the City in Year 0 of approximately $6.9 M.

For illustrative purposes, KMA also modeled a sale at the end of Year 15, using the Investors' cash flow projection. As shown below, it is estimated that sales proceeds fall short of the amount needed to retire the outstanding balance on the bonds and reimburse the taxing entities, leaving the City with *negative* $947,000 in net proceeds (Year 15 dollars).

Potential Net Sales Proceeds at Sale of the Property	Year 15	Year 30
I. Sales Proceeds		
Exit Net Operating Income (1)	$6.5 M	$10.1 M
(Less) Adjusted Property Tax Payment @ 1.156% (2)	($1.2) M	($1.9) M
Adjusted Net Operating Income	$5.3 M	$8.2 M
Capitalization Rate (3)	5.0%	5.0%
Project Value	$105.6 M	$164.6 M
Debt Service Reserve – Returned	$0.0 M	$0.0 M
(Less) Bonds Outstanding 2020A (1)	($84.7) M	($0.0) M
(Less) Bonds Outstanding 2020B (1)	($5.0) M	($4.5) M
Net Sales Proceeds	$15.9 M	$160.1 M
Per Unit	$80,000	$809,000
Per SF GBA	$68	$681
II. Potential Reimbursement of Foregone Property Tax Revenues		
Reimbursement of Property Tax to All Other Taxing Entities (at the discretion of the City)	($16.9) M	($39.5) M
III. Net Sales Proceeds to the City – Future Value	**($0.9) M**	**$120.6 M**
Per Unit	**($5,000)**	**$609,000**
Per SF GBA	**($4)**	**$513**
IV. Net Sales Proceeds to the City with Time Value of Money and Risk Factor (discounted at 10%)	**($0.2) M**	**$6.9 M**
Per Unit	**($1,000)**	**$35,000**
Per SF GBA	**($1)**	**$29**

(1) Investors' estimates.
(2) KMA estimate.
(3) Per Investors; reflects high (conservative) capitalization rate.

It is also likely that the City would consider re-selling the Property to a non-profit entity to continue as an affordable housing development. Under this scenario, if the City does not require payment of a purchase price because of the income restrictions on the Property, the Property would not generate any revenues to the City and the taxing entities would not be reimbursed for the foregone property tax revenues that were abated over the 30-year term. Instead, sales proceeds in Year 30, projected at $809,000 per unit or $681 per SF, would likely be used toward capital improvements needed to keep the Property in good condition.

C. Total Potential Revenues to City

KMA also compared the magnitude of the City's share of foregone property tax revenues to total revenues received by the City. In summary, the City would forego approximately $6.6 M in property tax revenues over the 30-year term. In exchange for that investment, the City is projected to receive $85,000 in an upfront fee provided by the Investors, $4.4 M in annual host fees over a 30-year term, and $120.6 M in net sales proceeds in Year 30. As a result, the amount by which revenues to the City exceed foregone tax revenue to the City is estimated at approximately $118.4 M. On a present value basis, discounting the $118.4 M in net revenues to the City at Year 30 yields a present value to the City in Year 0 of approximately $5.9 M. (See Appendix Table 9 for detail.)

Foregone Property Tax to City Compared to Revenues to City	
	Years 1 – 30 Cumulative
Foregone Property Tax Payments to City (1)	$6.6 M
Revenues to City (1)	
Upfront Fee	$85,000
City Host Fee	$4.4 M
Net Sales Proceeds at Year 30	$120.6 M
Total Revenues to City	$125.0 M
Amount by which Revenues to City Exceed City Foregone Property Taxes (1)	$118.4 M
Net Present Value in Year 0 (2)	$5.9 M

(1) Future value.
(2) Assumes a discount rate of 4.5% for foregone property tax payments, upfront fee, and annual host fee; and a 10.0% discount rate for sales proceeds to the City.

X. LIMITING CONDITIONS

1. Value estimates assume that property titles are good and marketable; no title search has been made, nor has KMA attempted to determine property ownership. The value estimates are given without regard to any questions of boundaries, encumbrances, liens, or encroachments.

2. Property tax projections reflect KMA's understanding of the assessment and tax apportionment procedures employed by the County. The County procedures are subject to change as a reflection of policy revisions or legislative mandate. While we believe our estimates to be reasonable, taxable values resulting from actual appraisals may vary from the amounts assumed in the projections.

3. No assurances are provided by KMA as to the certainty of the projected tax revenues shown in this document. Actual revenues may be higher or lower than what has been projected and are subject to valuation changes resulting from new developments or transfers of ownership not specifically identified herein, actual resolution of outstanding appeals, future filing of appeals, or the non-payment of taxes due.

4. KMA is not advising or recommending any action be taken by the City with respect to any prospective, new, or existing municipal financial products or issuance of municipal securities (including with respect to the structure, timing, terms, and other similar matters concerning such financial products or issues).

5. KMA is not acting as a Municipal Advisor to the City and does not assume any fiduciary duty hereunder, including, without limitation, a fiduciary duty to the City pursuant to Section 15B of the Exchange Act with respect to the services provided hereunder and any information and material contained in KMA's work product.

6. The City shall discuss any such information and material contained in KMA's work product with any and all internal and/or external advisors and experts, including its own Municipal Advisors, that it deems appropriate before acting on the information and material.

TABLE 1

PROJECT DESCRIPTION
MIDDLE-INCOME HOUSING PROGRAM - LATITUDE 33
CITY OF ESCONDIDO

I.	**Property Address**	515 Meander Glen			
II.	**Site Area**	8.91	Acres		
III.	**Gross Building Area**				
	Net Rentable	233,438	SF	99%	
	Circulaton/Common Area	1,562	SF	1%	
	Total Building Area	235,000	SF	100%	
IV.	**Number of Stories**	3 - 5	Stories		
V.	**Number of Units**	Number of Units			Average Unit Size
	One Bedroom	24	Units	12%	913 SF
	Two Bedroom	139	Units	70%	1,158 SF
	Three Bedroom	35	Units	18%	1,474 SF
	Total Units	198	Units	100%	1,179 SF
VI.	**Density**	22.2	Units/Acre		
VII.	**Proposed Affordability Mix**				
	Units @ 80% of AMI	68	Units	34%	
	Units @ 100% of AMI	66	Units	33%	
	Units @ 120% of AMI	64	Units	32%	
	Total	198	Units	100%	
	Average Affordability	100%	of AMI		
VIII.	**Parking**				
	Subterranean	158	Spaces		
	Attached Garage	114	Spaces		
	Carports	67	Spaces		
	Surface	29	Spaces		
	Total Parking	368	Spaces		
	Parking Ratio	1.86	Spaces/Unit		

Attachment "2"

Item 11.

TABLE 2

FOREGONE TAX REVENUE - FY 2021 DOLLARS
MIDDLE-INCOME HOUSING PROGRAM - LATITUDE 33
CITY OF ESCONDIDO

I. Property Address		515 Meander Glen				
II. Year Built		2012				
III. Number of Units		198 Units				
IV. Assessed Value		**Total**	**Per Unit**			
Total (1)		$97,000,000	$490,000			
V. Property Tax Rate @	1.00%	$970,000				

VI. Total Foregone Tax Revenue (2) — **TAX RATE AREA 004234**

A. Breakout of 1.0% Property Tax (3)	**City**	**Schools**	**Other**	**Total**	**%**
County General	---	---	$251,000	$251,000	25.88%
North County Cemetery	---	---	$4,100	$4,100	0.42%
Gen Elem Escondido Union	---	$265,400	---	$265,400	27.36%
High Escondido Union	---	$201,400	---	$201,400	20.77%
Palomar Community College	---	$60,500	---	$60,500	6.24%
County School Service	---	$7,200	---	$7,200	0.74%
County School Service - Capital Outlay	---	$1,800	---	$1,800	0.19%
Childrens Institutions Tuition	---	$1,500	---	$1,500	0.16%
Regional Occupational Centers	---	---	$4,600	$4,600	0.47%
Trainable Mentally Retarded Minors High School	---	$2,100	---	$2,100	0.21%
Physically Handicapped Minors High School Comp	---	$3,200	---	$3,200	0.33%
Vista Project	---	---	$200	$200	0.02%
Autistic Pupils Minors High School Comp	---	$100	---	$100	0.01%
Development Centers for Handicapped EC56811 High	---	$500	---	$500	0.05%
Educational Revneue Augmentation Fund	---	$0	---	$0	0.00%
Escondido City	$140,300	---	---	$140,300	14.46%
Palomar Health	---	---	$22,400	$22,400	2.31%
Resource Conservation Dist of Greater San Diego	---	---	$110	$110	0.01%
CWA City of Escondido	---	---	$3,700	$3,700	0.38%
Total	**$140,300**	**$544,000**	**$286,000**	**$970,100**	**100.0%**
B. Voter Approved Bonds and Taxes (1)					
Gen Bond Escondido - Prop K - 2017 Ref	---	$13,300	---	$13,300	1.3700%
Palomar Community College - Prop M - Ser 2006 B	---	$2,300	---	$2,300	0.2420%
MWD D/S Remainder of SDCWA	---	---	$3,400	$3,400	0.3500%
Gen Bond Escondido - Prop E - 2014 C	---	$4,000	---	$4,000	0.4100%
Palomar Community College - Prop M - Ser 2006 C	---	$1,100	---	$1,100	0.1180%
Gen Bond Escondido - Prop E - 2021 Ref	---	$7,300	---	$7,300	0.7490%
Palomar Community College - Prop M - Ser 2017 D	---	$4,000	---	$4,000	0.4090%
Palomar Health - Debt Service	---	---	$36,900	$36,900	3.8000%
Hi Bond Escondido - Prop T - 2009 A	---	$30,300	---	$30,300	3.1240%
Palomar Community College - Prop M - 2020 Ref	---	$5,300	---	$5,300	0.5490%
Gen Bond Escondido - Prop K - 2002A Ref	---	$0	---	$0	0.0000%
Hi Bond Escondido - Prop T - Series 2009 B	---	$0	---	$0	0.0000%
Gen Bond Escondido - Prop E - Series 2014 A	---	$1,800	---	$1,800	0.1830%
Hi Bond - Prop T - 2011 C	---	$1,100	---	$1,100	0.1090%
Escondido City Public Safety Fac Imp	$20,000	---	---	$20,000	2.0650%
Hi Bond Escondido - Prop A - 1996A Ref	---	$0	---	$0	0.0000%
Palomar Community College - Prop M - 2017 Ref	---	$2,300	---	$2,300	0.2390%
Gen Bond Escondido - Prop E - Ser 2014 B	---	$9,200	---	$9,200	0.9450%
Palomar Community College - Prop M - 2015 Ref	---	$3,800	---	$3,800	0.3870%
Total Voter Approved Bonds and Taxes	**$20,000**	**$85,800**	**$40,300**	**$146,100**	**15.0490%**
C. Total Foregone Tax Revenue	**$160,300**	**$629,800**	**$326,300**	**$1,116,200**	

(1) Per Appraisal, August 6, 2021.
(2) Property will not be exempt from fixed charges, including Mosquito Surveillance, Vector Disease Control, and Water Standby Charges.
(3) Source: County of San Diego Auditor & Controller - Property Tax Services.

Attachment "2"

Item 11.

TABLE 3

FUTURE FOREGONE TAX REVENUE - YEARS 1-30
MIDDLE-INCOME HOUSING PROGRAM - LATITUDE 33
CITY OF ESCONDIDO

Assumptions	
Assessed Value Escalation @	*2.00%*
Discount Rate	*4.50%*

		1	2	3	4	5	6	7	8	9	10
I.	**Assessed Value**	$98,940,000	$100,918,800	$102,937,176	$104,995,920	$107,095,838	$109,237,755	$111,422,510	$113,650,960	$115,923,979	$118,242,459
II.	**Breakout of 1.0% Property Tax**										
	County General	$256,100	$261,200	$266,400	$271,700	$277,200	$282,700	$288,400	$294,100	$300,000	$306,000
	North County Cemetery	$4,200	$4,300	$4,400	$4,500	$4,500	$4,600	$4,700	$4,800	$4,900	$5,000
	Gen Elem Escondido Union	$270,700	$276,100	$281,600	$287,300	$293,000	$298,900	$304,800	$310,900	$317,200	$323,500
	High Escondido Union	$205,500	$209,600	$213,800	$218,000	$222,400	$226,900	$231,400	$236,000	$240,700	$245,600
	Palomar Community College	$61,700	$63,000	$64,200	$65,500	$66,800	$68,100	$69,500	$70,900	$72,300	$73,800
	County School Service	$7,300	$7,500	$7,600	$7,800	$7,900	$8,100	$8,200	$8,400	$8,600	$8,700
	County School Service - Capital Outlay	$1,800	$1,900	$1,900	$2,000	$2,000	$2,000	$2,100	$2,100	$2,200	$2,200
	Childrens Institutions Tuition	$1,600	$1,600	$1,600	$1,700	$1,700	$1,700	$1,800	$1,800	$1,800	$1,900
	Regional Occupational Centers	$4,700	$4,800	$4,900	$5,000	$5,100	$5,200	$5,300	$5,400	$5,500	$5,600
	Trainable Mentally Retarded Minors High School	$2,100	$2,100	$2,200	$2,200	$2,300	$2,300	$2,400	$2,400	$2,500	$2,500
	Physically Handicapped Minors High School Comp	$3,200	$3,300	$3,400	$3,400	$3,500	$3,600	$3,700	$3,700	$3,800	$3,900
	Vista Project	$200	$200	$200	$200	$200	$200	$200	$200	$200	$200
	Autistic Pupils Minors High School Comp	$100	$100	$100	$100	$100	$100	$100	$100	$100	$100
	Development Centers for Handicapped EC56811 High	$500	$500	$500	$500	$500	$500	$500	$500	$600	$600
	Educational Revneue Augmentation Fund	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
	Escondido City	$143,100	$145,900	$148,800	$151,800	$154,900	$158,000	$161,100	$164,300	$167,600	$171,000
	Palomar Health	$22,800	$23,300	$23,700	$24,200	$24,700	$25,200	$25,700	$26,200	$26,700	$27,300
	Resource Conservation Dist of Greater San Diego	$100	$100	$100	$100	$100	$100	$100	$100	$100	$100
	CWA City of Escondido	$3,800	$3,800	$3,900	$4,000	$4,100	$4,200	$4,200	$4,300	$4,400	$4,500
	Total	**$989,500**	**$1,009,300**	**$1,029,300**	**$1,050,000**	**$1,071,000**	**$1,092,400**	**$1,114,200**	**$1,136,200**	**$1,159,200**	**$1,182,500**
III.	**Voter Approved Bonds and Taxes** (1)										
	Gen Bond Escondido - Prop K - 2017 Ref	$13,600	$13,800	$14,100	$14,400	$14,700	$15,000	$15,300	$15,600	$15,900	$16,200
	Palomar Community College - Prop M - Ser 2006 B	$2,400	$2,400	$2,500	$2,500	$2,600	$2,600	$2,700	$2,800	$2,800	$2,900
	MWD D/S Remainder of SDCWA	$3,500	$3,500	$3,600	$3,700	$3,700	$3,800	$3,900	$4,000	$4,100	$4,100
	Gen Bond Escondido - Prop E - 2014 C	$4,100	$4,100	$4,200	$4,300	$4,400	$4,500	$4,600	$4,700	$4,800	$4,800
	Palomar Community College - Prop M - Ser 2006 C	$1,200	$1,200	$1,200	$1,200	$1,300	$1,300	$1,300	$1,300	$1,400	$1,400
	Gen Bond Escondido - Prop E - 2021 Ref	$7,400	$7,600	$7,700	$7,900	$8,000	$8,200	$8,300	$8,500	$8,700	$8,900
	Palomar Community College - Prop M - Ser 2017 D	$4,000	$4,100	$4,200	$4,300	$4,400	$4,500	$4,600	$4,600	$4,700	$4,800
	Palomar Health - Debt Service	$37,600	$38,300	$39,100	$39,900	$40,700	$41,500	$42,300	$43,200	$44,100	$44,900
	Hi Bond Escondido - Prop T - 2009 A	$30,900	$31,500	$32,200	$32,800	$33,500	$34,100	$34,800	$35,500	$36,200	$36,900
	Palomar Community College - Prop M - 2020 Ref	$5,400	$5,500	$5,700	$5,800	$5,900	$6,000	$6,100	$6,200	$6,400	$6,500
	Gen Bond Escondido - Prop K - 2002A Ref	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
	Hi Bond Escondido - Prop T - Series 2009 B	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
	Gen Bond Escondido - Prop E - Series 2014 A	$1,800	$1,800	$1,900	$1,900	$2,000	$2,000	$2,000	$2,100	$2,100	$2,200
	Hi Bond - Prop T - 2011 C	$1,100	$1,100	$1,100	$1,100	$1,200	$1,200	$1,200	$1,200	$1,300	$1,300
	Escondido City Public Safety Fac Imp	$20,400	$20,800	$21,300	$21,700	$22,100	$22,600	$23,000	$23,500	$23,900	$24,400
	Hi Bond Escondido - Prop A - 1996A Ref	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
	Palomar Community College - Prop M - 2017 Ref	$2,400	$2,400	$2,500	$2,500	$2,600	$2,600	$2,700	$2,700	$2,800	$2,800
	Gen Bond Escondido - Prop E - Ser 2014 B	$9,300	$9,500	$9,700	$9,900	$10,100	$10,300	$10,500	$10,700	$11,000	$11,200
	Palomar Community College - Prop M - 2015 Ref	$3,800	$3,900	$4,000	$4,100	$4,100	$4,200	$4,300	$4,400	$4,500	$4,600
	Total	**$148,900**	**$151,500**	**$155,000**	**$158,000**	**$161,300**	**$164,400**	**$167,600**	**$171,000**	**$174,700**	**$177,900**
IV.	**Total Foregone Tax Revenue**	**$1,138,400**	**$1,160,800**	**$1,184,300**	**$1,208,000**	**$1,232,300**	**$1,256,800**	**$1,281,800**	**$1,307,200**	**$1,333,900**	**$1,360,400**
V.	**Breakout of Foregone Tax Revenue by Entity**										
	City	$163,500	$166,700	$170,100	$173,500	$177,000	$180,600	$184,100	$187,800	$191,500	$195,400
	Schools	$641,900	$654,600	$667,900	$681,200	$695,000	$708,700	$722,900	$737,100	$752,400	$767,300
	Other	$333,000	$339,500	$346,300	$353,300	$360,300	$367,500	$374,800	$382,300	$390,000	$397,700
	Total (Rounded)	**$1,138,400**	**$1,160,800**	**$1,184,300**	**$1,208,000**	**$1,232,300**	**$1,256,800**	**$1,281,800**	**$1,307,200**	**$1,333,900**	**$1,360,400**

Prepared by: Keyser Marston Associates, Inc.
Filename: i:/Escondido_MIHP Pro Forma Analysis_LATITUDE - 10-20-21;10/20/2021;mdt

TABLE 3

FUTURE FOREGONE TAX REVENUE - YEARS 1-30
MIDDLE-INCOME HOUSING PROGRAM - LATITUDE 33
CITY OF ESCONDIDO

Assumptions	
Assessed Value Escalation @	*2.00%*
Discount Rate	*4.50%*

	11	12	13	14	15	16	17	18	19	20
I. Assessed Value	$120,607,308	$123,019,454	$125,479,843	$127,989,440	$130,549,229	$133,160,213	$135,823,418	$138,539,886	$141,310,684	$144,136,897
II. Breakout of 1.0% Property Tax										
County General	$312,100	$318,400	$324,700	$331,200	$337,900	$344,600	$351,500	$358,500	$365,700	$373,000
North County Cemetery	$5,100	$5,200	$5,300	$5,400	$5,500	$5,700	$5,800	$5,900	$6,000	$6,100
Gen Elem Escondido Union	$330,000	$336,600	$343,300	$350,200	$357,200	$364,300	$371,600	$379,000	$386,600	$394,300
High Escondido Union	$250,500	$255,500	$260,600	$265,800	$271,100	$276,500	$282,100	$287,700	$293,500	$299,300
Palomar Community College	$75,200	$76,700	$78,300	$79,800	$81,400	$83,100	$84,700	$86,400	$88,200	$89,900
County School Service	$8,900	$9,100	$9,300	$9,500	$9,700	$9,900	$10,100	$10,300	$10,500	$10,700
County School Service - Capital Outlay	$2,300	$2,300	$2,300	$2,400	$2,400	$2,500	$2,500	$2,600	$2,600	$2,700
Childrens Institutions Tuition	$1,900	$1,900	$2,000	$2,000	$2,100	$2,100	$2,100	$2,200	$2,200	$2,300
Regional Occupational Centers	$5,700	$5,800	$5,900	$6,000	$6,200	$6,300	$6,400	$6,500	$6,700	$6,800
Trainable Mentally Retarded Minors High School	$2,600	$2,600	$2,700	$2,700	$2,800	$2,800	$2,900	$3,000	$3,000	$3,100
Physically Handicapped Minors High School Comp	$4,000	$4,000	$4,100	$4,200	$4,300	$4,400	$4,500	$4,500	$4,600	$4,700
Vista Project	$200	$200	$200	$200	$200	$300	$300	$300	$300	$300
Autistic Pupils Minors High School Comp	$100	$100	$100	$100	$100	$100	$100	$100	$100	$100
Development Centers for Handicapped EC56811 High	$600	$600	$600	$600	$600	$600	$600	$700	$700	$700
Educational Revneue Augmentation Fund	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Escondido City	$174,400	$177,900	$181,400	$185,100	$188,800	$192,500	$196,400	$200,300	$204,300	$208,400
Palomar Health	$27,800	$28,400	$28,900	$29,500	$30,100	$30,700	$31,300	$32,000	$32,600	$33,200
Resource Conservation Dist of Greater San Diego	$100	$100	$100	$100	$100	$200	$200	$200	$200	$200
CWA City of Escondido	$4,600	$4,700	$4,800	$4,900	$5,000	$5,100	$5,200	$5,300	$5,400	$5,500
Total	**$1,206,100**	**$1,230,100**	**$1,254,600**	**$1,279,700**	**$1,305,500**	**$1,331,700**	**$1,358,300**	**$1,385,500**	**$1,413,200**	**$1,441,300**
III. Voter Approved Bonds and Taxes (1)										
Gen Bond Escondido - Prop K - 2017 Ref	$16,500	$16,900	$17,200	$17,500	$17,900	$18,200	$18,600	$19,000	$19,400	$19,700
Palomar Community College - Prop M - Ser 2006 B	$2,900	$3,000	$3,000	$3,100	$3,200	$3,200	$3,300	$3,400	$3,400	$3,500
MWD D/S Remainder of SDCWA	$4,200	$4,300	$4,400	$4,500	$4,600	$4,700	$4,800	$4,800	$4,900	$5,000
Gen Bond Escondido - Prop E - 2014 C	$4,900	$5,000	$5,100	$5,200	$5,400	$5,500	$5,600	$5,700	$5,800	$5,900
Palomar Community College - Prop M - Ser 2006 C	$1,400	$1,500	$1,500	$1,500	$1,500	$1,600	$1,600	$1,600	$1,700	$1,700
Gen Bond Escondido - Prop E - 2021 Ref	$9,000	$9,200	$9,400	$9,600	$9,800	$10,000	$10,200	$10,400	$10,600	$10,800
Palomar Community College - Prop M - Ser 2017 D	$4,900	$5,000	$5,100	$5,200	$5,300	$5,400	$5,600	$5,700	$5,800	$5,900
Palomar Health - Debt Service	$45,800	$46,700	$47,700	$48,600	$49,600	$50,600	$51,600	$52,600	$53,700	$54,800
Hi Bond Escondido - Prop T - 2009 A	$37,700	$38,400	$39,200	$40,000	$40,800	$41,600	$42,400	$43,300	$44,100	$45,000
Palomar Community College - Prop M - 2020 Ref	$6,600	$6,800	$6,900	$7,000	$7,200	$7,300	$7,500	$7,600	$7,800	$7,900
Gen Bond Escondido - Prop K - 2002A Ref	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Hi Bond Escondido - Prop T - Series 2009 B	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Gen Bond Escondido - Prop E - Series 2014 A	$2,200	$2,300	$2,300	$2,300	$2,400	$2,400	$2,500	$2,500	$2,600	$2,600
Hi Bond - Prop T - 2011 C	$1,300	$1,300	$1,400	$1,400	$1,400	$1,500	$1,500	$1,500	$1,500	$1,600
Escondido City Public Safety Fac Imp	$24,900	$25,400	$25,900	$26,400	$27,000	$27,500	$28,000	$28,600	$29,200	$29,800
Hi Bond Escondido - Prop A - 1996A Ref	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Palomar Community College - Prop M - 2017 Ref	$2,900	$2,900	$3,000	$3,100	$3,100	$3,200	$3,200	$3,300	$3,400	$3,400
Gen Bond Escondido - Prop E - Ser 2014 B	$11,400	$11,600	$11,900	$12,100	$12,300	$12,600	$12,800	$13,100	$13,400	$13,600
Palomar Community College - Prop M - 2015 Ref	$4,700	$4,800	$4,900	$5,000	$5,100	$5,200	$5,300	$5,400	$5,500	$5,600
Total	**$181,300**	**$185,100**	**$188,900**	**$192,500**	**$196,600**	**$200,500**	**$204,500**	**$208,500**	**$212,800**	**$216,800**
IV. Total Foregone Tax Revenue	**$1,387,400**	**$1,415,200**	**$1,443,500**	**$1,472,200**	**$1,502,100**	**$1,532,200**	**$1,562,800**	**$1,594,000**	**$1,626,000**	**$1,658,100**
V. Breakout of Foregone Tax Revenue by Entity										
City	$199,300	$203,300	$207,300	$211,500	$215,800	$220,000	$224,400	$228,900	$233,500	$238,200
Schools	$782,500	$798,100	$814,200	$830,300	$847,100	$864,000	$881,300	$899,000	$917,000	$935,000
Other	$405,600	$413,800	$422,000	$430,400	$439,200	$448,200	$457,100	$466,100	$475,500	$484,900
Total (Rounded)	**$1,387,400**	**$1,415,200**	**$1,443,500**	**$1,472,200**	**$1,502,100**	**$1,532,200**	**$1,562,800**	**$1,594,000**	**$1,626,000**	**$1,658,100**

TABLE 3

FUTURE FOREGONE TAX REVENUE - YEARS 1-30
MIDDLE-INCOME HOUSING PROGRAM - LATITUDE 33
CITY OF ESCONDIDO

Assumptions	
Assessed Value Escalation @	*2.00%*
Discount Rate	*4.50%*

	21	22	23	24	25	26	27	28	29	30
I. Assessed Value	$147,019,635	$149,960,028	$152,959,229	$156,018,413	$159,138,781	$162,321,557	$165,567,988	$168,879,348	$172,256,935	$175,702,074
II. Breakout of 1.0% Property Tax										
County General	$380,500	$388,100	$395,900	$403,800	$411,800	$420,100	$428,500	$437,100	$445,800	$454,700
North County Cemetery	$6,200	$6,400	$6,500	$6,600	$6,800	$6,900	$7,000	$7,200	$7,300	$7,500
Gen Elem Escondido Union	$402,200	$410,300	$418,500	$426,800	$435,400	$444,100	$453,000	$462,000	$471,300	$480,700
High Escondido Union	$305,300	$311,400	$317,600	$324,000	$330,500	$337,100	$343,800	$350,700	$357,700	$364,900
Palomar Community College	$91,700	$93,500	$95,400	$97,300	$99,300	$101,300	$103,300	$105,400	$107,500	$109,600
County School Service	$10,900	$11,100	$11,300	$11,500	$11,800	$12,000	$12,300	$12,500	$12,700	$13,000
County School Service - Capital Outlay	$2,700	$2,800	$2,900	$2,900	$3,000	$3,000	$3,100	$3,200	$3,200	$3,300
Childrens Institutions Tuition	$2,300	$2,400	$2,400	$2,500	$2,500	$2,600	$2,600	$2,700	$2,700	$2,800
Regional Occupational Centers	$6,900	$7,100	$7,200	$7,400	$7,500	$7,700	$7,800	$8,000	$8,100	$8,300
Trainable Mentally Retarded Minors High School	$3,100	$3,200	$3,300	$3,300	$3,400	$3,500	$3,500	$3,600	$3,700	$3,700
Physically Handicapped Minors High School Comp	$4,800	$4,900	$5,000	$5,100	$5,200	$5,300	$5,400	$5,500	$5,700	$5,800
Vista Project	$300	$300	$300	$300	$300	$300	$300	$300	$300	$300
Autistic Pupils Minors High School Comp	$100	$100	$200	$200	$200	$200	$200	$200	$200	$200
Development Centers for Handicapped EC56811 High	$700	$700	$700	$700	$800	$800	$800	$800	$800	$800
Educational Revneue Augmentation Fund	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Escondido City	$212,600	$216,800	$221,200	$225,600	$230,100	$234,700	$239,400	$244,200	$249,100	$254,100
Palomar Health	$33,900	$34,600	$35,300	$36,000	$36,700	$37,400	$38,200	$39,000	$39,700	$40,500
Resource Conservation Dist of Greater San Diego	$200	$200	$200	$200	$200	$200	$200	$200	$200	$200
CWA City of Escondido	$5,600	$5,700	$5,800	$5,900	$6,100	$6,200	$6,300	$6,400	$6,600	$6,700
Total	**$1,470,000**	**$1,499,600**	**$1,529,700**	**$1,560,100**	**$1,591,600**	**$1,623,400**	**$1,655,700**	**$1,689,000**	**$1,722,600**	**$1,757,100**
III. Voter Approved Bonds and Taxes (1)										
Gen Bond Escondido - Prop K - 2017 Ref	$20,100	$20,500	$21,000	$21,400	$21,800	$22,200	$22,700	$23,100	$23,600	$24,100
Palomar Community College - Prop M - Ser 2006 B	$3,600	$3,600	$3,700	$3,800	$3,900	$3,900	$4,000	$4,100	$4,200	$4,300
MWD D/S Remainder of SDCWA	$5,100	$5,200	$5,400	$5,500	$5,600	$5,700	$5,800	$5,900	$6,000	$6,100
Gen Bond Escondido - Prop E - 2014 C	$6,000	$6,100	$6,300	$6,400	$6,500	$6,700	$6,800	$6,900	$7,100	$7,200
Palomar Community College - Prop M - Ser 2006 C	$1,700	$1,800	$1,800	$1,800	$1,900	$1,900	$2,000	$2,000	$2,000	$2,100
Gen Bond Escondido - Prop E - 2021 Ref	$11,000	$11,200	$11,500	$11,700	$11,900	$12,200	$12,400	$12,600	$12,900	$13,200
Palomar Community College - Prop M - Ser 2017 D	$6,000	$6,100	$6,300	$6,400	$6,500	$6,600	$6,800	$6,900	$7,000	$7,200
Palomar Health - Debt Service	$55,900	$57,000	$58,100	$59,300	$60,500	$61,700	$62,900	$64,200	$65,500	$66,800
Hi Bond Escondido - Prop T - 2009 A	$45,900	$46,800	$47,800	$48,700	$49,700	$50,700	$51,700	$52,800	$53,800	$54,900
Palomar Community College - Prop M - 2020 Ref	$8,100	$8,200	$8,400	$8,600	$8,700	$8,900	$9,100	$9,300	$9,500	$9,600
Gen Bond Escondido - Prop K - 2002A Ref	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Hi Bond Escondido - Prop T - Series 2009 B	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Gen Bond Escondido - Prop E - Series 2014 A	$2,700	$2,700	$2,800	$2,900	$2,900	$3,000	$3,000	$3,100	$3,200	$3,200
Hi Bond - Prop T - 2011 C	$1,600	$1,600	$1,700	$1,700	$1,700	$1,800	$1,800	$1,800	$1,900	$1,900
Escondido City Public Safety Fac Imp	$30,400	$31,000	$31,600	$32,200	$32,900	$33,500	$34,200	$34,900	$35,600	$36,300
Hi Bond Escondido - Prop A - 1996A Ref	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Palomar Community College - Prop M - 2017 Ref	$3,500	$3,600	$3,700	$3,700	$3,800	$3,900	$4,000	$4,000	$4,100	$4,200
Gen Bond Escondido - Prop E - Ser 2014 B	$13,900	$14,200	$14,500	$14,700	$15,000	$15,300	$15,600	$16,000	$16,300	$16,600
Palomar Community College - Prop M - 2015 Ref	$5,700	$5,800	$5,900	$6,000	$6,200	$6,300	$6,400	$6,500	$6,700	$6,800
Total	**$221,200**	**$225,400**	**$230,500**	**$234,800**	**$239,500**	**$244,300**	**$249,200**	**$254,100**	**$259,400**	**$264,500**
IV. Total Foregone Tax Revenue	**$1,691,200**	**$1,725,000**	**$1,760,200**	**$1,794,900**	**$1,831,100**	**$1,867,700**	**$1,904,900**	**$1,943,100**	**$1,982,000**	**$2,021,600**
V. Breakout of Foregone Tax Revenue by Entity										
City	$243,000	$247,800	$252,800	$257,800	$263,000	$268,200	$273,600	$279,100	$284,700	$290,400
Schools	$953,600	$972,600	$992,700	$1,012,100	$1,032,600	$1,053,300	$1,074,300	$1,095,700	$1,117,800	$1,140,100
Other	$494,600	$504,600	$514,700	$525,000	$535,500	$546,200	$557,000	$568,300	$579,500	$591,100
Total (Rounded)	**$1,691,200**	**$1,725,000**	**$1,760,200**	**$1,794,900**	**$1,831,100**	**$1,867,700**	**$1,904,900**	**$1,943,100**	**$1,982,000**	**$2,021,600**

TABLE 4

RENT SAVINGS CREATED BY MIH PROGRAM COMPARED TO FOREGONE PROPERTY TAX
MIDDLE-INCOME HOUSING PROGRAM - LATITUDE 33
CITY OF ESCONDIDO

	Escalation Factor
Market Rents	3.0%
Affordable Rents	3.0%
Property Taxes	2.0%

	A		B		C	D	E = C - D	F	G = F - E
Year		**Market Rents** (1)		**In-Place Rents** (2)	**Market Rents after Turnover**	**Pro Forma Rents** (3)	**Difference (Rent Savings)**	**Foregone Property Tax Payments** (4)	**Difference**
1	0%	$6,322,000	100%	$5,695,000	$5,695,000	$5,421,000	$274,000	$1,139,000	$865,000
2	20%	$6,511,660	80%	$5,866,000	$5,995,132	$5,583,000	$412,132	$1,162,000	$749,868
3	40%	$6,707,010	60%	$6,042,000	$6,308,004	$5,751,000	$557,004	$1,185,000	$627,996
4	60%	$6,908,220	40%	$6,223,000	$6,634,132	$5,925,000	$709,132	$1,209,000	$499,868
5	80%	$7,115,467	20%	$6,410,000	$6,974,373	$6,101,000	$873,373	$1,233,000	$359,627
6	100%	$7,328,931	0%	$6,602,000	$7,328,931	$6,285,000	$1,043,931	$1,258,000	$214,069
7	100%	$7,548,799	0%	$6,800,000	$7,548,799	$6,473,000	$1,075,799	$1,283,000	$207,201
8	100%	$7,775,263	0%	$7,004,000	$7,775,263	$6,667,000	$1,108,263	$1,309,000	$200,737
9	100%	$8,008,520	0%	$7,214,000	$8,008,520	$6,868,000	$1,140,520	$1,335,000	$194,480
10	100%	$8,248,776	0%	$7,430,000	$8,248,776	$7,073,000	$1,175,776	$1,362,000	$186,224
11	100%	$8,496,239	0%	$7,653,000	$8,496,239	$7,285,000	$1,211,239	$1,389,000	$177,761
12	100%	$8,751,127	0%	$7,883,000	$8,751,127	$7,505,000	$1,246,127	$1,417,000	$170,873
13	100%	$9,013,660	0%	$8,119,000	$9,013,660	$7,729,000	$1,284,660	$1,445,000	$160,340
14	100%	$9,284,070	0%	$8,363,000	$9,284,070	$7,960,000	$1,324,070	$1,474,000	$149,930
15	100%	$9,562,592	0%	$8,614,000	$9,562,592	$8,200,000	$1,362,592	$1,503,000	$140,408
16	100%	$9,849,470	0%	$8,872,000	$9,849,470	$8,446,000	$1,403,470	$1,533,000	$129,530
17	100%	$10,144,954	0%	$9,138,000	$10,144,954	$8,700,000	$1,444,954	$1,564,000	$119,046
18	100%	$10,449,303	0%	$9,412,000	$10,449,303	$8,960,000	$1,489,303	$1,595,000	$105,697
19	100%	$10,762,782	0%	$9,694,000	$10,762,782	$9,229,000	$1,533,782	$1,627,000	$93,218
20	100%	$11,085,665	0%	$9,985,000	$11,085,665	$9,506,000	$1,579,665	$1,660,000	$80,335
21	100%	$11,418,235	0%	$10,285,000	$11,418,235	$9,792,000	$1,626,235	$1,693,000	$66,765
22	100%	$11,760,782	0%	$10,594,000	$11,760,782	$10,085,000	$1,675,782	$1,727,000	$51,218
23	100%	$12,113,606	0%	$10,912,000	$12,113,606	$10,387,000	$1,726,606	$1,762,000	$35,394
24	100%	$12,477,014	0%	$11,239,000	$12,477,014	$10,699,000	$1,778,014	$1,797,000	$18,986
25	100%	$12,851,324	0%	$11,576,000	$12,851,324	$11,021,000	$1,830,324	$1,833,000	$2,676
26	100%	$13,236,864	0%	$11,923,000	$13,236,864	$11,351,000	$1,885,864	$1,870,000	($15,864)
27	100%	$13,633,970	0%	$12,281,000	$13,633,970	$11,691,000	$1,942,970	$1,907,000	($35,970)
28	100%	$14,042,989	0%	$12,649,000	$14,042,989	$12,041,000	$2,001,989	$1,945,000	($56,989)
29	100%	$14,464,279	0%	$13,028,000	$14,464,279	$12,404,000	$2,060,279	$1,984,000	($76,279)
30	100%	$14,898,207	0%	$13,419,000	$14,898,207	$12,776,000	$2,122,207	$2,024,000	($98,207)
Total, Years 1 - 30		**$300,772,000**		**$270,925,000**	**$298,814,000**	**$257,914,000**	**$40,900,000**	**$46,224,000**	**$5,324,000**

(1) Gross Scheduled Income based on CoStar Group estimate of Market Rents escalated at 3.0% per year.
(2) Gross Scheduled Income based on 2021 In-Place Rents escalated at 3.0% per year.
(3) Gross Scheduled Income assuming turnover to In-Place Discounted rents.
(4) Based on proposed purchase price escalated at 2.0% per year.

Prepared by: Keyser Marston Associates, Inc.
Filename i:\Escondido_MIHP Pro Forma Analysis_LATITUDE - 10-20-21;10/20/2021;lag

TABLE 5

NET OPERATING INCOME - YEARS 15 AND 30
MIDDLE-INCOME HOUSING PROGRAM - LATITUDE 33
CITY OF ESCONDIDO

			Year 15	Year 15 Total	Year 30	Year 30 Total
I.	**Residential Income**					
	Gross Scheduled Income (GSI)	198 Units	$3,451 /Unit/Month	$8,200,000	$5,377 /Unit/Month	$12,776,000
	(Less) Loss to Lease (LTL)		0.0% of GSI	$0	0.0% of GSI	$0
	Adjusted GSI			$8,200,000		$12,776,000
	Add: Other Income		$221 /Unit/Month	$524,000	$344 /Unit/Month	$817,000
	Total GSI			$8,724,000		$13,593,000
II.	**Effective Gross Income**					
	(Less) Vacancy		4.7% of GSI	($410,000)	4.7% of GSI	($639,000)
	(Less) Bad Debt		0.5% of GSI	($41,000)	0.5% of GSI	($64,000)
	Total Effective Gross Income (EGI)			$8,273,000		$12,890,000
III.	**Operating Expenses**					
	(Less) Operating Expenses (1)		$7,338 /Unit/Year	($1,453,000)	$11,429 /Unit/Year	($2,263,000)
	(Less) Management Fee		$1,152 /Unit/Year	($228,000)	$1,793 /Unit/Year	($355,000)
	(Less) Insurance		$470 /Unit/Year	($93,000)	$732 /Unit/Year	($145,000)
	(Less) Property Taxes/Assessments		$5 /Unit/Year	($1,000)	$10 /Unit/Year	($2,000)
	(Less) Replacement Reserves		$0 /Unit/Year	$0	$0 /Unit/Year	$0
	Total Expenses		$8,965 /Unit/Year	($1,775,000)	$13,965 /Unit/Year	($2,765,000)
			21% of EGI		21% of EGI	
IV.	**Net Operating Income (NOI)**			**$6,498,000**		**$10,125,000**

(1) Includes contract services, marketing, payroll-onsite, utilities, repair & maintenance, and administrative.

TABLE 6

ESTIMATE OF NET OPERATING INCOME, YEARS 1-30
MIDDLE-INCOME HOUSING PROGRAM - LATITUDE 33
CITY OF ESCONDIDO

Assumptions	*Before 100% Turnover*	*After 100% Turnover*
Market Rent Escalation	*3.00%*	*3.00%*
Affordable Rent Escalation	*3.00%*	*3.00%*
Operating Expense Escalation	*3.00%*	*3.00%*

	0	1	2	3	4	5	6	7	8	9	10
I. Effective Gross Income (EGI) - Residential											
Assumed Turnover		*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*
A. 80% AMI											
Non-Converted Units	68	0	0	0	0	0	0	0	0	0	0
Assumed Monthly Rent	$2,327	$2,397	$2,469	$2,543	$2,619	$2,698	$2,779	$2,862	$2,948	$3,036	$3,128
Annual Rent	$1,899,000	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Converted Units	0	68	68	68	68	68	68	68	68	68	68
Assumed Monthly Rent	$2,095	$2,157	$2,222	$2,289	$2,357	$2,428	$2,501	$2,576	$2,653	$2,733	$2,815
Annual Rent	$0	$1,760,000	$1,813,000	$1,868,000	$1,924,000	$1,981,000	$2,041,000	$2,102,000	$2,165,000	$2,230,000	$2,297,000
Total Rental Income - 80% AMI	$1,899,000	$1,760,000	$1,813,000	$1,868,000	$1,924,000	$1,981,000	$2,041,000	$2,102,000	$2,165,000	$2,230,000	$2,297,000
B. 100% AMI											
Non-Converted Units	66	0	0	0	0	0	0	0	0	0	0
Assumed Monthly Rent	$2,327	$2,397	$2,469	$2,543	$2,619	$2,698	$2,779	$2,862	$2,948	$3,036	$3,128
Annual Rent	$1,843,000	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Converted Units	0	66	66	66	66	66	66	66	66	66	66
Assumed Monthly Rent	$2,234	$2,301	$2,370	$2,441	$2,515	$2,590	$2,668	$2,748	$2,830	$2,915	$3,002
Annual Rent	$0	$1,823,000	$1,877,000	$1,933,000	$1,992,000	$2,051,000	$2,113,000	$2,176,000	$2,241,000	$2,309,000	$2,378,000
Total Rental Income - 100% AMI	$1,843,000	$1,823,000	$1,877,000	$1,933,000	$1,992,000	$2,051,000	$2,113,000	$2,176,000	$2,241,000	$2,309,000	$2,378,000
C. 120% AMI											
Non-Converted Units	64	0	0	0	0	0	0	0	0	0	0
Assumed Monthly Rent	$2,327	$2,397	$2,469	$2,543	$2,619	$2,698	$2,779	$2,862	$2,948	$3,036	$3,128
Annual Rent	$1,787,000	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Converted Units	0	64	64	64	64	64	64	64	64	64	64
Assumed Monthly Rent	$2,324	$2,394	$2,465	$2,539	$2,615	$2,694	$2,775	$2,858	$2,944	$3,032	$3,123
Annual Rent	$0	$1,838,000	$1,893,000	$1,950,000	$2,009,000	$2,069,000	$2,131,000	$2,195,000	$2,261,000	$2,329,000	$2,398,000
Total Rental Income - 120% AMI	$1,787,000	$1,838,000	$1,893,000	$1,950,000	$2,009,000	$2,069,000	$2,131,000	$2,195,000	$2,261,000	$2,329,000	$2,398,000
D. Total Gross Scheduled Income (GSI)	$5,529,000	$5,421,000	$5,583,000	$5,751,000	$5,925,000	$6,101,000	$6,285,000	$6,473,000	$6,667,000	$6,868,000	$7,073,000
E. (Less) LTL		$189,000	$66,000	$12,000	$0	$0	$0	$0	$0	$0	$0
F. Adjusted GSI		$5,610,000	$5,649,000	$5,763,000	$5,925,000	$6,101,000	$6,285,000	$6,473,000	$6,667,000	$6,868,000	$7,073,000
G. Add: Other Income		$347,000	$357,000	$368,000	$379,000	$390,000	$402,000	$414,000	$426,000	$439,000	$452,000
H. (Less) Concessions		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
I. (Less) Vacancy		($195,000)	($279,000)	($288,000)	($296,000)	($305,000)	($314,000)	($324,000)	($333,000)	($343,000)	($354,000)
J. (Less) Bad Debt		$53,000	($28,000)	($29,000)	($30,000)	($31,000)	($31,000)	($32,000)	($33,000)	($34,000)	($35,000)
K. (Less) Non-Revenue Units		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
L. Effective Gross Income (EGI)		$5,815,000	$5,699,000	$5,814,000	$5,978,000	$6,155,000	$6,342,000	$6,531,000	$6,727,000	$6,930,000	$7,136,000
II. (Less) Operating Expenses		($1,188,000)	($1,209,000)	($1,245,000)	($1,282,000)	($1,320,000)	($1,360,000)	($1,401,000)	($1,443,000)	($1,486,000)	($1,531,000)
III. Net Operating Income (Rounded)		**$4,627,000**	**$4,490,000**	**$4,569,000**	**$4,696,000**	**$4,835,000**	**$4,982,000**	**$5,130,000**	**$5,284,000**	**$5,444,000**	**$5,605,000**

TABLE 6

ESTIMATE OF NET OPERATING INCOME, YEARS 1-30
MIDDLE-INCOME HOUSING PROGRAM - LATITUDE 33
CITY OF ESCONDIDO

Assumptions	*Before 100% Turnover*	*After 100% Turnover*
Market Rent Escalation	*3.00%*	*3.00%*
Affordable Rent Escalation	*3.00%*	*3.00%*
Operating Expense Escalation	*3.00%*	*3.00%*

	11	12	13	14	15	16	17	18	19	20
I. Effective Gross Income (EGI) - Residential										
Assumed Turnover	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*
A. 80% AMI										
Non-Converted Units	0	0	0	0	0	0	0	0	0	0
Assumed Monthly Rent	$3,221	$3,318	$3,418	$3,520	$3,626	$3,734	$3,846	$3,962	$4,081	$4,203
Annual Rent	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Converted Units	68	68	68	68	68	68	68	68	68	68
Assumed Monthly Rent	$2,899	$2,986	$3,076	$3,168	$3,263	$3,361	$3,462	$3,566	$3,673	$3,783
Annual Rent	$2,366,000	$2,437,000	$2,510,000	$2,585,000	$2,663,000	$2,743,000	$2,825,000	$2,910,000	$2,997,000	$3,087,000
Total Rental Income - 80% AMI	$2,366,000	$2,437,000	$2,510,000	$2,585,000	$2,663,000	$2,743,000	$2,825,000	$2,910,000	$2,997,000	$3,087,000
B. 100% AMI										
Non-Converted Units	0	0	0	0	0	0	0	0	0	0
Assumed Monthly Rent	$3,221	$3,318	$3,418	$3,520	$3,626	$3,734	$3,846	$3,962	$4,081	$4,203
Annual Rent	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Converted Units	66	66	66	66	66	66	66	66	66	66
Assumed Monthly Rent	$3,093	$3,185	$3,281	$3,379	$3,481	$3,585	$3,693	$3,803	$3,918	$4,035
Annual Rent	$2,449,000	$2,523,000	$2,598,000	$2,676,000	$2,757,000	$2,839,000	$2,925,000	$3,012,000	$3,103,000	$3,196,000
Total Rental Income - 100% AMI	$2,449,000	$2,523,000	$2,598,000	$2,676,000	$2,757,000	$2,839,000	$2,925,000	$3,012,000	$3,103,000	$3,196,000
C. 120% AMI										
Non-Converted Units	0	0	0	0	0	0	0	0	0	0
Assumed Monthly Rent	$3,221	$3,318	$3,418	$3,520	$3,626	$3,734	$3,846	$3,962	$4,081	$4,203
Annual Rent	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Converted Units	64	64	64	64	64	64	64	64	64	64
Assumed Monthly Rent	$3,217	$3,313	$3,413	$3,515	$3,620	$3,729	$3,841	$3,956	$4,075	$4,197
Annual Rent	$2,470,000	$2,545,000	$2,621,000	$2,699,000	$2,780,000	$2,864,000	$2,950,000	$3,038,000	$3,129,000	$3,223,000
Total Rental Income - 120% AMI	$2,470,000	$2,545,000	$2,621,000	$2,699,000	$2,780,000	$2,864,000	$2,950,000	$3,038,000	$3,129,000	$3,223,000
D. Total Gross Scheduled Income (GSI)	$7,285,000	$7,505,000	$7,729,000	$7,960,000	$8,200,000	$8,446,000	$8,700,000	$8,960,000	$9,229,000	$9,506,000
E. (Less) LTL	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
F. Adjusted GSI	$7,285,000	$7,505,000	$7,729,000	$7,960,000	$8,200,000	$8,446,000	$8,700,000	$8,960,000	$9,229,000	$9,506,000
G. Add: Other Income	$466,000	$480,000	$494,000	$509,000	$524,000	$540,000	$556,000	$573,000	$590,000	$608,000
H. (Less) Concessions	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
I. (Less) Vacancy	($364,000)	($375,000)	($386,000)	($398,000)	($410,000)	($422,000)	($435,000)	($448,000)	($461,000)	($475,000)
J. (Less) Bad Debt	($36,000)	($38,000)	($39,000)	($40,000)	($41,000)	($42,000)	($44,000)	($45,000)	($46,000)	($48,000)
K. (Less) Non-Revenue Units	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
L. Effective Gross Income (EGI)	$7,351,000	$7,572,000	$7,798,000	$8,031,000	$8,273,000	$8,522,000	$8,777,000	$9,040,000	$9,312,000	$9,591,000
II. (Less) Operating Expenses	($1,577,000)	($1,624,000)	($1,673,000)	($1,723,000)	($1,775,000)	($1,828,000)	($1,883,000)	($1,939,000)	($1,997,000)	($2,057,000)
III. Net Operating Income (Rounded)	**$5,774,000**	**$5,948,000**	**$6,125,000**	**$6,308,000**	**$6,498,000**	**$6,694,000**	**$6,894,000**	**$7,101,000**	**$7,315,000**	**$7,534,000**

TABLE 6

ESTIMATE OF NET OPERATING INCOME, YEARS 1-30
MIDDLE-INCOME HOUSING PROGRAM - LATITUDE 33
CITY OF ESCONDIDO

Assumptions	Before 100% Turnover	After 100% Turnover
Market Rent Escalation	*3.00%*	*3.00%*
Affordable Rent Escalation	*3.00%*	*3.00%*
Operating Expense Escalation	*3.00%*	*3.00%*

	21	22	23	24	25	26	27	28	29	30
I. Effective Gross Income (EGI) - Residential										
Assumed Turnover	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*
A. 80% AMI										
Non-Converted Units	0	0	0	0	0	0	0	0	0	0
Assumed Monthly Rent	$4,329	$4,459	$4,593	$4,731	$4,873	$5,019	$5,169	$5,324	$5,484	$5,649
Annual Rent	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Converted Units	68	68	68	68	68	68	68	68	68	68
Assumed Monthly Rent	$3,896	$4,013	$4,134	$4,258	$4,386	$4,517	$4,653	$4,792	$4,936	$5,084
Annual Rent	$3,180,000	$3,275,000	$3,373,000	$3,474,000	$3,579,000	$3,686,000	$3,797,000	$3,910,000	$4,028,000	$4,149,000
Total Rental Income - 80% AMI	$3,180,000	$3,275,000	$3,373,000	$3,474,000	$3,579,000	$3,686,000	$3,797,000	$3,910,000	$4,028,000	$4,149,000
B. 100% AMI										
Non-Converted Units	0	0	0	0	0	0	0	0	0	0
Assumed Monthly Rent	$4,329	$4,459	$4,593	$4,731	$4,873	$5,019	$5,169	$5,324	$5,484	$5,649
Annual Rent	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Converted Units	66	66	66	66	66	66	66	66	66	66
Assumed Monthly Rent	$4,156	$4,281	$4,409	$4,542	$4,678	$4,818	$4,963	$5,112	$5,265	$5,423
Annual Rent	$3,292,000	$3,390,000	$3,492,000	$3,597,000	$3,705,000	$3,816,000	$3,930,000	$4,048,000	$4,170,000	$4,295,000
Total Rental Income - 100% AMI	$3,292,000	$3,390,000	$3,492,000	$3,597,000	$3,705,000	$3,816,000	$3,930,000	$4,048,000	$4,170,000	$4,295,000
C. 120% AMI										
Non-Converted Units	0	0	0	0	0	0	0	0	0	0
Assumed Monthly Rent	$4,329	$4,459	$4,593	$4,731	$4,873	$5,019	$5,169	$5,324	$5,484	$5,649
Annual Rent	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Converted Units	64	64	64	64	64	64	64	64	64	64
Assumed Monthly Rent	$4,323	$4,453	$4,586	$4,724	$4,866	$5,011	$5,162	$5,317	$5,476	$5,640
Annual Rent	$3,320,000	$3,420,000	$3,522,000	$3,628,000	$3,737,000	$3,849,000	$3,964,000	$4,083,000	$4,206,000	$4,332,000
Total Rental Income - 120% AMI	$3,320,000	$3,420,000	$3,522,000	$3,628,000	$3,737,000	$3,849,000	$3,964,000	$4,083,000	$4,206,000	$4,332,000
D. Total Gross Scheduled Income (GSI)	$9,792,000	$10,085,000	$10,387,000	$10,699,000	$11,021,000	$11,351,000	$11,691,000	$12,041,000	$12,404,000	$12,776,000
E. (Less) LTL	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
F. Adjusted GSI	$9,792,000	$10,085,000	$10,387,000	$10,699,000	$11,021,000	$11,351,000	$11,691,000	$12,041,000	$12,404,000	$12,776,000
G. Add: Other Income	$626,000	$645,000	$664,000	$684,000	$705,000	$726,000	$748,000	$770,000	$793,000	$817,000
H. (Less) Concessions	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
I. (Less) Vacancy	($490,000)	($504,000)	($519,000)	($535,000)	($551,000)	($568,000)	($585,000)	($602,000)	($620,000)	($639,000)
J. (Less) Bad Debt	($49,000)	($50,000)	($52,000)	($53,000)	($55,000)	($57,000)	($58,000)	($60,000)	($62,000)	($64,000)
K. (Less) Non-Revenue Units	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
L. Effective Gross Income (EGI)	$9,879,000	$10,176,000	$10,480,000	$10,795,000	$11,120,000	$11,452,000	$11,796,000	$12,149,000	$12,515,000	$12,890,000
II. (Less) Operating Expenses	($2,119,000)	($2,183,000)	($2,248,000)	($2,315,000)	($2,384,000)	($2,456,000)	($2,530,000)	($2,606,000)	($2,684,000)	($2,765,000)
III. Net Operating Income (Rounded)	**$7,760,000**	**$7,993,000**	**$8,232,000**	**$8,480,000**	**$8,736,000**	**$8,996,000**	**$9,266,000**	**$9,543,000**	**$9,831,000**	**$10,125,000**

TABLE 7

ESTIMATE OF NET CASH FLOW AVAILABLE FOR BOND DEBT SERVICE, YEARS 1-30
MIDDLE-INCOME HOUSING PROGRAM - LATITUDE 33
CITY OF ESCONDIDO

	0	1	2	3	4	5	6	7	8	9	10
I. Cash Flow Available for Debt Service											
A. Net Operating Income (NOI)		$4,627,000	$4,490,000	$4,569,000	$4,696,000	$4,835,000	$4,982,000	$5,130,000	$5,284,000	$5,444,000	$5,605,000
B. Capital Expenditures and Other Expenses											
Capital Reserves		($99,000)	($102,000)	($105,000)	($108,000)	($111,000)	($114,000)	($117,000)	($121,000)	($125,000)	($129,000)
City Host Fee		(109,000)	($111,000)	($113,000)	($115,000)	($117,000)	($119,000)	($121,000)	($123,000)	($125,000)	($128,000)
Agency Monitoring Fee		($150,000)	($150,000)	($150,000)	($150,000)	($150,000)	($150,000)	($150,000)	($150,000)	($150,000)	($150,000)
Project Administrator Fee		($150,000)	($150,000)	($150,000)	($150,000)	($150,000)	($150,000)	($150,000)	($150,000)	($150,000)	($150,000)
Total Capital Expenditures and Other Expenses		($508,000)	($513,000)	($518,000)	($523,000)	($528,000)	($533,000)	($538,000)	($544,000)	($550,000)	($557,000)
C. Unlevered Cash Flow		$4,119,000	$3,977,000	$4,051,000	$4,173,000	$4,307,000	$4,449,000	$4,592,000	$4,740,000	$4,894,000	$5,048,000
II. Net Cash Flow											
A. Remaining Cash Flow after Senior Bond Interest											
Total/Net Cash Flow Available for Debt Service		$4,119,000	$3,977,000	$4,051,000	$4,173,000	$4,307,000	$4,449,000	$4,592,000	$4,740,000	$4,894,000	$5,048,000
Add: Investment Earnings		$94,000	$94,000	$94,000	$94,000	$94,000	$94,000	$94,000	$94,000	$22,000	$22,000
(Less) Senior Bond Interes 3.00%		($3,313,000)	($3,298,000)	($3,287,000)	($3,273,000)	($3,255,000)	($3,233,000)	($3,206,000)	($3,173,000)	($3,135,000)	($2,950,000)
Capitalized Interest Reserve		$0	$0	$0	$0	$0	$0	$0	$0	$1,500,000	$0
Senior Debt Service Reserve		$0	$0	$0	$0	$0	$0	$0	$0	$3,313,000	$0
Remaining Cash Flow after Senior Bond Interest		$900,000	$773,000	$858,000	$994,000	$1,146,000	$1,310,000	$1,480,000	$1,661,000	$6,594,000	$2,120,000
B. Remaining Cash Flow after Subordinate Bond Interest											
Remaining Cash Flow after Senior Bond Interest		$900,000	$773,000	$858,000	$994,000	$1,146,000	$1,310,000	$1,480,000	$1,661,000	$6,594,000	$2,120,000
(Less) Bond Interest @ 8.0%		($400,000)	($400,000)	($400,000)	($400,000)	($400,000)	($400,000)	($400,000)	($400,000)	($400,000)	($400,000)
Remaining Cash Flow after Subordinate Bond Interest		$500,000	$373,000	$458,000	$594,000	$746,000	$910,000	$1,080,000	$1,261,000	$6,194,000	$1,720,000
C. Net Cash Flow											
Outstanding Senior Bond Amount in Prior Year		$110,435,085	$109,935,000	$109,562,000	$109,104,000	$108,510,000	$107,764,000	$106,854,000	$105,774,000	$104,513,000	$98,319,000
(Less) Senior Bond - Special Redemption Account		($500,000)	($373,000)	($458,000)	($594,000)	($746,000)	($910,000)	($1,080,000)	($1,261,000)	($6,194,000)	($1,720,000)
Outstanding Senior Bond Amount @	*$110,435,085*	*$109,935,000*	*$109,562,000*	*$109,104,000*	*$108,510,000*	*$107,764,000*	*$106,854,000*	*$105,774,000*	*$104,513,000*	*$98,319,000*	*$96,599,000*
Outstanding Subordinate Bond Amount in Prior Year		$5,000,000	$5,000,000	$5,000,000	$5,000,000	$5,000,000	$5,000,000	$5,000,000	$5,000,000	$5,000,000	$5,000,000
(Less) Remaining Capital for Subordinate Bonds		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Outstanding Subordinate Bond Amount @	*$5,000,000*	*$5,000,000*	*$5,000,000*	*$5,000,000*	*$5,000,000*	*$5,000,000*	*$5,000,000*	*$5,000,000*	*$5,000,000*	*$5,000,000*	*$5,000,000*
Net Cash		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0

Attachment "2"

Item 11.

TABLE 7

ESTIMATE OF NET CASH FLOW AVAILABLE FOR BOND DEBT SE RVICE, YEARS 1-30
MIDDLE-INCOME HOUSING PROGRAM - LATITUDE 33
CITY OF ESCONDIDO

	11	12	13	14	15	16	17	18	19	20
I. Cash Flow Available for Debt Service										
A. Net Operating Income (NOI)	$5,774,000	$5,948,000	$6,125,000	$6,308,000	$6,498,000	$6,694,000	$6,894,000	$7,101,000	$7,315,000	$7,534,000
B. Capital Expenditures and Other Expenses										
Capital Reserves	($133,000)	($137,000)	($198,000)	($198,000)	($198,000)	($198,000)	($198,000)	($198,000)	($198,000)	($198,000)
City Host Fee	($131,000)	($134,000)	($137,000)	($140,000)	($143,000)	($146,000)	($149,000)	($152,000)	($155,000)	($158,000)
Agency Monitoring Fee	($150,000)	($150,000)	($150,000)	($150,000)	($150,000)	($150,000)	($150,000)	($150,000)	($150,000)	($150,000)
Project Administrator Fee	($150,000)	($150,000)	($150,000)	($150,000)	($150,000)	($150,000)	($150,000)	($150,000)	($150,000)	($150,000)
Total Capital Expenditures and Other Expenses	($564,000)	($571,000)	($635,000)	($638,000)	($641,000)	($644,000)	($647,000)	($650,000)	($653,000)	($656,000)
C. Unlevered Cash Flow	$5,210,000	$5,377,000	$5,490,000	$5,670,000	$5,857,000	$6,050,000	$6,247,000	$6,451,000	$6,662,000	$6,878,000
II. Net Cash Flow										
A. Remaining Cash Flow after Senior Bond Interest										
Total/Net Cash Flow Available for Debt Service	$5,210,000	$5,377,000	$5,490,000	$5,670,000	$5,857,000	$6,050,000	$6,247,000	$6,451,000	$6,662,000	$6,878,000
Add: Investment Earnings	$22,000	$22,000	$22,000	$22,000	$22,000	$22,000	$22,000	$22,000	$22,000	$22,000
(Less) Senior Bond Interes 3.00%	($2,898,000)	($2,840,000)	($2,775,000)	($2,705,000)	($2,627,000)	($2,542,000)	($2,448,000)	($2,345,000)	($2,234,000)	($2,112,000)
Capitalized Interest Reserve	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Senior Debt Service Reserve	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Remaining Cash Flow after Senior Bond Interest	$2,334,000	$2,559,000	$2,737,000	$2,987,000	$3,252,000	$3,530,000	$3,821,000	$4,128,000	$4,450,000	$4,788,000
B. Remaining Cash Flow after Subordinate Bond Interest										
Remaining Cash Flow after Senior Bond Interest	$2,334,000	$2,559,000	$2,737,000	$2,987,000	$3,252,000	$3,530,000	$3,821,000	$4,128,000	$4,450,000	$4,788,000
(Less) Bond Interest @ 8.0%	($400,000)	($400,000)	($400,000)	($400,000)	($400,000)	($400,000)	($400,000)	($400,000)	($400,000)	($400,000)
Remaining Cash Flow after Subordinate Bond Intere	$1,934,000	$2,159,000	$2,337,000	$2,587,000	$2,852,000	$3,130,000	$3,421,000	$3,728,000	$4,050,000	$4,388,000
C. Net Cash Flow										
Outstanding Senior Bond Amount in Prior Year	$96,599,000	$94,665,000	$92,506,000	$90,169,000	$87,582,000	$84,730,000	$81,600,000	$78,179,000	$74,451,000	$70,401,000
(Less) Senior Bond - Special Redemption Account	($1,934,000)	($2,159,000)	($2,337,000)	($2,587,000)	($2,852,000)	($3,130,000)	($3,421,000)	($3,728,000)	($4,050,000)	($4,388,000)
Outstanding Senior Bond Amount @	*$94,665,000*	*$92,506,000*	*$90,169,000*	*$87,582,000*	*$84,730,000*	*$81,600,000*	*$78,179,000*	*$74,451,000*	*$70,401,000*	*$66,013,000*
Outstanding Subordinate Bond Amount in Prior Yea	$5,000,000	$5,000,000	$5,000,000	$5,000,000	$5,000,000	$5,000,000	$5,000,000	$5,000,000	$5,000,000	$5,000,000
(Less) Remaining Capital for Subordinate Bonds	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Outstanding Subordinate Bond Amount @	*$5,000,000*	*$5,000,000*	*$5,000,000*	*$5,000,000*	*$5,000,000*	*$5,000,000*	*$5,000,000*	*$5,000,000*	*$5,000,000*	*$5,000,000*
Net Cash	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0

TABLE 7

ESTIMATE OF NET CASH FLOW AVAILABLE FOR BOND DEBT SE RVICE, YEARS 1-30
MIDDLE-INCOME HOUSING PROGRAM - LATITUDE 33
CITY OF ESCONDIDO

	21	22	23	24	25	26	27	28	29	30
I. Cash Flow Available for Debt Service										
A. Net Operating Income (NOI)	$7,760,000	$7,993,000	$8,232,000	$8,480,000	$8,736,000	$8,996,000	$9,266,000	$9,543,000	$9,831,000	$10,125,000
B. Capital Expenditures and Other Expenses										
Capital Reserves	($198,000)	($198,000)	($198,000)	($198,000)	($198,000)	($198,000)	($198,000)	($198,000)	($198,000)	($198,000)
City Host Fee	($161,000)	($164,000)	($167,000)	($170,000)	($173,000)	($176,000)	($180,000)	($184,000)	($188,000)	($192,000)
Agency Monitoring Fee	($150,000)	($150,000)	($150,000)	($150,000)	($150,000)	($150,000)	($150,000)	($150,000)	($150,000)	($150,000)
Project Administrator Fee	($150,000)	($150,000)	($150,000)	($150,000)	($150,000)	($150,000)	($150,000)	($150,000)	($150,000)	($150,000)
Total Capital Expenditures and Other Expenses	($659,000)	($662,000)	($665,000)	($668,000)	($671,000)	($674,000)	($678,000)	($682,000)	($686,000)	($690,000)
C. Unlevered Cash Flow	$7,101,000	$7,331,000	$7,567,000	$7,812,000	$8,065,000	$8,322,000	$8,588,000	$8,861,000	$9,145,000	$9,435,000
II. Net Cash Flow										
A. Remaining Cash Flow after Senior Bond Interest										
Total/Net Cash Flow Available for Debt Service	$7,101,000	$7,331,000	$7,567,000	$7,812,000	$8,065,000	$8,322,000	$8,588,000	$8,861,000	$9,145,000	$9,435,000
Add: Investment Earnings	$22,000	$22,000	$22,000	$22,000	$22,000	$22,000	$22,000	$22,000	$22,000	$22,000
(Less) Senior Bond Interes 3.00%	($1,980,000)	($1,838,000)	($1,685,000)	($1,520,000)	($1,342,000)	($1,152,000)	($948,000)	($730,000)	($498,000)	($249,000)
Capitalized Interest Reserve	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Senior Debt Service Reserve	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Remaining Cash Flow after Senior Bond Interest	$5,143,000	$5,515,000	$5,904,000	$6,314,000	$6,745,000	$7,192,000	$7,662,000	$8,153,000	$8,669,000	$9,208,000
B. Remaining Cash Flow after Subordinate Bond Interest										
Remaining Cash Flow after Senior Bond Interest	$5,143,000	$5,515,000	$5,904,000	$6,314,000	$6,745,000	$7,192,000	$7,662,000	$8,153,000	$8,669,000	$9,208,000
(Less) Bond Interest @ 8.0%	($400,000)	($400,000)	($400,000)	($400,000)	($400,000)	($400,000)	($400,000)	($400,000)	($400,000)	($400,000)
Remaining Cash Flow after Subordinate Bond Intere	$4,743,000	$5,115,000	$5,504,000	$5,914,000	$6,345,000	$6,792,000	$7,262,000	$7,753,000	$8,269,000	$8,808,000
C. Net Cash Flow										
Outstanding Senior Bond Amount in Prior Year	$66,013,000	$61,270,000	$56,155,000	$50,651,000	$44,737,000	$38,392,000	$31,600,000	$24,338,000	$16,585,000	$8,316,000
(Less) Senior Bond - Special Redemption Account	($4,743,000)	($5,115,000)	($5,504,000)	($5,914,000)	($6,345,000)	($6,792,000)	($7,262,000)	($7,753,000)	($8,269,000)	($8,808,000)
Outstanding Senior Bond Amount @	*$61,270,000*	*$56,155,000*	*$50,651,000*	*$44,737,000*	*$38,392,000*	*$31,600,000*	*$24,338,000*	*$16,585,000*	*$8,316,000*	*$0*
Outstanding Subordinate Bond Amount in Prior Yea	$5,000,000	$5,000,000	$5,000,000	$5,000,000	$5,000,000	$5,000,000	$5,000,000	$5,000,000	$5,000,000	$5,000,000
(Less) Remaining Capital for Subordinate Bonds	$0	$0	$0	$0	$0	$0	$0	$0	$0	($492,000)
Outstanding Subordinate Bond Amount @	*$5,000,000*	*$5,000,000*	*$5,000,000*	*$5,000,000*	*$5,000,000*	*$5,000,000*	*$5,000,000*	*$5,000,000*	*$5,000,000*	*$4,508,000*
Net Cash	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0

TABLE 8

NET SALES PROCEEDS TO CITY AT YEARS 15 AND 30
MIDDLE-INCOME HOUSING PROGRAM - LATITUDE 33
CITY OF ESCONDIDO

Assumptions	
Market Rent Esc.	*3.00%*
Affordable Rent Esc.	*3.00%*
Operating Expense Esc.	*3.00%*
Turnover	
Year 1	*100%*
Year 2	*100%*
Year 3	*100%*
Year 4	*100%*
Year 5	*100%*

	Year 15	Year 30
I. Adjusted Net Operating Income (NOI)		
Exit Net Operating Income (NOI)	$6,498,000	$10,125,000
(Less) Taxes @ 1.156%	($1,216,000)	($1,894,000)
Adjusted NOI	$5,282,000	$8,231,000
Assumed Capitalization Rate	*5.00%*	*5.00%*
II. Project Value	$105,640,000	$164,620,000
III. Add: Debt Service Reserve - Returned	$0	$0
IV. (Less) Bonds Outstanding 2020A	($84,730,000)	$0
V. (Less) Bonds Outstanding 2020B	($5,000,000)	($4,508,000)
VI. Net Sales Proceeds	$15,910,000	$160,112,000
VII. (Less) Reimbursement of Property Tax/ Assessments to Other Taxing Entities	($16,856,900)	($39,546,300)
VIII. Net Sales Proceeds to City		
A. Future Value	**($946,900)**	**$120,565,700**
Per Unit	**($5,000)**	**$609,000**
Per SF GBA	**($4)**	**$513**
B. Net Present Value in Year 0 (1)	**($227,000)**	**$6,909,000**
Per Unit	**($1,000)**	**$35,000**
Per SF GBA	**($1)**	**$29**

(1) Assumes a 10.0% discount rate.

Prepared by: Keyser Marston Associates, Inc.
Filename i:\Escondido_MIHP Pro Forma Analysis_LATITUDE - 10-20-21;10/20/2021;lag

TABLE 9

ESTIMATE OF FOREGONE PROPERTY TAX PAYMENTS VS. REVENUES TO CITY
MIDDLE-INCOME HOUSING PROGRAM - LATITUDE 33
CITY OF ESCONDIDO

	City Foregone	Revenues to City				
Year	Property Tax Payments	Upfront Fee	Annual Host Fee	Sales Proceeds at Year 30	Total Revenues	Net Revenues to City
1	($163,500)	$84,876	$109,000	$0	$193,876	$30,376
2	($166,700)	$0	$111,000	$0	$111,000	($55,700)
3	($170,100)	$0	$113,000	$0	$113,000	($57,100)
4	($173,500)	$0	$115,000	$0	$115,000	($58,500)
5	($177,000)	$0	$117,000	$0	$117,000	($60,000)
6	($180,600)	$0	$119,000	$0	$119,000	($61,600)
7	($184,100)	$0	$121,000	$0	$121,000	($63,100)
8	($187,800)	$0	$123,000	$0	$123,000	($64,800)
9	($191,500)	$0	$125,000	$0	$125,000	($66,500)
10	($195,400)	$0	$128,000	$0	$128,000	($67,400)
11	($199,300)	$0	$131,000	$0	$131,000	($68,300)
12	($203,300)	$0	$134,000	$0	$134,000	($69,300)
13	($207,300)	$0	$137,000	$0	$137,000	($70,300)
14	($211,500)	$0	$140,000	$0	$140,000	($71,500)
15	($215,800)	$0	$143,000	$0	$143,000	($72,800)
16	($220,000)	$0	$146,000	$0	$146,000	($74,000)
17	($224,400)	$0	$149,000	$0	$149,000	($75,400)
18	($228,900)	$0	$152,000	$0	$152,000	($76,900)
19	($233,500)	$0	$155,000	$0	$155,000	($78,500)
20	($238,200)	$0	$158,000	$0	$158,000	($80,200)
21	($243,000)	$0	$161,000	$0	$161,000	($82,000)
22	($247,800)	$0	$164,000	$0	$164,000	($83,800)
23	($252,800)	$0	$167,000	$0	$167,000	($85,800)
24	($257,800)	$0	$170,000	$0	$170,000	($87,800)
25	($263,000)	$0	$173,000	$0	$173,000	($90,000)
26	($268,200)	$0	$176,000	$0	$176,000	($92,200)
27	($273,600)	$0	$180,000	$0	$180,000	($93,600)
28	($279,100)	$0	$184,000	$0	$184,000	($95,100)
29	($284,700)	$0	$188,000	$0	$188,000	($96,700)
30	($290,400)	$0	$192,000	$120,565,700	$120,757,700	$120,467,300
Total, Years 1 - 30	**($6,632,800)**	**$84,876**	**$4,381,000**	**$120,565,700**	**$125,031,576**	**$118,398,776**
Net Present Value in Year 0						
Discount Rate	**4.5%**	**4.5%**	**4.5%**	**10.0%**		
NPV	**($3,299,000)**	**$81,000**	**$2,231,000**	**$6,909,000**	**$9,221,000**	**$5,922,000**

(1) Upfront fee of $84,876 will also be allocated to nonprofit organizations at the direction of the City.

MIDDLE-INCOME HOUSING PROGRAM
Alcove
Haven76
Rowan

Prepared for:

City of Escondido

Prepared by:

Keyser Marston Associates, Inc.

October 2021

TABLE OF CONTENTS

APPENDIX

I. INTRODUCTION

A. Objective


Alcove

Haven76


Rowan

The City of Escondido (City) requested that Keyser Marston Associates, Inc. (KMA) evaluate the Middle-Income Housing Program (MIH Program) transaction (Proposed Transaction) proposed by the California Statewide Communities Development Authority (CSCDA) and Waterford Property Company (Waterford). The Proposed Transaction would allow CSCDA to acquire the Alcove, Haven76, and Rowan apartment complexes (Properties) for the purpose of converting the market-rate multi-family rental units to moderate/middle-income housing. Waterford will serve as the Project Administrator for the Proposed Transaction. For the purposes of this report, CSCDA and Waterford are referred to collectively as the "Investors".

This report presents a general overview of the MIH Program, the Proposed Transaction, the probable costs and benefits to the City as a result of the Proposed Transaction, the financial feasibility of the Investors' proposal, compensation to the Investors, and a review of the Investors' proposed program parameters.

B. Property Description

As summarized below, the Properties are all Class A apartment complexes with a combined total of 314 units. The Properties were built over the last five years and consist of a total of 336,062 square feet (SF) of building area on a total of 8.49 acres. The Properties include a mix of one-, two-, and three-bedroom units. (See also Appendix Table 1.)

Property Description				
	Alcove	**Haven76**	**Rowan**	**Total/Average**
Address	650 N. Centre City Parkway	2414 S. Escondido Boulevard	700 W. Grand Avenue	----
Year Built	2019	2016	2020	----
Site Area	3.44 Acres	2.45 Acres	2.60 Acres	8.49 Acres
Gross Building Area	113,338 SF	92,724 SF	130,000 SF	336,062 SF

Property Description				
	Alcove	**Haven76**	**Rowan**	**Total/Average**
Average Unit Size	1,012 SF	962 SF	1,095 SF	1,033 SF
Number of Stories	4 Stories	3 Stories	5 Stories	3 – 5 Stories
Number of Units				
One Bedroom	60 Units	36 Units	63 Units	159 Units
Two Bedroom	52 Units	34 Units	55 Units	141 Units
Three Bedroom	-----	6 Units	8 Units	14 Units
Total	112 Units	76 Units	126 Units	314 Units
Density	33 Units/Acre	31 Units/Acre	48 Units/Acre	37 Units/Acre

C. Methodology

KMA performed the following key work tasks in completing this report.

- Reviewed financial pro forma information provided by the Investors, including estimates of sources and uses of funds, the purchase price of the Properties, proposed reduction in rental rates, anticipated operating projections, and anticipated reversion value to the City upon conveyance. The Investors also provided recent property tax assessments, appraisals, and Property Condition Reports for the Properties.

- Submitted multiple data requests to the Investors and reviewed additional responses, documents, and updated financial information provided by the Investors.

- Reviewed trade area apartment market information from CoStar Group and other industry data sources.

- Reviewed San Diego County Controller data on ad valorem property taxes and property tax assessments that apply to the Properties.

- Prepared independent financial pro forma models estimating financial returns to the City.

D. Report Organization

This report has been organized as follows:

- Following this Introduction, Section II presents the KMA key findings and recommendations.

- Section III presents an overview of the MIH Program.
- The Proposed Transaction is described in Section IV.
- Section V discusses the potential impacts of the Proposed Transaction to the City.
- Section VI reviews the Investors' compensation.
- Section VII evaluates the Investors' affordable housing proposal.
- Projections of foregone property tax revenue are presented in Section VIII.
- Section IX presents the financial feasibility analysis of the Investors' proposal.
- Finally, Section X details limiting conditions pertaining to this assignment.
- Our detailed technical analyses are presented in the Appendix.

II. KEY FINDINGS AND RECOMMENDATIONS

A. Key Findings

Affordable Housing Proposal

1. The proposed MIH Program for the Properties would provide restricted rents for existing and future tenants earning less than 120% of Area Median Income (AMI).

2. Under the Investors' proposal, in-place rents currently charged to existing tenants would be decreased by an average of 9.7%, with an average monthly savings of $257.

3. The maximum rental rates to be charged to new tenants as spaces turn over are based on income limits published by the United States Department of Housing and Urban Development (HUD). In many cases, these rent ceilings exceed the current in-place rents charged at the Properties.

4. The proposed MIH Program relies on natural turnover to income-qualify tenants. The Investors' cash flow model illustrates that this will be achieved by Year 3.

5. The City will not be able to count these MIH units towards its Regional Housing Needs Assessment (RHNA) obligation.

Financial Feasibility

1. Over a 30-year period, it is estimated that the City and other taxing entities would forego a total of $72.5 million (M) -- or $36.9 M in 2021 dollars -- of ad valorem property tax revenues and property tax assessments, assuming a discount rate of 4.5% to reflect public agency cost of funds over the long term.

2. The projected performance of the Properties is dependent on numerous factors. Small deviations from projected rent increases, interest income, and operating expenses could have significant impacts on the Properties' ability to pay down the outstanding bond principal and yield sales revenue to reimburse the City for foregone property tax revenue.

3. The Properties' funding for capital reserves appears to be adequate to meet the Properties' needs over a 35-year time horizon.

4. Using the Investors' cash flow projections, KMA estimates that the sale of the Project at the end of the 30-year term could potentially yield significant proceeds to the City, currently estimated at $144.3 M (future value). However, the size of the net sales proceeds is very sensitive to the

operations of the Project, future market conditions, and other factors over which the City has no control. If this future value is discounted at a 10% rate to reflect real estate performance risk and the time value of money, KMA estimates a net present value in Year 0 of $8.3 M.

5. The proposed financing for the Properties does not require an investment of cash equity and all debt is secured solely by the revenue generated by the Properties. The structure of the transaction provides significant upfront compensation to the Investors. In contrast, the potential financial returns to the bond holders, the City, and other taxing agencies are entirely at risk and subject to the financial performance of the Properties.

6. The City will receive a host fee of $160,500 per year. Cumulative host fee payments to the City are estimated to total $4.8 M (future value) over a 30-year period.

7. Over a 30-year projection period, total revenues received by the City from the annual host fee and net sales proceeds are estimated to exceed foregone property taxes to the City by $138.9 M (future value). If these future value estimates of foregone property taxes vs. revenues to the City are discounted to reflect real estate performance risk and the time value of money, KMA estimates the net present value of net revenues to the City in Year 0 at $5.7 M.

B. Recommendations

Given these considerations, if the City elects to participate in the proposed MIH Program for the Properties, KMA recommends the following:

1. Any refinancing of the Properties’ debt be subject to the City’s approval.

2. The Properties be required to submit proposed rent increases to the City for approval to ensure that the affordability restrictions are enforced.

3. The bond underwriting assumptions be reviewed by an underwriter retained by the City and the City’s Financial/Municipal Advisor.

4. The City should have oversight or monitoring rights with respect to property maintenance, building repairs, and ongoing capital upgrades.

III. OVERVIEW OF MIDDLE-INCOME HOUSING PROGRAM

In recent years, a number of financial entities have been submitting proposals to local jurisdictions to use tax-exempt bonds coupled with a property tax-exemption to secure rental housing for households earning up to 120% AMI. These programs are generally referred to as Middle-Income Housing Programs (MIH Programs). It is important to understand that the MIH Program terms vary from jurisdiction-to-jurisdiction based on negotiations between the parties.

This section presents an overview of the MIH Program. The purpose of the MIH Program is to acquire existing market-rate apartment projects and then restrict the units to households earning 120% AMI or less. To accomplish this, the MIH Program is typically structured as follows:

1. No cash financial assistance is required to be provided by the participating local jurisdiction.

2. The units in the project must all be rented at an affordable housing cost to households earning less than 120% AMI. The mix of income restrictions to be applied to the project are the subject of negotiations between the investors and the local jurisdiction.

3. All MIH Program transactions are financed through the use of tax-exempt government bonds. These tax-exempt bonds are referred to as Essential Housing Revenue Bonds (Essential Bonds):

   (a) The Essential Bonds must be issued through a Joint Powers Authority (JPA) of which the local jurisdiction is a member.

   (b) The participating local jurisdiction has no liability or financial obligation for the Essential Bonds.

4. The Essential Bonds are typically issued for a 30- to 35-year term, but the local jurisdiction has the right to require the investor(s) to sell the project (or the local jurisdiction can purchase the project) at any point between Year 15 and the end of the bond term:

   (a) If the local jurisdiction exercises the option, a minimum sales price is agreed upon between the parties.

   (b) The investor(s) will then be required to make best faith efforts to sell the project. If a sale at or above the minimum sales price cannot be achieved, then the investor(s) will not be required to sell the project.

   (c) To the extent that the project is sold, and the sales proceeds exceed the minimum sales price, the remaining sales proceeds will be provided to the participating local jurisdiction and/or other taxing agencies.

5. The use of Essential Bonds entitles 100% of the units in the project to be exempt from property taxes (aside from direct assessments).

6. The Essential Bonds are typically underwritten at a 100%-110% debt service coverage (DSC) ratio. In other words, the debt service payments are equal to approximately 100% of the project's estimated Net Operating Income (NOI):

   (a) During the first several years, the debt service is comprised of interest-only debt service payments.

   (b) The debt service payments escalate as the NOI increases.

   (c) The use of a 100% DSC ratio and interest only payments in the early years implicitly requires rents to continually increase in order for the project to support principal payments in future years. While the bond issuance costs include capitalized interest and debt service reserves to be drawn upon in cases of cash flow shortfall, the premise of the financial structure assumes that rents must increase each year.

7. The investor(s), or a party related to the investor(s), acts as the program administrator of the MIH Program. In that role, the program administrator is entitled to fees that are defined in the agreements between the local jurisdiction and the investor(s).

8. The investor(s) typically target Class A market-rate apartment projects for the MIH Program. These types of projects are typically generating significant property tax revenue to the local jurisdiction and the other taxing agencies.

IV. PROPOSED TRANSACTION

The Investors propose to acquire the Properties for the purpose of converting the market-rate units to moderate/middle-income housing. The Investors plan to achieve this through the following actions:

- The City will enter into a Public Benefit Agreement (Agreement) with the JPA. The Agreement defines the terms under which the City can acquire the Properties after Year 15.

- The Investors anticipate that the JPA will issue approximately $184.2 M in Essential Bonds for the Proposed Transaction, consisting of both Series A and Series B bonds. The proposed sources and uses of funds for acquisition of the Properties are presented below. The financing plan proposed for the Properties does not require an investment of cash equity from the Investors; all debt is secured solely by the revenue generated by the Properties.

Proposed Sources and Uses		
	Total	**Per Unit**
Sources		
Principal	$173.7 M	$553,000
Original Issuance Premium	$10.4 M	$33,000
Gross Bond(s) Amount	**$184.2 M**	**$586,000**
Uses		
Project Acquisition Account	$153.9 M	$490,000
Capital Expense Fund	$12.3 M	$39,000
Senior Debt Service Reserve	$6.4 M	$20,000
Cost of Issuance	$5.7 M	$18,000
Capitalized Administration Fees	$1.6 M	$5,000
Coverage Reserve	$1.3 M	$4,000
Initial Payment Project Administration	$1.3 M	$4,000
Extraordinary Expense	$0.8 M	$2,000
Operating Reserve	$0.6 M	$2,000
Operating Account	$0.3 M	$1,000
Total Uses (Rounded)	**$184.2 M**	**$586,000**

- The Investors' estimate of acquisition cost of $153.9 M includes a purchase price of $152.4 M and related closing costs. The purchase price is evidenced in Letters of Intent between Lyon Living (Seller) and the Investors executed in May and June 2021. The purchase price reflects an average of $485,000 per unit, or $453 per SF of building area, for the three Properties.

- AEI Consultants prepared Property Conditions Reports (PCRs) for the three Properties in October 2021. The PCRs identified rehabilitation needs for the Properties. As shown below, the costs for immediate repairs were estimated to total $1,500, short-term (Years 0-1) rehabilitation costs were estimated to total $0.2 M, and long-term (Years 1-35) needs were estimated to total $12.4 M. The Investors' Proposed Transaction includes an initial Capital Expense item of $12.3 M and annual capital reserve deposits of $300 per unit escalating at 3.0% per year for Years 1-9 and $700 per unit for Years 10-35 (no escalation). These funds can be applied toward the repair/rehabilitation needs identified in the PCRs.

Rehabilitation Costs (1)				
	Alcove	**Haven76**	**Rowan**	**Total**
Date of PCR	October 7, 2021	October 7, 2021	October 8, 2021	---
Immediate Repairs	$0	$0	$1,500	$1,500
Short-term (0-1 Years)	$0.0 M	$0.2 M	$0.0 M	$0.2 M
Long-term (1-35 Years)	$4.8 M	$4.2 M	$3.4 M	$12.4 M
Total	$4.8 M	$4.4 M	$3.4 M	$12.6 M

(1) Reflects estimated costs in 2021 dollars.

Source: AEI Consultants, Property Conditions Reports, October 7-8, 2021.

- The anticipated term of the Essential Bonds is 35 years. The Investors' financial model illustrates that the Series A Bond will be fully paid off in Year 33.

- Based on review of the Agreement, it is the KMA understanding that the Investors may refinance the Properties at a future date without approval of the City. This provision could potentially impact the amount of outstanding indebtedness on the Properties at the time of sale or reversion to the City.

- Once acquired by the Investors, the Properties would be exempt from paying all property taxes (aside from direct assessments).

- The Investors will then restrict the rents to households earning up to 80% AMI to 120% AMI, as shown below:

Proposed Affordability Mix				
	Alcove	**Haven76**	**Rowan**	**Total**
Units @ Maximum 80% AMI	37 Units	26 Units	42 Units	105 Units
Units @ Maximum 100% AMI	38 Units	25 Units	42 Units	105 Units
Units @ Maximum 120% AMI	37 Units	25 Units	42 Units	104 Units
Total	112 Units	76 Units	126 Units	314 Units
Average Affordability	100% AMI	100% AMI	100% AMI	100% AMI

- It is important to note that no existing tenants at the Properties will be displaced during the process. The MIH Program relies on the natural turnover of units to replace market-rate units with income-restricted units. The Investors' financial model projects that this will be achieved by Year 3.

- At any point between Year 15 and the end of the bond term, the City has the right to require the Investors to sell the Properties. If the City exercises this option, a minimum sales price is agreed upon between the parties. The Investors are then required to make best faith efforts to sell the Properties. If the Properties are sold, and the sales proceeds exceed the minimum sales price, the remaining sales proceeds will be provided to the City and/or the other taxing agencies.

V. POTENTIAL IMPACTS OF PROPOSED TRANSACTION

This section presents an overview of the potential benefits and risks associated with the City's participation in the Proposed Transaction.

A. Potential Benefits of City Participation in Proposed Transaction

The potential benefits to the City as a result of participation in the proposed MIH Program for the Properties include the following factors:

- The JPA is the entity that will issue the Essential Bonds. As such, there will be no direct financial risk to the City if the Essential Bonds are not repaid.

- The City can obtain income-restricted units for at least 15 years and may be able to extend the affordability covenants beyond the initial term of the MIH Program.

- The sale of the Properties may generate excess sales proceeds that the City and/or taxing agencies can use at their own discretion, detailed in Section IX.B.

- The proposed structure targets households earning up to 80% AMI to 120% AMI, an income band that is typically not served by other affordable housing programs, which target incomes of 80% AMI and below. For the most part, the current in-place market rents are lower than these income levels for the Proposed Transaction.

B. Potential Issues Related to City Participation in Proposed Transaction

The following are issues related to the proposed financial structure, level and type of affordability, and loss of property tax revenue for the City to consider with respect to the proposed MIH Program for the Properties.

Financial Structure

- The proposed MIH Program for the Properties is based on very aggressive underwriting assumptions, including unrated bonds, no equity investment provided by the Investors, and low debt service coverage ratio.

- The proposed MIH Program caps annual rent increases for affordable households at no more than 4.0% per year. However, the City's financial benefits are predicated on a future sale of the Properties that fully repays any outstanding debt. As such, variations in rent growth or operating expense will have an impact on the potential sales proceeds in Years 15 to 35.

- Regardless of the legal structure intended to isolate the City from the Properties ownership and operations, the City will be the most public-facing entity of the transaction.

- The projected performance of the Properties is dependent on numerous factors. Small deviations from projected rent increases, interest income, and operating expenses could have significant impacts on the Properties' ability to pay down the outstanding bond principal, reimburse the City and/or other taxing agencies for foregone property tax revenues, and/or generate surplus sales proceeds for the City.

- The City will not have any oversight or monitoring rights with respect to property maintenance, building repairs, and ongoing capital upgrades. If the Properties revert to the City at the end of the bond term, the City may inherit deferred maintenance liabilities beyond its control.

- If the City participates in multiple MIH Program transactions, this could have the effect of inflating the local real estate market, as sellers may seek higher market-rate offers that are made possible by a prospective property tax-exemption.

- The Investors collect fees, which are not tied to the Investors' performance or development risk, as discussed in Section VI.

Level and Type of Affordability

- The issuance of Essential Bonds through the JPA is a form of acquisition financing. As such, the MIH Program nominally repurposes existing rental housing rather than producing new units.

- The Investors' proposed affordable rent limits are not aligned with the City's affordability standards. Moreover, the Properties' current in-place rents are lower than the proposed maximum rents at 100% AMI and 120% AMI. See detailed discussion in Section VII.

- The affordability restrictions terminate when the Essential Bonds are fully repaid (typically between 30 to 35 years), unless a sale is completed earlier. In contrast, most typical affordable housing projects use tax-exempt bond financing and/or Low Income Housing Tax Credits and therefore have a 55-year affordability covenant.

- For typical affordable housing units, the goal is to keep rents as low as possible with annual increases tracking to increases in household income levels. The structure of the Proposed Transaction is predicated on rents increasing each year – where higher increases in rents are marketed as more beneficial to the City. This notion appears to go against typical affordable housing policies.

- There are no enforcement mechanisms for the City to utilize if the Investors do not comply with income qualification of tenants on an annual basis.

- It is the KMA understanding that the City cannot count these MIH units towards its Regional Housing Needs Assessment (RHNA) obligation.

Foregone Property Tax Revenue

- The proposed MIH Program's structure requires that the Properties become exempt from property taxes while the Essential Bonds are outstanding. As such, both the City as well as other taxing entities would receive no property tax revenue from the Properties during this period. Refer to Section VIII below for detailed calculations.

- The sale of the Properties towards the end of the Series A Bond term could potentially reimburse the other taxing entities for their foregone tax revenues and yield significant net proceeds to the City. Using the Investors' October 11, 2021 cash flow projection, KMA prepared a preliminary calculation of a sale at Year 30 and distribution of sales proceeds. As shown in the table below, the City could receive approximately $144.3 M (Year 30 dollars) in net sales proceeds if the Properties are sold at fair market value and all other taxing agencies are reimbursed for foregone property taxes. However, the size of the net sales proceeds to the City is very sensitive to the operations of the Project, future market conditions, and other factors over which the City has no control. For example, the Investors' projections rely on the assumption that the Properties' NOI and corresponding value will continue to increase. This continued increase is dependent on assumed performance parameters in the Investors' cash flow model such as rent increases (projected at 3.0% annually) and operating expenses (estimated at 27% of Effective Gross Income [EGI]) that are outside of the City's control.

Projected Revenue to City – Year 30	
Exit Net Operating Income (NOI) (1)	$15.4 M
(Less) Adjusted Property Tax Payment (2)	($2.9) M
Adjusted NOI	$12.5 M
Projected Sale Proceeds @ 5.0% Capitalization Rate (3)	**$250.8 M**
Add: Senior Debt Service Reserve – Returned (1)	$8.0 M
(Less) Series A Bonds Remaining (1)	($48.2) M
(Less) Series B Bonds Remaining (1)	($4.0) M
Net Sales Proceeds	**$206.7 M**
(Less) Reimbursement of Property Tax/Assessments to other Taxing Entities (4)	($62.3) M
Net Sales Proceeds to City at Year 30	**$144.3 M**

(1) Investors' estimate.
(2) KMA estimate; reflects 1.156% tax rate.
(3) Per Investors; reflects high (conservative) capitalization rate.
(4) KMA estimate.

VI. COMPENSATION TO INVESTORS

A. Payments to the Investors

As noted above, the Property's financing does not require an investment of cash equity and all debt is secured solely by the revenue generated by the Property. However, the Investors collect high fees, which are not tied to the Investors' performance or development risk. These fees are summarized as follows:

- An upfront fee of $1.25 M to the Project Administrator.
- An annual fee of $200,000 to the Project Administrator, escalating at 3.0% per year, beginning in Year 5.
- An upfront issuance fee to CSCDA (amount not disclosed to KMA).
- An annual fee of $200,000 to CSCDA, beginning in Year 5.
- An annual Project Administration Fee of $20,000, escalating at 3.0% per year.
- A $4.0 M fee payable through a Series B Bond. The Series B Bond carries a 10.0% annual interest rate, and the $400,000 in annual interest payments are paid with available cash flow. This annual interest payment to the Investors acts similarly to a preferred equity return. The Investors' projections illustrate that the Series B Bond will be fully paid in Year 30 after the Series A Bond is repaid in full, unless a sale occurs sooner.

B. Funds for Capital Improvements

As indicated above, upfront funding for capital improvements is limited to the $12.3 M Capital Expense funded with bond proceeds. In addition, the Investors are proposing to set aside annual reserve contributions of $300 per unit, escalating at 3.0% per year, for the first nine years, and increasing to $700 per unit (not escalating) in Year 10 forward. Over 35 years, the combination of the upfront Capital Expense fund and the Investors' projection of capital reserve contributions will total $18.9 M.

The Property Conditions Reports (PCRs) estimated a need for $20.3 M of improvements over 35 years. Taking into consideration the potential for interest earnings on the capital reserve contributions, the Properties appear to have adequate capital reserves to fund future capital improvements that would be needed as the Properties age.

VII. AFFORDABLE HOUSING PROPOSAL

Pursuant to the Proposed Transaction, a regulatory agreement would be recorded against the Properties that would restrict the occupancy and monthly rents to households earning no more than 120% AMI. Annual rent increases for income-qualified tenants would be limited to no more than the increase in the AMI or 4.0%, whichever is less. The income and rent restrictions would be in place for the term of the bonds.

Maximum Allowable Rents

The Investors' proposed methodology for calculating affordable rents relies on the income limits published by HUD and utilized by the California Tax Credit Allocation Committee (TCAC). The Investors have assumed an income allocation to housing factor of 30% and no utility allowance for the tenants.

It is important to note that in most cases, the current in-place rents at the Properties are lower than the than the Investors' proposed maximum rent restrictions for approximately half of the households at 100% AMI and all the households at 120% AMI, but higher than the proposed maximum rent restrictions for households at 80% AMI. In other words, approximately half of the units at the Properties already qualify as affordable rents under the Investors' proposed maximum rent restrictions.

	One Bedroom	Two Bedroom	Three Bedroom
I. Maximum Rents – Per Investors' Proposal (1)			
80% of AMI	$1,940	$2,182	$2,424
100% of AMI	$2,425	$2,728	$3,030
120% of AMI	$2,910	$3,273	$3,636
Average (Weighted)	$2,425	$2,728	$3,030
II. In-Place Rents – Per Investors' Proposal			
Alcove	$2,344	$2,806	---
Haven76	$2,267	$2,798	$3,125
Rowan	$2,492	$3,013	$3,823
Average (Weighted)	$2,385	$2,885	$3,524

(1) Based on HUD income limits and an income allocation to housing factor of 30%. Assumes no utility allowance for the tenants.

Pro Forma Rents

While all units in the Properties will be subject to the income and rent limits noted above, the Investors are proposing to further decrease current in-place rental rates for income eligible households as follows:

- The rental rates charged to households with incomes that do not exceed 80% AMI would be reduced by an average of 22.2%.

- The rental rates charged to households with incomes that do not exceed 100% AMI would be reduced by an average of 5.7%

- The rental rates charged to households with incomes that do not exceed 120% AMI would be reduced by an average of 1.1%.

As shown below, with these rent reductions, the rents for existing income-eligible tenants would average $2,197 for one-bedroom units, $2,581 for two-bedroom units, and $2,948 for three-bedroom units, for an average rent of $2,403 across all units. As such, while the proposed rents for existing income-eligible tenants will be reduced, under standard practices, the Investors would be permitted to charge new tenants the maximum affordability levels permitted at the lesser of the increase in the AMI or 4.0%.

	In-Place Rents	Discount	In-Place Rent after Discount
I. One Bedroom			
80% of AMI	$2,385	18.7%	$1,940
100% of AMI	$2,385	4%	$2,290
120% of AMI	$2,385	1%	$2,361
Average (Weighted)	$2,385	7.9%	$2,197
II. Two Bedroom			
80% of AMI	$2,885	24.4%	$2,182
100% of AMI	$2,885	6.2%	$2,705
120% of AMI	$2,885	1.0%	$2,856
Average (Weighted)	$2,885	10.5%	$2,581
III. Three Bedroom			
80% of AMI	$3,524	31.2%	$2,424
100% of AMI	$3,524	14.4%	$3,017
120% of AMI	$3,524	3.4%	$3,404
Average (Weighted)	$3,524	16.3%	$2,948
IV. All Units			
Average (Weighted)	$2,660	9.7%	$2,403

VIII. FOREGONE PROPERTY TAX REVENUE

The Investors have assumed a purchase price of totaling $152.4 M for the Properties. The purchase price is evidenced by Letters of Intent between Lyon Living (Seller) and the Investors executed in May and June 2021.

KMA has assumed that absent the Proposed Transaction, the Property would sell to another buyer at market value for continued operation as market-rate apartments without affordability covenants or property tax exemption. Therefore, KMA has used this proposed purchase price as the estimated assessed value of the Property in order to calculate the annual lost property tax as a result of the Proposed Transaction. Future foregone property taxes were calculated using each taxing entity's share of the 1.0% property tax plus voter approved bonds and taxes (i.e., Unified School, Community College, Metro Water District), as summarized below. The KMA calculations do not consider additional foregone tax revenues in the form of property tax in-lieu of Vehicle License Fees (VLF). (See Appendix Tables 2 and 3 for detailed calculations.)

Foregone Annual Property Tax Revenue, 2021 Dollars		
I. General Levy (1.0% of Assessed Value) – Annual Tax Revenue		
A. City	**$216,000**	**14.2%**
B. Schools/Education		
General Elementary Escondido Union	$418,000	27.5%
High Escondido Union	$318,000	20.8%
Palomar Community College	$95,000	6.3%
All Other Education	$21,000	1.4%
Total Schools/Education	**$852,000**	**55.9%**
C. Remaining Taxing Agencies	**$456,000**	**29.9%**
D. Total General Levy – Annual Tax Revenue	**$1,524,000**	**100.0%**
II. Voter Approved Bonds and Taxes – Annual Revenue		
A. City	$32,000	0.02065%
B. School	$135,000	0.07889%
C. Other	$63,000	0.04150%
D. Total Voter Approved Bonds and Taxes – Annual Revenue	**$229,000**	**0.15046%**
III. Total Foregone Annual Property Tax Revenue (Rounded)	**$1,753,000**	

As shown, potential lost property tax on an annual basis for the City, school districts/education, and other taxing agencies totals approximately $1,753,000 and is broken out as described below:

- The City, including voter approved bonds and taxes, is estimated to lose approximately $247,000 in annual property tax revenue.

- School districts/education are estimated to lose approximately $987,000 in annual property tax revenue. It is KMA's understanding that school districts that are affected by the Proposed MIH Program may receive additional revenue from the State to offset any loss of property tax revenues.

School Districts/Education	
General Elementary Escondido Union	$418,000
High Escondido Union	$318,000
Palomar Community College	$95,000
Voter Approved School Bonds and Taxes*	$135,000
All Other Education	$21,000
Total School Districts/Education	**$987,000**

*Reflects voter approved bonds and taxes

- The remaining taxing agencies, including County General, Palomar Health, and the Regional Occupational Centers, are estimated to lose $519,000 annually.

As noted previously, it is assumed that the Properties may be sold beginning in Year 15 through the end of the bond term. As such, KMA has illustrated the probable future loss of property tax revenue for the periods from Years 1 through 15 and Years 1 through 30, respectively, as presented below.

Future Foregone Property Tax Revenue				
	YEARS 1-15		**YEARS 1-30**	
	Future Value	**Net Present Value in Year 0** (1)	**Future Value**	**Net Present Value in Year 0** (1)
City of Escondido	$4.4 M	$3.0 M	$10.2 M	$5.2 M
School Districts/Education (2)	$17.4 M	$12.3 M	$40.8 M	$20.8 M
Remaining Taxing Agencies	$9.2 M	$6.5 M	$21.5 M	$10.9 M
Total Property Tax Revenue	**$30.9 M**	**$21.8 M**	**$72.5 M**	**$36.9 M**

(1) Assumes a discount rate of 4.5%.
(2) School districts may receive additional revenue from the State to offset any loss of property tax revenues.

IX. FINANCIAL FEASIBILITY OF INVESTORS' PROPOSAL

A. Comparison of Foregone Property Tax to Rent Savings Created by MIH Program

KMA compared the magnitude of foregone property tax revenues to the cumulative value of the rent savings achieved. In summary, the taxing agencies would forego approximately $72.5 M in property tax revenue over a 30-year time horizon. The City's portion of foregone tax revenue totals $10.2 M over this period. In exchange for that public investment, tenants at the Properties would save approximately $63.6 M in rent relative to the KMA estimates of achievable rents had the Properties continued to operate as a market-rate project. The KMA estimates are based on market rent figures obtained from the CoStar Group and assumed to be phased in over a five-year period. As a result, the amount by which foregone property tax revenues exceed rent savings is estimated at approximately $8.8 M. (See Appendix Table 4 for detailed calculations.)

Rent Savings Created by MIH Program Compared to Foregone Property Tax	
	Years 0 – 30 Cumulative
Rent Savings	
Rental Income Assuming 100% Market-Rate (1)	$502.1 M
Rental Income with MIH Program Rent Restrictions (2)	$438.5 M
Rent Savings Due to MIH Program	$63.6 M
Foregone Property Tax Payments	$72.5 M
Amount by which Forgone Property Tax Exceeds Rent Savings	$8.8 M

(1) Based on CoStar Group estimate of market rents. Assumes five-year phase-in of in-place rents to market-rents

(2) Reflects Investors' pro forma rents, i.e., in-place discounted rents subject to the Investors' proposed maximum rent restrictions.

B. Potential Sales Proceeds Available to the City

KMA estimated the net sales proceeds that could potentially be available to the City upon a sale at the end of a 30-year term based on the cash flow projections prepared by the Investors. As shown below, KMA estimates that the Properties could potentially support a sales price of approximately $250.8 M, assuming a conservative market capitalization rate of 5.0%. Moreover, it is assumed that capital improvements would not be needed to ready the Properties for sale. (See Appendix Tables 5 through 7.)

The Investors project that there will be $52.2 M in outstanding debt on the Series A and Series B bonds at the end of Year 30. The Investors also project that the Senior Debt Service Reserve balance of $8.0 M would be available for distribution to the City. Based on these additional assumptions, the net sales proceeds at Year 30 are estimated to total $206.7 M.

Under the MIH Program, reimbursing any of the other taxing agencies for foregone property tax revenues during the regulatory period is at the discretion of the City. Foregone property taxes for all taxing agencies other than the City are estimated to total $62.3 M. If the City were to reimburse all taxing entities, the net remaining proceeds to the City would total approximately $144.3 M. Under these projections, the City's investment of $10.2 M of property tax revenues could yield a profit of $134.1 M. If the City were to elect to not provide any reimbursement to other taxing agencies, the net proceeds to the City would total $206.7 M. Under this approach, the City's investment of $10.2 M of property tax revenues could yield a profit of $196.4 M. In either case, the sale of the Properties could yield a large profit margin to the City.

The City should also consider the future net proceeds on a present value basis. Discounting the $144.3 M in net sales proceeds to the City at Year 30 using a 10% annual discount rate to reflect real estate performance risk and uncertainty yields a present value to the City in Year 0 of approximately $8.3 M.

For illustrative purposes, KMA also modeled a sale at the end of Year 15, using the Investors' cash flow projection. As shown below, it is estimated that sales proceeds fall short of the amount needed to retire the outstanding balance on the bonds and reimburse the taxing entities, leaving the City with *negative* $17.9 M in net proceeds (Year 15 dollars).

Potential Net Sales Proceeds at Sale of Properties	Year 15	Year 30
I. Sales Proceeds		
Exit Net Operating Income (1)	$9.9 M	$15.4 M
(Less) Adjusted Property Tax Payment @ 1.156% (2)	($1.9) M	($2.9) M
Adjusted Net Operating Income	$8.1 M	$12.5 M
Capitalization Rate (3)	5.0%	5.0%
Project Value	$161.0 M	$250.8 M
Debt Service Reserve – Returned	$8.0 M	$8.0 M
(Less) Bonds Outstanding 2020A (1)	($156.4) M	($48.2) M
(Less) Bonds Outstanding 2020B (1)	($4.0) M	($4.0) M
Net Sales Proceeds	$8.6 M	$206.7 M
Per Unit	$27,000	$658,000
Per SF GBA	$26	$615
II. Potential Reimbursement of Foregone Property Tax Revenues		
Reimbursement of Property Tax to All Other Taxing Entities (at the discretion of the City)	($26.6) M	($62.3) M
III. Net Sales Proceeds to the City – Future Value	**($17.9) M**	**$144.3 M**
Per Unit	**($57,000)**	**$460,000**
Per SF GBA	**($53)**	**$430**
IV. Net Sales Proceeds to the City with Time Value of Money and Risk Factor (discounted at 10%)	**($4.3) M**	**$8.3 M**
Per Unit	**($14,000)**	**$26,000**
Per SF GBA	**($13)**	**$25**

(1) Investors' estimates.
(2) KMA estimate.
(3) Per Investors; reflects high (conservative) capitalization rate.

It is also likely that the City would consider re-selling the Properties to a non-profit entity to continue as an affordable housing development. Under this scenario, if the City does not require payment of a purchase price because of the income restrictions on the Properties, the Properties would not generate any revenues to the City and the taxing entities would not be reimbursed for the foregone property tax revenues that were abated over the 30-year term. Instead, sales proceeds in Year 30, projected at

$658,000 per unit or $615 per SF, would likely be used toward capital improvements needed to keep the Properties in good condition.

C. Total Potential Revenues to City

KMA also compared the magnitude of the City's share of foregone property tax revenues to total revenues received by the City. In summary, the City would forego approximately $10.2 M in property tax revenues over the 30-year term. In exchange for that investment, the City projected to receive $4.8 M in annual host fees over a 30-year term, and $144.3 M in net sales proceeds in Year 30. As a result, the amount by which revenues to the City exceed foregone tax revenue to the City is estimated at approximately $138.9 M. On a present value basis, discounting the $138.9 M in net revenues to the City at Year 30 yields a present value to the City in Year 0 of approximately $5.7 M. (See Appendix Table 9 for detail.)

Foregone Property Tax to City Compared to Revenues to City	
	Years 1 – 30 Cumulative
Foregone Property Tax Payments to City (1)	$10.2 M
Revenues to City (1)	
City Host Fee	$4.8 M
Net Sales Proceeds at Year 30	$144.3 M
Total Revenues to City	$149.2 M
Amount by which Revenues to City Exceed City Foregone Property Taxes (1)	$138.9 M
Net Present Value in Year 0 (2)	$5.7 M

(1) Future value.
(2) Assumes a discount rate of 4.5% for foregone property tax payments and annual host fee; and a 10.0% discount rate for sales proceeds to the City.

X. LIMITING CONDITIONS

1. Value estimates assume that property titles are good and marketable; no title search has been made, nor has KMA attempted to determine property ownership. The value estimates are given without regard to any questions of boundaries, encumbrances, liens, or encroachments.

2. Property tax projections reflect KMA's understanding of the assessment and tax apportionment procedures employed by the County. The County procedures are subject to change as a reflection of policy revisions or legislative mandate. While we believe our estimates to be reasonable, taxable values resulting from actual appraisals may vary from the amounts assumed in the projections.

3. No assurances are provided by KMA as to the certainty of the projected tax revenues shown in this document. Actual revenues may be higher or lower than what has been projected and are subject to valuation changes resulting from new developments or transfers of ownership not specifically identified herein, actual resolution of outstanding appeals, future filing of appeals, or the non-payment of taxes due.

4. KMA is not advising or recommending any action be taken by the City with respect to any prospective, new, or existing municipal financial products or issuance of municipal securities (including with respect to the structure, timing, terms, and other similar matters concerning such financial products or issues).

5. KMA is not acting as a Municipal Advisor to the City and does not assume any fiduciary duty hereunder, including, without limitation, a fiduciary duty to the City pursuant to Section 15B of the Exchange Act with respect to the services provided hereunder and any information and material contained in KMA’s work product.

6. The City shall discuss any such information and material contained in KMA’s work product with any and all internal and/or external advisors and experts, including its own Municipal Advisors, that it deems appropriate before acting on the information and material.

Attachment "3"

Item 11.

TABLE 1

PROJECT DESCRIPTION
MIDDLE-INCOME HOUSING PROGRAM - ROWAN, ALCOVE, HAVEN76
CITY OF ESCONDIDO

	ALCOVE			HAVEN76			ROWAN			TOTAL PROJECT		
I. Property Address	650 N Centre City Pky			2414 S Escondido Blvd			700 W Grand Ave			---		
II. Site Area	3.44 Acres			2.45 Acres			2.60 Acres			8.49 Acres		
III. Gross Building Area	113,338 SF			92,724 SF			130,000 SF			336,062 SF		
IV. Number of Stories	4 Stories			3 Stories			5 Stories			3-5 Stories		
V. Number of Units	Number of Units		Average Unit Size	Number of Units		Average Unit Size	Number of Units		Average Unit Size	Number of Units		Average Unit Size
One Bedroom	60 Units	54%	863 SF	36 Units	47%	766 SF	63 Units	50%	649 SF	159 Units	51%	756 SF
Two Bedroom	52 Units	46%	1,184 SF	34 Units	45%	1,100 SF	55 Units	44%	1,486 SF	141 Units	45%	1,282 SF
Three Bedroom	0 Units	0%	0 SF	6 Units	8%	1,353 SF	8 Units	6%	1,925 SF	14 Units	4%	1,680 SF
Total Units	112 Units	100%	1,012 SF	76 Units	100%	962 SF	126 Units	100%	1,095 SF	314 Units	100%	1,033 SF
VI. Density	33 Units/Acre			31 Units/Acre			48 Units/Acre			33-48 Units/Acre		
VII. Proposed Affordability Mix												
Units @ 80% of AMI	37 Units			26 Units			42 Units			105 Units		
Units @ 100% of AMI	38 Units			25 Units			42 Units			105 Units		
Units @ 120% of AMI	37 Units			25 Units			42 Units			104 Units		
Total	112 Units			76 Units			126 Units			314 Units		
Average Affordability	100%			100%			100%			100%		
VIII. Parking												
Number of Spaces	67 Spaces			141 Spaces			228 Spaces			436 Spaces		
Parking Ratio	0.60 Spaces/Unit			1.86 Spaces/Unit			1.81 Spaces/Unit			1.39 Spaces/Unit		

Source: CoStar Group, Inc.

Prepared by: Keyser Marston Associates, Inc.
Filename: i:/Escondido_Rowan Haven76 Alcove_Pro Forma Analysis_v4_10-20-21;10/20/2021;mdt

TABLE 2

FOREGONE TAX REVENUE - FY 2021 DOLLARS
MIDDLE-INCOME HOUSING PROGRAM - ROWAN, ALCOVE, HAVEN76
CITY OF ESCONDIDO

I.	**Property Address**		
II.	**Year Built**		
III.	**Number of Units**	314 Units	
IV.	**Assessed Value**	**Total**	**Per Unit**
	Total (1)	$152,400,000	$485,000
V.	**Property Tax Rate @** 1.00%	$1,524,000	
VI.	**Total Foregone Tax Revenue** (2)		
	A. Breakout of 1.0% Property Tax (3)		
	Gen Elem Escondido Union	$418,400	27.5%
	County General	$395,800	26.0%
	High Escondido Union	$317,600	20.8%
	Escondido City	$215,700	14.2%
	Palomar Community College	$95,400	6.3%
	Palomar Health	$35,300	2.3%
	County School Service	$11,300	0.7%
	Regional Occupational Centers	$7,200	0.5%
	North County Cemetery	$6,500	0.4%
	CWA City of Escondido	$5,800	0.4%
	Physically Handicapped	$5,000	0.3%
	Trainable Mentally Retarded Minors High School	$3,300	0.2%
	County School Service - Capital Outlay	$2,900	0.2%
	Childrens Institutions Tuition	$2,400	0.2%
	Development Centers for Handicapped EC56811 High	$700	0.0%
	Vista Project	$300	0.0%
	Resource Conservation Dist of Greater San Diego	$200	0.0%
	Autistic Pupils Minors High School Comp	$200	0.0%
	Educational Revenue Augmentation Fund	$0	0.0%
	Total	**$1,524,000**	**100.0%**
	B. Voter Approved Bonds and Taxes (1)		
	Gen Bond Escondido - Prop E, Ser 2014B	$14,400	0.9%
	Palomar Community Coll Prop M, 2015 Ref	$5,900	0.4%
	Gen Bond Escondido - Prop E, Ser 2014C	$6,200	0.4%
	Palomar Community Coll Prop M, Ser 2006C	$1,800	0.1%
	Hi Bond Escondido - Prop A, 1996A Ref	$0	0.0%
	Palomar Community Coll Prop M, 2017 Ref	$3,600	0.2%
	Gen Bond Escondido - Prop E, 2021 Ref	$11,400	0.7%
	Palomar Community Coll Prop M, 2017D	$6,200	0.4%
	Palomar Health 2005A - Debt Service	$57,900	3.8%
	Hi Bond Escondido - Prop T, Series 2009A	$47,600	3.1%
	Palomar Community Coll Prop M, 2020 Ref	$8,400	0.5%
	Gen Bond Escondido, Prop K, 2002A Ref	$0	0.0%
	Hi Bond Escondido - Prop T, Series 2009B	$0	0.0%
	Gen Bond Escondido - Prop E, Ser 2014A	$2,800	0.2%
	Hi Bond Escondido - Prop T, Ser 2011C	$1,700	0.1%
	Escondido City Public Safety Fac Imp Refunding Bnd	$31,500	2.1%
	Gen Bond Escondido - Prop K, 2017 Ref	$20,900	1.4%
	Palomar Community Coll Prop M, Ser 2006B	$3,700	0.2%
	MWD D/S Remainder of SDCWA	$5,300	0.4%
	Total Voter Approved Bonds and Taxes	**$229,300**	**15.046%**
	C. Total Foregone Tax Revenue	**$1,753,300**	

(1) Source: Letter of Intent, May/June 2021.
(2) Property will not be exempt from fixed charges, including Mosquito Surveillance, Vector Disease Control, and Water Standby Charges.
(3) Source: County of San Diego Auditor & Controller - Property Tax Services.

Prepared by: Keyser Marston Associates, Inc.
Filename: i:/Escondido_Rowan Haven76 Alcove_Pro Forma Analysis_v4_10-20-21;10/20/2021;mdt

TABLE 3

FUTURE FOREGONE TAX REVENUE - YEARS 1-30
MIDDLE-INCOME HOUSING PROGRAM - ROWAN, ALCOVE, HAVEN76
CITY OF ESCONDIDO

Assumptions	
Assessed Value Escalation @	*2.00%*
Discount Rate	*4.50%*

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
I. Assessed Value	$155,448,000	$158,557,000	$161,728,100	$164,962,700	$168,262,000	$171,627,200	$175,059,700	$178,560,900	$182,132,100	$185,774,700	$189,490,200	$193,280,000	$197,145,600	$201,088,500	$205,110,300
II. Breakout of 1.0% Property Tax															
Gen Elem Escondido Union	$426,800	$435,300	$444,000	$452,900	$462,000	$471,200	$480,600	$490,300	$500,100	$510,100	$520,300	$530,700	$541,300	$552,100	$563,100
County General	$403,700	$411,800	$420,000	$428,400	$437,000	$445,700	$454,700	$463,800	$473,000	$482,500	$492,100	$502,000	$512,000	$522,300	$532,700
High Escondido Union	$324,000	$330,400	$337,100	$343,800	$350,700	$357,700	$364,800	$372,100	$379,600	$387,200	$394,900	$402,800	$410,900	$419,100	$427,500
Escondido City	$220,000	$224,400	$228,900	$233,500	$238,200	$242,900	$247,800	$252,800	$257,800	$263,000	$268,200	$273,600	$279,100	$284,700	$290,300
Palomar Community College	$97,300	$99,300	$101,200	$103,300	$105,300	$107,400	$109,600	$111,800	$114,000	$116,300	$118,600	$121,000	$123,400	$125,900	$128,400
Palomar Health	$36,000	$36,700	$37,400	$38,200	$38,900	$39,700	$40,500	$41,300	$42,200	$43,000	$43,900	$44,700	$45,600	$46,500	$47,500
County School Service	$11,500	$11,800	$12,000	$12,300	$12,500	$12,700	$13,000	$13,300	$13,500	$13,800	$14,100	$14,400	$14,600	$14,900	$15,200
Regional Occupational Centers	$7,400	$7,500	$7,700	$7,800	$8,000	$8,100	$8,300	$8,500	$8,600	$8,800	$9,000	$9,200	$9,300	$9,500	$9,700
North County Cemetery	$6,600	$6,800	$6,900	$7,000	$7,200	$7,300	$7,500	$7,600	$7,800	$7,900	$8,100	$8,200	$8,400	$8,600	$8,700
CWA City of Escondido	$5,900	$6,100	$6,200	$6,300	$6,400	$6,600	$6,700	$6,800	$7,000	$7,100	$7,200	$7,400	$7,500	$7,700	$7,800
Physically Handicapped	$5,100	$5,200	$5,300	$5,400	$5,500	$5,600	$5,800	$5,900	$6,000	$6,100	$6,200	$6,400	$6,500	$6,600	$6,800
Trainable Mentally Retarded Minors High School	$3,300	$3,400	$3,500	$3,500	$3,600	$3,700	$3,700	$3,800	$3,900	$4,000	$4,000	$4,100	$4,200	$4,300	$4,400
County School Service - Capital Outlay	$2,900	$3,000	$3,000	$3,100	$3,200	$3,200	$3,300	$3,300	$3,400	$3,500	$3,500	$3,600	$3,700	$3,800	$3,800
Childrens Institutions Tuition	$2,500	$2,500	$2,600	$2,600	$2,700	$2,700	$2,800	$2,800	$2,900	$2,900	$3,000	$3,100	$3,100	$3,200	$3,200
Development Centers for Handicapped EC56811 High	$700	$800	$800	$800	$800	$800	$800	$900	$900	$900	$900	$900	$900	$1,000	$1,000
Vista Project	$300	$300	$300	$300	$300	$300	$300	$300	$300	$300	$400	$400	$400	$400	$400
Resource Conservation Dist of Greater San Diego	$200	$200	$200	$200	$200	$200	$200	$200	$200	$200	$200	$200	$200	$200	$200
Autistic Pupils Minors High School Comp	$200	$200	$200	$200	$200	$200	$200	$200	$200	$200	$200	$200	$200	$200	$200
Educational Revenue Augmentation Fund	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total	**$1,554,400**	**$1,585,700**	**$1,617,300**	**$1,649,600**	**$1,682,700**	**$1,716,000**	**$1,750,600**	**$1,785,700**	**$1,821,400**	**$1,857,800**	**$1,894,800**	**$1,932,900**	**$1,971,300**	**$2,011,000**	**$2,050,900**
III. Voter Approved Bonds and Taxes (1)															
Gen Bond Escondido - Prop E, Ser 2014B	$14,700	$15,000	$15,300	$15,600	$15,900	$16,200	$16,500	$16,900	$17,200	$17,600	$17,900	$18,300	$18,600	$19,000	$19,400
Palomar Community Coll Prop M, 2015 Ref	$6,000	$6,100	$6,300	$6,400	$6,500	$6,600	$6,800	$6,900	$7,000	$7,200	$7,300	$7,500	$7,600	$7,800	$7,900
Gen Bond Escondido - Prop E, Ser 2014C	$6,400	$6,500	$6,600	$6,800	$6,900	$7,000	$7,200	$7,300	$7,500	$7,600	$7,800	$7,900	$8,100	$8,200	$8,400
Palomar Community Coll Prop M, Ser 2006C	$1,800	$1,900	$1,900	$1,900	$2,000	$2,000	$2,100	$2,100	$2,100	$2,200	$2,200	$2,300	$2,300	$2,400	$2,400
Hi Bond Escondido - Prop A, 1996A Ref	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Palomar Community Coll Prop M, 2017 Ref	$3,700	$3,800	$3,900	$3,900	$4,000	$4,100	$4,200	$4,300	$4,400	$4,400	$4,500	$4,600	$4,700	$4,800	$4,900
Gen Bond Escondido - Prop E, 2021 Ref	$11,600	$11,900	$12,100	$12,400	$12,600	$12,900	$13,100	$13,400	$13,600	$13,900	$14,200	$14,500	$14,800	$15,100	$15,400
Palomar Community Coll Prop M, 2017D	$6,400	$6,500	$6,600	$6,700	$6,900	$7,000	$7,200	$7,300	$7,400	$7,600	$7,800	$7,900	$8,100	$8,200	$8,400
Palomar Health 2005A - Debt Service	$59,100	$60,300	$61,500	$62,700	$63,900	$65,200	$66,500	$67,900	$69,200	$70,600	$72,000	$73,400	$74,900	$76,400	$77,900
Hi Bond Escondido - Prop T, Series 2009A	$48,600	$49,500	$50,500	$51,500	$52,600	$53,600	$54,700	$55,800	$56,900	$58,000	$59,200	$60,400	$61,600	$62,800	$64,100
Palomar Community Coll Prop M, 2020 Ref	$8,500	$8,700	$8,900	$9,100	$9,200	$9,400	$9,600	$9,800	$10,000	$10,200	$10,400	$10,600	$10,800	$11,000	$11,300
Gen Bond Escondido, Prop K, 2002A Ref	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Hi Bond Escondido - Prop T, Series 2009B	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Gen Bond Escondido - Prop E, Ser 2014A	$2,800	$2,900	$3,000	$3,000	$3,100	$3,100	$3,200	$3,300	$3,300	$3,400	$3,500	$3,500	$3,600	$3,700	$3,800
Hi Bond Escondido - Prop T, Ser 2011C	$1,700	$1,700	$1,800	$1,800	$1,800	$1,900	$1,900	$1,900	$2,000	$2,000	$2,100	$2,100	$2,100	$2,200	$2,200
Escondido City Public Safety Fac Imp Refunding Bnd	$32,100	$32,700	$33,400	$34,100	$34,700	$35,400	$36,100	$36,900	$37,600	$38,400	$39,100	$39,900	$40,700	$41,500	$42,400
Gen Bond Escondido - Prop K, 2017 Ref	$21,300	$21,700	$22,200	$22,600	$23,100	$23,500	$24,000	$24,500	$25,000	$25,500	$26,000	$26,500	$27,000	$27,500	$28,100
Palomar Community Coll Prop M, Ser 2006B	$3,800	$3,800	$3,900	$4,000	$4,100	$4,200	$4,200	$4,300	$4,400	$4,500	$4,600	$4,700	$4,800	$4,900	$5,000
MWD D/S Remainder of SDCWA	$5,400	$5,500	$5,700	$5,800	$5,900	$6,000	$6,100	$6,200	$6,400	$6,500	$6,600	$6,800	$6,900	$7,000	$7,200
Total	**$233,900**	**$238,500**	**$243,600**	**$248,300**	**$253,200**	**$258,100**	**$263,400**	**$268,800**	**$274,000**	**$279,600**	**$285,200**	**$290,900**	**$296,600**	**$302,500**	**$308,800**
IV. Total Foregone Tax Revenue	**$1,788,300**	**$1,824,200**	**$1,860,900**	**$1,897,900**	**$1,935,900**	**$1,974,100**	**$2,014,000**	**$2,054,500**	**$2,095,400**	**$2,137,400**	**$2,180,000**	**$2,223,800**	**$2,267,900**	**$2,313,500**	**$2,359,700**
V. Breakout of Foregone Tax Revenue by Entity															
City	$252,100	$257,100	$262,300	$267,600	$272,900	$278,300	$283,900	$289,700	$295,400	$301,400	$307,300	$313,500	$319,800	$326,200	$332,700
Schools	$1,006,500	$1,026,700	$1,047,400	$1,068,200	$1,089,700	$1,111,100	$1,133,500	$1,156,300	$1,179,300	$1,203,000	$1,227,000	$1,251,600	$1,276,400	$1,302,100	$1,328,100
Other	$529,700	$540,400	$551,200	$562,100	$573,300	$584,700	$596,600	$608,500	$620,700	$633,000	$645,700	$658,700	$671,700	$685,200	$698,900
Total	**$1,788,300**	**$1,824,200**	**$1,860,900**	**$1,897,900**	**$1,935,900**	**$1,974,100**	**$2,014,000**	**$2,054,500**	**$2,095,400**	**$2,137,400**	**$2,180,000**	**$2,223,800**	**$2,267,900**	**$2,313,500**	**$2,359,700**

Prepared by: Keyser Marston Associates, Inc.
Filename: i:/Escondido_Rowan Haven76 Alcove_Pro Forma Analysis_v4_10-20-21;10/20/2021;mdt

TABLE 3

FUTURE FOREGONE TAX REVENUE - YEARS 1-30
MIDDLE-INCOME HOUSING PROGRAM - ROWAN, ALCOVE, HAVEN7
CITY OF ESCONDIDO

Assumptions	
Assessed Value Escalation @	*2.00%*
Discount Rate	*4.50%*

	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30
I. Assessed Value	$209,212,500	$213,396,800	$217,664,700	$222,018,000	$226,458,400	$230,987,600	$235,607,400	$240,319,500	$245,125,900	$250,028,400	$255,029,000	$260,129,600	$265,332,200	$270,638,800	$276,051,600
II. Breakout of 1.0% Property Tax															
Gen Elem Escondido Union	$574,400	$585,900	$597,600	$609,600	$621,800	$634,200	$646,900	$659,800	$673,000	$686,500	$700,200	$714,200	$728,500	$743,100	$757,900
County General	$543,400	$554,200	$565,300	$576,600	$588,100	$599,900	$611,900	$624,100	$636,600	$649,400	$662,300	$675,600	$689,100	$702,900	$716,900
High Escondido Union	$436,000	$444,700	$453,600	$462,700	$472,000	$481,400	$491,000	$500,800	$510,900	$521,100	$531,500	$542,100	$553,000	$564,000	$575,300
Escondido City	$296,200	$302,100	$308,100	$314,300	$320,600	$327,000	$333,500	$340,200	$347,000	$353,900	$361,000	$368,200	$375,600	$383,100	$390,800
Palomar Community College	$131,000	$133,600	$136,300	$139,000	$141,800	$144,600	$147,500	$150,500	$153,500	$156,500	$159,700	$162,900	$166,100	$169,400	$172,800
Palomar Health	$48,400	$49,400	$50,400	$51,400	$52,400	$53,500	$54,500	$55,600	$56,700	$57,900	$59,000	$60,200	$61,400	$62,600	$63,900
County School Service	$15,500	$15,800	$16,200	$16,500	$16,800	$17,200	$17,500	$17,800	$18,200	$18,600	$18,900	$19,300	$19,700	$20,100	$20,500
Regional Occupational Centers	$9,900	$10,100	$10,300	$10,500	$10,700	$10,900	$11,200	$11,400	$11,600	$11,800	$12,100	$12,300	$12,600	$12,800	$13,100
North County Cemetery	$8,900	$9,100	$9,300	$9,500	$9,600	$9,800	$10,000	$10,200	$10,400	$10,700	$10,900	$11,100	$11,300	$11,500	$11,800
CWA City of Escondido	$8,000	$8,200	$8,300	$8,500	$8,700	$8,800	$9,000	$9,200	$9,400	$9,600	$9,800	$9,900	$10,100	$10,300	$10,600
Physically Handicapped	$6,900	$7,000	$7,200	$7,300	$7,500	$7,600	$7,800	$7,900	$8,100	$8,200	$8,400	$8,600	$8,700	$8,900	$9,100
Trainable Mentally Retarded Minors High School	$4,500	$4,600	$4,700	$4,700	$4,800	$4,900	$5,000	$5,100	$5,200	$5,300	$5,500	$5,600	$5,700	$5,800	$5,900
County School Service - Capital Outlay	$3,900	$4,000	$4,100	$4,200	$4,200	$4,300	$4,400	$4,500	$4,600	$4,700	$4,800	$4,900	$5,000	$5,100	$5,200
Childrens Institutions Tuition	$3,300	$3,400	$3,400	$3,500	$3,600	$3,700	$3,700	$3,800	$3,900	$4,000	$4,000	$4,100	$4,200	$4,300	$4,400
Development Centers for Handicapped EC56811 High	$1,000	$1,000	$1,000	$1,100	$1,100	$1,100	$1,100	$1,200	$1,200	$1,200	$1,200	$1,200	$1,300	$1,300	$1,300
Vista Project	$400	$400	$400	$400	$400	$400	$400	$500	$500	$500	$500	$500	$500	$500	$500
Resource Conservation Dist of Greater San Diego	$200	$200	$200	$300	$300	$300	$300	$300	$300	$300	$300	$300	$300	$300	$300
Autistic Pupils Minors High School Comp	$200	$200	$200	$200	$200	$200	$200	$200	$200	$200	$300	$300	$300	$300	$300
Educational Revenue Augmentation Fund	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total	**$2,092,100**	**$2,133,900**	**$2,176,600**	**$2,220,300**	**$2,264,600**	**$2,309,800**	**$2,355,900**	**$2,403,100**	**$2,451,300**	**$2,500,400**	**$2,550,400**	**$2,601,300**	**$2,653,400**	**$2,706,300**	**$2,760,600**
III. Voter Approved Bonds and Taxes (1)															
Gen Bond Escondido - Prop E, Ser 2014B	$19,800	$20,200	$20,600	$21,000	$21,400	$21,800	$22,300	$22,700	$23,200	$23,600	$24,100	$24,600	$25,100	$25,600	$26,100
Palomar Community Coll Prop M, 2015 Ref	$8,100	$8,300	$8,400	$8,600	$8,800	$8,900	$9,100	$9,300	$9,500	$9,700	$9,900	$10,100	$10,300	$10,500	$10,700
Gen Bond Escondido - Prop E, Ser 2014C	$8,600	$8,700	$8,900	$9,100	$9,300	$9,500	$9,700	$9,900	$10,100	$10,300	$10,500	$10,700	$10,900	$11,100	$11,300
Palomar Community Coll Prop M, Ser 2006C	$2,500	$2,500	$2,600	$2,600	$2,700	$2,700	$2,800	$2,800	$2,900	$3,000	$3,000	$3,100	$3,100	$3,200	$3,300
Hi Bond Escondido - Prop A, 1996A Ref	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Palomar Community Coll Prop M, 2017 Ref	$5,000	$5,100	$5,200	$5,300	$5,400	$5,500	$5,600	$5,700	$5,900	$6,000	$6,100	$6,200	$6,300	$6,500	$6,600
Gen Bond Escondido - Prop E, 2021 Ref	$15,700	$16,000	$16,300	$16,600	$17,000	$17,300	$17,600	$18,000	$18,400	$18,700	$19,100	$19,500	$19,900	$20,300	$20,700
Palomar Community Coll Prop M, 2017D	$8,600	$8,700	$8,900	$9,100	$9,300	$9,400	$9,600	$9,800	$10,000	$10,200	$10,400	$10,600	$10,900	$11,100	$11,300
Palomar Health 2005A - Debt Service	$79,500	$81,100	$82,700	$84,400	$86,100	$87,800	$89,500	$91,300	$93,100	$95,000	$96,900	$98,800	$100,800	$102,800	$104,900
Hi Bond Escondido - Prop T, Series 2009A	$65,400	$66,700	$68,000	$69,400	$70,700	$72,200	$73,600	$75,100	$76,600	$78,100	$79,700	$81,300	$82,900	$84,500	$86,200
Palomar Community Coll Prop M, 2020 Ref	$11,500	$11,700	$11,900	$12,200	$12,400	$12,700	$12,900	$13,200	$13,500	$13,700	$14,000	$14,300	$14,600	$14,900	$15,200
Gen Bond Escondido, Prop K, 2002A Ref	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Hi Bond Escondido - Prop T, Series 2009B	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Gen Bond Escondido - Prop E, Ser 2014A	$3,800	$3,900	$4,000	$4,100	$4,100	$4,200	$4,300	$4,400	$4,500	$4,600	$4,700	$4,800	$4,900	$5,000	$5,100
Hi Bond Escondido - Prop T, Ser 2011C	$2,300	$2,300	$2,400	$2,400	$2,500	$2,500	$2,600	$2,600	$2,700	$2,700	$2,800	$2,800	$2,900	$2,900	$3,000
Escondido City Public Safety Fac Imp Refunding Bnd	$43,200	$44,100	$44,900	$45,800	$46,800	$47,700	$48,700	$49,600	$50,600	$51,600	$52,700	$53,700	$54,800	$55,900	$57,000
Gen Bond Escondido - Prop K, 2017 Ref	$28,700	$29,200	$29,800	$30,400	$31,000	$31,600	$32,300	$32,900	$33,600	$34,300	$34,900	$35,600	$36,400	$37,100	$37,800
Palomar Community Coll Prop M, Ser 2006B	$5,100	$5,200	$5,300	$5,400	$5,500	$5,600	$5,700	$5,800	$5,900	$6,100	$6,200	$6,300	$6,400	$6,500	$6,700
MWD D/S Remainder of SDCWA	$7,300	$7,500	$7,600	$7,800	$7,900	$8,100	$8,200	$8,400	$8,600	$8,800	$8,900	$9,100	$9,300	$9,500	$9,700
Total	**$315,100**	**$321,200**	**$327,500**	**$334,200**	**$340,900**	**$347,500**	**$354,500**	**$361,500**	**$369,100**	**$376,400**	**$383,900**	**$391,500**	**$399,500**	**$407,400**	**$415,600**
IV. Total Foregone Tax Revenue	**$2,407,200**	**$2,455,100**	**$2,504,100**	**$2,554,500**	**$2,605,500**	**$2,657,300**	**$2,710,400**	**$2,764,600**	**$2,820,400**	**$2,876,800**	**$2,934,300**	**$2,992,800**	**$3,052,900**	**$3,113,700**	**$3,176,200**
V. Breakout of Foregone Tax Revenue by Entity															
City	$339,400	$346,200	$353,000	$360,100	$367,400	$374,700	$382,200	$389,800	$397,600	$405,500	$413,700	$421,900	$430,400	$439,000	$447,800
Schools	$1,354,900	$1,381,700	$1,409,400	$1,437,700	$1,466,400	$1,495,500	$1,525,400	$1,555,900	$1,587,500	$1,619,100	$1,651,500	$1,684,500	$1,718,400	$1,752,600	$1,787,600
Other	$712,900	$727,200	$741,700	$756,700	$771,700	$787,100	$802,800	$818,900	$835,300	$852,200	$869,100	$886,400	$904,100	$922,100	$940,800
Total	**$2,407,200**	**$2,455,100**	**$2,504,100**	**$2,554,500**	**$2,605,500**	**$2,657,300**	**$2,710,400**	**$2,764,600**	**$2,820,400**	**$2,876,800**	**$2,934,300**	**$2,992,800**	**$3,052,900**	**$3,113,700**	**$3,176,200**

TABLE 4

RENT SAVINGS CREATED BY MIH PROGRAM COMPARED TO FOREGONE PROPERTY TAX
MIDDLE-INCOME HOUSING PROGRAM - ROWAN, ALCOVE, HAVEN76
CITY OF ESCONDIDO

	Escalation Factor
Market Rents	3.0%
Affordable Rents	3.0%
Property Taxes	2.0%

	A		B		C	D	E = C - D	F	G = F - E
Year	**Market Rents** (1)		**In-Place Rents** (2)		**Market Rents after Turnover**	**Pro Forma Rents** (3)	**Difference (Rent Savings)**	**Foregone Property Tax Payments** (4)	**Difference**
1	0%	$10,592,000	100%	$10,024,000	$10,024,000	$9,977,500	$46,500	$1,788,000	$1,741,500
2	20%	$10,909,760	80%	$10,325,000	$10,441,952	$9,952,400	$489,552	$1,824,000	$1,334,448
3	40%	$11,237,053	60%	$10,635,000	$10,875,821	$9,749,900	$1,125,921	$1,860,000	$734,079
4	60%	$11,574,164	40%	$10,954,000	$11,326,099	$10,042,400	$1,283,699	$1,897,000	$613,301
5	80%	$11,921,389	20%	$11,283,000	$11,793,711	$10,343,600	$1,450,111	$1,935,000	$484,889
6	100%	$12,279,031	0%	$11,621,000	$12,279,031	$10,653,900	$1,625,131	$1,974,000	$348,869
7	100%	$12,647,402	0%	$11,970,000	$12,647,402	$10,973,500	$1,673,902	$2,013,000	$339,098
8	100%	$13,026,824	0%	$12,329,000	$13,026,824	$11,302,700	$1,724,124	$2,053,000	$328,876
9	100%	$13,417,629	0%	$12,699,000	$13,417,629	$11,641,800	$1,775,829	$2,094,000	$318,171
10	100%	$13,820,158	0%	$13,080,000	$13,820,158	$11,991,100	$1,829,058	$2,136,000	$306,942
11	100%	$14,234,762	0%	$13,472,000	$14,234,762	$12,350,800	$1,883,962	$2,179,000	$295,038
12	100%	$14,661,805	0%	$13,876,000	$14,661,805	$12,721,400	$1,940,405	$2,223,000	$282,595
13	100%	$15,101,659	0%	$14,292,000	$15,101,659	$13,103,000	$1,998,659	$2,267,000	$268,341
14	100%	$15,554,709	0%	$14,721,000	$15,554,709	$13,496,100	$2,058,609	$2,312,000	$253,391
15	100%	$16,021,350	0%	$15,163,000	$16,021,350	$13,901,000	$2,120,350	$2,358,000	$237,650
16	100%	$16,501,991	0%	$15,618,000	$16,501,991	$14,318,000	$2,183,991	$2,405,000	$221,009
17	100%	$16,997,051	0%	$16,087,000	$16,997,051	$14,747,600	$2,249,451	$2,453,000	$203,549
18	100%	$17,506,962	0%	$16,570,000	$17,506,962	$15,190,000	$2,316,962	$2,502,000	$185,038
19	100%	$18,032,171	0%	$17,067,000	$18,032,171	$15,645,600	$2,386,571	$2,552,000	$165,429
20	100%	$18,573,136	0%	$17,579,000	$18,573,136	$16,115,000	$2,458,136	$2,603,000	$144,864
21	100%	$19,130,330	0%	$18,106,000	$19,130,330	$16,598,500	$2,531,830	$2,655,000	$123,170
22	100%	$19,704,240	0%	$18,649,000	$19,704,240	$17,096,500	$2,607,740	$2,708,000	$100,260
23	100%	$20,295,367	0%	$19,208,000	$20,295,367	$17,609,300	$2,686,067	$2,762,000	$75,933
24	100%	$20,904,228	0%	$19,784,000	$20,904,228	$18,137,600	$2,766,628	$2,817,000	$50,372
25	100%	$21,531,355	0%	$20,378,000	$21,531,355	$18,681,700	$2,849,655	$2,873,000	$23,345
26	100%	$22,177,296	0%	$20,989,000	$22,177,296	$19,242,200	$2,935,096	$2,930,000	($5,096)
27	100%	$22,842,615	0%	$21,619,000	$22,842,615	$19,819,500	$3,023,115	$2,989,000	($34,115)
28	100%	$23,527,893	0%	$22,268,000	$23,527,893	$20,414,000	$3,113,893	$3,049,000	($64,893)
29	100%	$24,233,730	0%	$22,936,000	$24,233,730	$21,026,400	$3,207,330	$3,110,000	($97,330)
30	100%	$24,960,742	0%	$23,624,000	$24,960,742	$21,657,200	$3,303,542	$3,172,000	($131,542)
Total, Years 1 - 30		**$503,918,803**		**$476,926,000**	**$502,146,020**	**$438,500,200**	**$63,645,820**	**$72,493,000**	**$8,847,180**

(1) Gross Scheduled Income based on CoStar Group estimate of Market Rents escalated at 3.0% per year.
(2) Gross Scheduled Income based on 2021 In-Place Rents escalated at 3.0% per year.
(3) Gross Scheduled Income assuming turnover to In-Place Discounted rents.
(4) Based on proposed purchase price escalated at 2.0% per year.

Prepared by: Keyser Marston Associates, Inc.
Filename: i:/Escondido_Rowan Haven76 Alcove_Pro Forma Analysis_v4_10-20-21;10/20/2021;mdt

TABLE 5

NET OPERATING INCOME - YEARS 15 AND 30 (1)
MIDDLE-INCOME HOUSING PROGRAM - ROWAN, ALCOVE, HAVEN76
CITY OF ESCONDIDO

		Year 15		Year 30	
I. Residential Income	**# of Units**	**$/Month**	**Total**	**$/Month**	**Total**
Affordable Units					
80% AMI	105	$3,178	$3,992,100	$4,952	$6,219,800
100% AMI	105	$3,852	$4,837,600	$6,001	$7,536,800
120% AMI	105	$4,038	$5,071,300	$6,291	$7,901,000
Total/Average	314	$3,689	$13,901,000	$5,748	$21,657,600
Gross Scheduled Income (GSI)			$13,901,000		$21,657,600
(Less) LTL		1.5% of GSI	($208,500)	1.5% of GSI	($324,900)
Adjusted GSI			$13,692,500		$21,332,700
Add: Other Income (2)		$203 /Unit/Month	$764,200	$316 /Unit/Month	$1,190,600
Total GSI			$14,456,700		$22,523,300
II. Effective Gross Income					
(Less) Vacancy		4.7% of GSI	($684,600)	4.7% of GSI	($1,066,600)
(Less) Bad Debt			($68,500)		($106,700)
(Less) Non-Revenue Units			($76,300)		($118,800)
Total Effective Gross Income (EGI)			$13,627,300		$21,231,200
III. Operating Expenses					
(Less) Operating Expenses (3)		$9,607 /Unit/Year	($3,016,700)	$14,968 /Unit/Year	($4,700,000)
(Less) Management Fee		$1,259 /Unit/Year	($395,200)	$1,961 /Unit/Year	($615,700)
(Less) Insurance		$983 /Unit/Year	($308,700)	$1,532 /Unit/Year	($481,000)
(Less) Property Taxes/Assessments		$2 /Unit/Year	($760)	$3 /Unit/Year	($1,000)
Total Expenses		$11,851 /Unit/Year	($3,721,360)	$18,464 /Unit/Year	($5,797,700)
		27% of EGI		27% of EGI	
IV. Net Operating Income (NOI)(Rounded)			**$9,906,000**		**$15,434,000**

(1) Per Investors. October 11, 2021.
(2) Includes Other Income, Ratio Utility Billing System (RUBS), and Retail Income.
(3) Inclues Payroll, Marketing, General & Administrative, Turnover, Repairs & Maintenance, Contract Services, and Utilities.

TABLE 6

ESTIMATE OF NET OPERATING INCOME, YEARS 1-30
MIDDLE-INCOME HOUSING PROGRAM - ROWAN, ALCOVE, HAVEN76
CITY OF ESCONDIDO

Assumptions	*Before 100% Turnover*	*After 100% Turnover*
Market Rent Escalation	*3.00%*	*3.00%*
Affordable Rent Escalation	*3.00%*	*3.00%*
Operating Expense Escalation	*3.00%*	*3.00%*

	0	1	2	3	4	5	6	7	8	9	10
I. Effective Gross Income (EGI) - Residential											
Assumed Turnover		*20%*	*40%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*
A. 80% AMI											
Non-Converted Units	105	84	50	0	0	0	0	0	0	0	0
Assumed Monthly Rent	$2,660	$2,700	$2,781	$2,865	$2,951	$3,039	$3,130	$3,224	$3,321	$3,421	$3,523
Annual Rent	$3,341,400	$2,713,200	$1,676,700	$0	$0	$0	$0	$0	$0	$0	$0
Converted Units	0	21	54	105	105	105	105	105	105	105	105
Assumed Monthly Rent	$2,070	$2,101	$2,164	$2,229	$2,296	$2,365	$2,436	$2,509	$2,584	$2,662	$2,742
Annual Rent	$0	$527,800	$1,413,600	$2,800,000	$2,884,000	$2,970,500	$3,059,600	$3,151,400	$3,245,900	$3,343,300	$3,443,600
Total Rental Income - 80% AMI	$3,341,400	$3,241,000	$3,090,300	$2,800,000	$2,884,000	$2,970,500	$3,059,600	$3,151,400	$3,245,900	$3,343,300	$3,443,600
B. 100% AMI											
Non-Converted Units	105	84	50	0	0	0	0	0	0	0	0
Assumed Monthly Rent	$2,660	$2,700	$2,781	$2,865	$2,951	$3,039	$3,130	$3,224	$3,321	$3,421	$3,523
Annual Rent	$3,341,400	$2,713,200	$1,676,700	$0	$0	$0	$0	$0	$0	$0	$0
Converted Units	0	21	54	105	105	105	105	105	105	105	105
Assumed Monthly Rent	$2,509	$2,546	$2,623	$2,701	$2,782	$2,866	$2,952	$3,040	$3,132	$3,226	$3,322
Annual Rent	$0	$639,600	$1,713,000	$3,393,000	$3,494,800	$3,599,600	$3,707,600	$3,818,800	$3,933,400	$4,051,400	$4,172,900
Total Rental Income - 100% AMI	$3,341,400	$3,352,800	$3,389,700	$3,393,000	$3,494,800	$3,599,600	$3,707,600	$3,818,800	$3,933,400	$4,051,400	$4,172,900
C. 120% AMI											
Non-Converted Units	105	84	50	0	0	0	0	0	0	0	0
Assumed Monthly Rent	$2,660	$2,700	$2,781	$2,865	$2,951	$3,039	$3,130	$3,224	$3,321	$3,421	$3,523
Annual Rent	$3,341,400	$2,713,200	$1,676,700	$0	$0	$0	$0	$0	$0	$0	$0
Converted Units	0	21	54	105	105	105	105	105	105	105	105
Assumed Monthly Rent	$2,630	$2,669	$2,749	$2,832	$2,917	$3,004	$3,095	$3,187	$3,283	$3,381	$3,483
Annual Rent	$0	$670,500	$1,795,700	$3,556,900	$3,663,600	$3,773,500	$3,886,700	$4,003,300	$4,123,400	$4,247,100	$4,374,600
Total Rental Income - 120% AMI	$3,341,400	$3,383,700	$3,472,400	$3,556,900	$3,663,600	$3,773,500	$3,886,700	$4,003,300	$4,123,400	$4,247,100	$4,374,600
D. Total Gross Scheduled Income (GSI)	$10,024,200	$9,977,500	$9,952,400	$9,749,900	$10,042,400	$10,343,600	$10,653,900	$10,973,500	$11,302,700	$11,641,800	$11,991,100
E. (Less) LTL	$0	($75,000)	($149,000)	($146,000)	($150,400)	($154,900)	($159,500)	($164,300)	($169,200)	($174,300)	($179,500)
F. Adjusted GSI	$10,024,200	$9,902,500	$9,803,400	$9,603,900	$9,892,000	$10,188,700	$10,494,400	$10,809,200	$11,133,500	$11,467,500	$11,811,600
G. Add: Other Income	$505,200	$502,800	$517,900	$533,400	$549,400	$565,900	$582,900	$600,400	$618,400	$637,000	$656,100
H. (Less) Vacancy	($501,200)	($495,100)	($490,200)	($480,200)	($494,600)	($509,400)	($524,700)	($540,500)	($556,700)	($573,400)	($590,600)
I. (Less) COVID 19 Concessions	($150,400)	($99,000)	($49,000)	$0	$0	$0	$0	$0	$0	$0	$0
J. (Less) Bad Debt	($150,400)	($148,500)	($73,500)	($48,000)	($49,500)	($50,900)	($52,500)	($54,000)	($55,700)	($57,300)	($59,100)
K. (Less) Non-Revenue Units	($49,700)	($50,400)	($51,900)	($53,500)	($55,100)	($56,800)	($58,500)	($60,200)	($62,000)	($63,900)	($65,800)
L, Effective Gross Income (EGI)	$9,677,700	$9,612,300	$9,656,700	$9,555,600	$9,842,200	$10,137,500	$10,441,600	$10,754,900	$11,077,500	$11,409,900	$11,752,200
II. (Less) Operating Expenses	($2,479,800)	($2,477,900)	($2,545,100)	($2,610,200)	($2,688,500)	($2,769,100)	($2,852,200)	($2,937,700)	($3,025,900)	($3,116,600)	($3,210,100)
III. Net Operating Income	$7,197,900	$7,134,400	$7,111,600	$6,945,400	$7,153,700	$7,368,400	$7,589,400	$7,817,200	$8,051,600	$8,293,300	$8,542,100

Source: Per Investors. October 11, 2021.

Prepared by: Keyser Marston Associates, Inc.
Filename: i:/Escondido_Rowan Haven76 Alcove_Pro Forma Analysis_v4_10-20-21;10/20/2021;mdt

TABLE 6

ESTIMATE OF NET OPERATING INCOME, YEARS 1-30
MIDDLE-INCOME HOUSING PROGRAM - ROWAN, ALCOVE, HAVEN76
CITY OF ESCONDIDO

Assumptions	*Before 100% Turnover*	*After 100% Turnover*
Market Rent Escalation	*3.00%*	*3.00%*
Affordable Rent Escalation	*3.00%*	*3.00%*
Operating Expense Escalation	*3.00%*	*3.00%*

	11	12	13	14	15	16	17	18	19	20
I. Effective Gross Income (EGI) - Residential										
Assumed Turnover	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*
A. 80% AMI										
Non-Converted Units	0	0	0	0	0	0	0	0	0	0
Assumed Monthly Rent	$3,629	$3,738	$3,850	$3,965	$4,084	$4,207	$4,333	$4,463	$4,597	$4,735
Annual Rent	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Converted Units	105	105	105	105	105	105	105	105	105	105
Assumed Monthly Rent	$2,824	$2,909	$2,996	$3,086	$3,178	$3,274	$3,372	$3,473	$3,577	$3,685
Annual Rent	$3,546,900	$3,653,300	$3,762,900	$3,875,800	$3,992,100	$4,111,800	$4,235,200	$4,362,300	$4,493,100	$4,627,900
Total Rental Income - 80% AMI	$3,546,900	$3,653,300	$3,762,900	$3,875,800	$3,992,100	$4,111,800	$4,235,200	$4,362,300	$4,493,100	$4,627,900
B. 100% AMI										
Non-Converted Units	0	0	0	0	0	0	0	0	0	0
Assumed Monthly Rent	$3,629	$3,738	$3,850	$3,965	$4,084	$4,207	$4,333	$4,463	$4,597	$4,735
Annual Rent	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Converted Units	105	105	105	105	105	105	105	105	105	105
Assumed Monthly Rent	$3,422	$3,525	$3,630	$3,739	$3,852	$3,967	$4,086	$4,209	$4,335	$4,465
Annual Rent	$4,298,100	$4,427,100	$4,559,900	$4,696,700	$4,837,600	$4,982,700	$5,132,200	$5,286,100	$5,444,700	$5,608,100
Total Rental Income - 100% AMI	$4,298,100	$4,427,100	$4,559,900	$4,696,700	$4,837,600	$4,982,700	$5,132,200	$5,286,100	$5,444,700	$5,608,100
C. 120% AMI										
Non-Converted Units	0	0	0	0	0	0	0	0	0	0
Assumed Monthly Rent	$3,629	$3,738	$3,850	$3,965	$4,084	$4,207	$4,333	$4,463	$4,597	$4,735
Annual Rent	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Converted Units	105	105	105	105	105	105	105	105	105	105
Assumed Monthly Rent	$3,587	$3,695	$3,806	$3,920	$4,038	$4,159	$4,284	$4,412	$4,544	$4,681
Annual Rent	$4,505,800	$4,641,000	$4,780,200	$4,923,600	$5,071,300	$5,223,500	$5,380,200	$5,541,600	$5,707,800	$5,879,000
Total Rental Income - 120% AMI	$4,505,800	$4,641,000	$4,780,200	$4,923,600	$5,071,300	$5,223,500	$5,380,200	$5,541,600	$5,707,800	$5,879,000
D. Total Gross Scheduled Income (GSI)	$12,350,800	$12,721,400	$13,103,000	$13,496,100	$13,901,000	$14,318,000	$14,747,600	$15,190,000	$15,645,600	$16,115,000
E. (Less) LTL	($184,900)	($190,400)	($196,100)	($202,000)	($208,100)	($214,300)	($220,700)	($227,300)	($234,100)	($241,100)
F. Adjusted GSI	$12,165,900	$12,531,000	$12,906,900	$13,294,100	$13,692,900	$14,103,700	$14,526,900	$14,962,700	$15,411,500	$15,873,900
G. Add: Other Income	$675,800	$696,100	$717,000	$738,500	$760,700	$783,500	$807,000	$831,200	$856,100	$881,800
H. (Less) Vacancy	($608,300)	($626,600)	($645,300)	($664,700)	($684,600)	($705,200)	($726,300)	($748,100)	($770,600)	($793,700)
I. (Less) COVID 19 Concessions	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
J. (Less) Bad Debt	($60,800)	($62,700)	($64,500)	($66,500)	($68,500)	($70,500)	($72,600)	($74,800)	($77,100)	($79,400)
K. (Less) Non-Revenue Units	($67,800)	($69,800)	($71,900)	($74,100)	($76,300)	($78,600)	($80,900)	($83,400)	($85,900)	($88,400)
L, Effective Gross Income (EGI)	$12,104,800	$12,468,000	$12,842,200	$13,227,300	$13,624,200	$14,032,900	$14,454,100	$14,887,600	$15,334,000	$15,794,200
II. (Less) Operating Expenses	($3,306,400)	($3,405,600)	($3,507,800)	($3,613,000)	($3,721,400)	($3,833,000)	($3,948,000)	($4,066,500)	($4,188,400)	($4,314,100)
III. Net Operating Income	$8,798,400	$9,062,400	$9,334,400	$9,614,300	$9,902,800	$10,199,900	$10,506,100	$10,821,100	$11,145,600	$11,480,100

Source: Per Investors. October 11, 2021.

Prepared by: Keyser Marston Associates, Inc.
Filename: i:/Escondido_Rowan Haven76 Alcove_Pro Forma Analysis_v4_10-20-21;10/20/2021;mdt

TABLE 6

ESTIMATE OF NET OPERATING INCOME, YEARS 1-30
MIDDLE-INCOME HOUSING PROGRAM - ROWAN, ALCOVE, HAVEN76
CITY OF ESCONDIDO

Assumptions	*Before 100% Turnover*	*After 100% Turnover*
Market Rent Escalation	*3.00%*	*3.00%*
Affordable Rent Escalation	*3.00%*	*3.00%*
Operating Expense Escalation	*3.00%*	*3.00%*

	21	22	23	24	25	26	27	28	29	30
I. Effective Gross Income (EGI) - Residential										
Assumed Turnover	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*
A. 80% AMI										
Non-Converted Units	0	0	0	0	0	0	0	0	0	0
Assumed Monthly Rent	$4,877	$5,023	$5,174	$5,329	$5,489	$5,654	$5,823	$5,998	$6,178	$6,363
Annual Rent	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Converted Units	105	105	105	105	105	105	105	105	105	105
Assumed Monthly Rent	$3,795	$3,909	$4,026	$4,147	$4,272	$4,400	$4,532	$4,668	$4,808	$4,952
Annual Rent	$4,766,800	$4,909,800	$5,057,000	$5,208,800	$5,365,000	$5,526,000	$5,691,800	$5,862,500	$6,038,400	$6,219,500
Total Rental Income - 80% AMI	$4,766,800	$4,909,800	$5,057,000	$5,208,800	$5,365,000	$5,526,000	$5,691,800	$5,862,500	$6,038,400	$6,219,500
B. 100% AMI										
Non-Converted Units	0	0	0	0	0	0	0	0	0	0
Assumed Monthly Rent	$4,877	$5,023	$5,174	$5,329	$5,489	$5,654	$5,823	$5,998	$6,178	$6,363
Annual Rent	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Converted Units	105	105	105	105	105	105	105	105	105	105
Assumed Monthly Rent	$4,599	$4,737	$4,879	$5,025	$5,176	$5,331	$5,491	$5,656	$5,826	$6,001
Annual Rent	$5,776,300	$5,949,600	$6,128,100	$6,311,900	$6,501,300	$6,696,300	$6,897,200	$7,104,100	$7,317,200	$7,536,800
Total Rental Income - 100% AMI	$5,776,300	$5,949,600	$6,128,100	$6,311,900	$6,501,300	$6,696,300	$6,897,200	$7,104,100	$7,317,200	$7,536,800
C. 120% AMI										
Non-Converted Units	0	0	0	0	0	0	0	0	0	0
Assumed Monthly Rent	$4,877	$5,023	$5,174	$5,329	$5,489	$5,654	$5,823	$5,998	$6,178	$6,363
Annual Rent	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Converted Units	105	105	105	105	105	105	105	105	105	105
Assumed Monthly Rent	$4,821	$4,966	$5,115	$5,268	$5,426	$5,589	$5,757	$5,929	$6,107	$6,291
Annual Rent	$6,055,400	$6,237,100	$6,424,200	$6,616,900	$6,815,400	$7,019,900	$7,230,500	$7,447,400	$7,670,800	$7,900,900
Total Rental Income - 120% AMI	$6,055,400	$6,237,100	$6,424,200	$6,616,900	$6,815,400	$7,019,900	$7,230,500	$7,447,400	$7,670,800	$7,900,900
D. Total Gross Scheduled Income (GSI)	$16,598,500	$17,096,500	$17,609,300	$18,137,600	$18,681,700	$19,242,200	$19,819,500	$20,414,000	$21,026,400	$21,657,200
E. (Less) LTL	($248,300)	($255,700)	($263,400)	($271,300)	($279,400)	($287,800)	($296,400)	($305,300)	($314,500)	($323,900)
F. Adjusted GSI	$16,350,200	$16,840,800	$17,345,900	$17,866,300	$18,402,300	$18,954,400	$19,523,100	$20,108,700	$20,711,900	$21,333,300
G. Add: Other Income	$908,300	$935,500	$963,600	$992,500	$1,022,300	$1,053,000	$1,084,600	$1,117,100	$1,150,600	$1,185,100
H. (Less) Vacancy	($817,500)	($842,000)	($867,300)	($893,300)	($920,100)	($947,700)	($976,200)	($1,005,400)	($1,035,600)	($1,066,700)
I. (Less) COVID 19 Concessions	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
J. (Less) Bad Debt	($81,700)	($84,200)	($86,700)	($89,300)	($92,000)	($94,800)	($97,600)	($100,500)	($103,600)	($106,700)
K. (Less) Non-Revenue Units	($91,100)	($93,800)	($96,600)	($99,500)	($102,500)	($105,600)	($108,800)	($112,000)	($115,400)	($118,800)
L, Effective Gross Income (EGI)	$16,268,200	$16,756,300	$17,258,900	$17,776,700	$18,310,000	$18,859,300	$19,425,100	$20,007,900	$20,607,900	$21,226,200
II. (Less) Operating Expenses	($4,443,500)	($4,576,800)	($4,714,100)	($4,855,500)	($5,001,100)	($5,151,200)	($5,305,700)	($5,464,900)	($5,628,800)	($5,797,600)
III. Net Operating Income	$11,824,700	$12,179,500	$12,544,800	$12,921,200	$13,308,900	$13,708,100	$14,119,400	$14,543,000	$14,979,100	$15,428,600

Source: Per Investors. October 11, 2021.

Prepared by: Keyser Marston Associates, Inc.
Filename: i:/Escondido_Rowan Haven76 Alcove_Pro Forma Analysis_v4_10-20-21;10/20/2021;mdt

TABLE 7

ESTIMATE OF CASH FLOW AVAILABLE FOR BOND DEBT SERVICE, YEARS 1-30 (1)
MIDDLE-INCOME HOUSING PROGRAM - ROWAN, ALCOVE, HAVEN76
CITY OF ESCONDIDO

	0	1	2	3	4	5	6	7	8	9	10
I. Cash Flow Available for Debt Service											
A. Net Operating Income (NOI)	$7,197,000	$7,134,000	$7,111,000	$6,945,000	$7,153,000	$7,368,000	$7,589,000	$7,817,000	$8,051,000	$8,293,000	$8,542,000
B. Bond Specific Net Expenses											
City Host Fee	$0	$160,500	$160,500	$160,500	$160,500	$160,500	$160,500	$160,500	$160,500	$160,500	$160,500
Project Administrator Fee	$0	$0	$0	$0	$0	$231,900	$238,800	$246,000	$253,400	$261,000	$268,800
Other Admin. Expenses	$0	$0	$0	$0	$200,000	$200,000	$200,000	$200,000	$200,000	$200,000	$200,000
Annual Project Admin. Fee	$0	$20,000	$20,600	$21,200	$21,800	$22,500	$23,200	$23,900	$24,600	$25,300	$26,100
Capital Reserves/Unit	$0	$300	$310	$320	$330	$340	$350	$360	$370	$380	$390
Capital Reserves	$0	$94,200	$97,000	$99,900	$102,900	$106,000	$109,200	$112,500	$115,900	$119,400	$123,000
Investment Earnings	$0	($326,000)	($322,000)	($318,000)	($313,000)	($309,000)	($309,000)	($296,000)	($296,000)	($296,000)	($296,000)
Total Bond Specific Net Expenses	$0	($51,000)	($43,590)	($36,080)	$172,530	$412,240	$423,050	$447,260	$458,770	$470,580	$482,790
C. Cash Flow Available for Debt Service	$7,197,000	$7,185,000	$7,154,590	$6,981,080	$6,980,470	$6,955,760	$7,165,950	$7,369,740	$7,592,230	$7,822,420	$8,059,210
II. Bond Interest (Rounded)											
A. (Less) 2020 A Bond Interest @ 3.70%		($6,438,000)	($6,423,000)	($6,408,000)	($6,401,000)	($6,394,000)	($6,386,000)	($6,371,000)	($6,349,000)	($6,316,000)	($6,272,000)
B. (Less) 2020 B Bond Interest 10%		($400,000)	($400,000)	($400,000)	($400,000)	($400,000)	($400,000)	($400,000)	($400,000)	($400,000)	($400,000)
C. Total Bond Interest		($6,838,000)	($6,823,000)	($6,808,000)	($6,801,000)	($6,794,000)	($6,786,000)	($6,771,000)	($6,749,000)	($6,716,000)	($6,672,000)
D. Cash Flow Available for A Bond Redemption (Rounded)		$400,000	$400,000	$200,000	$200,000	$200,000	$400,000	$600,000	$900,000	$1,200,000	$1,400,000
III. Bonds Outstanding											
A. 2020 A Bond											
Bond Amount from Prior Year		$174,000,000	$173,600,000	$173,200,000	$173,000,000	$172,800,000	$172,600,000	$172,200,000	$171,600,000	$170,700,000	$169,500,000
Add: Debt Service Reserve Funds Released	$8,028,104	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
(Less) Cash Flow Available for Bond Redemption		($400,000)	($400,000)	($200,000)	($200,000)	($200,000)	($400,000)	($600,000)	($900,000)	($1,200,000)	($1,400,000)
Bonds Outstanding	*$174,000,000*	*$173,600,000*	*$173,200,000*	*$173,000,000*	*$172,800,000*	*$172,600,000*	*$172,200,000*	*$171,600,000*	*$170,700,000*	*$169,500,000*	*$168,100,000*
B. Cash Flow Available for B Bond Redemption		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
C. 2020 B Bond											
Cash Flow Available for B Bond Redemption		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
(Less) Bond Amount from Prior Year	$4,000,000	($4,000,000)	($4,000,000)	($4,000,000)	($4,000,000)	($4,000,000)	($4,000,000)	($4,000,000)	($4,000,000)	($4,000,000)	($4,000,000)
Net Cash Flow		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Bonds Outstanding		*$4,000,000*	*$4,000,000*	*$4,000,000*	*$4,000,000*	*$4,000,000*	*$4,000,000*	*$4,000,000*	*$4,000,000*	*$4,000,000*	*$4,000,000*
D. Total Bonds Outstanding		$177,600,000	$177,200,000	$177,000,000	$176,800,000	$176,600,000	$176,200,000	$175,600,000	$174,700,000	$173,500,000	$172,100,000

(1) Allow for rounding.

Source: Per Investors. October 11, 2021.

Prepared by: Keyser Marston Associates, Inc.
Filename: i:/Escondido_Rowan Haven76 Alcove_Pro Forma Analysis_v4_10-20-21;10/20/2021;mdt

TABLE 7

ESTIMATE OF CASH FLOW AVAILABLE FOR BOND DEBT SERVICE, YEARS 1-30
MIDDLE-INCOME HOUSING PROGRAM - ROWAN, ALCOVE, H.
CITY OF ESCONDIDO

	11	12	13	14	15	16	17	18	19	20
I. Cash Flow Available for Debt Service										
A. Net Operating Income (NOI)	$8,798,000	$9,062,000	$9,334,000	$9,614,000	$9,902,000	$10,199,000	$10,506,000	$10,821,000	$11,145,000	$11,480,000
B. Bond Specific Net Expenses										
City Host Fee	$160,500	$160,500	$160,500	$160,500	$160,500	$160,500	$160,500	$160,500	$160,500	$160,500
Project Administrator Fee	$276,800	$285,200	$293,700	$302,500	$311,600	$320,900	$330,600	$340,500	$350,700	$361,200
Other Admin. Expenses	$200,000	$200,000	$200,000	$200,000	$200,000	$200,000	$200,000	$200,000	$200,000	$200,000
Annual Project Admin. Fee	$26,900	$27,700	$28,500	$29,400	$30,300	$31,200	$32,100	$33,100	$34,100	$35,100
Capital Reserves/Unit	$400	$410	$420	$430	$440	$450	$460	$470	$480	$490
Capital Reserves	$126,700	$130,500	$134,400	$138,400	$142,600	$146,900	$151,300	$155,800	$160,500	$165,300
Investment Earnings	($228,000)	($228,000)	($228,000)	($228,000)	($228,000)	($228,000)	($228,000)	($228,000)	($228,000)	($228,000)
Total Bond Specific Net Expenses	$563,300	$576,310	$589,520	$603,230	$617,440	$631,950	$646,960	$662,370	$678,280	$694,590
C. Cash Flow Available for Debt Service	$8,234,700	$8,485,690	$8,744,480	$9,010,770	$9,284,560	$9,567,050	$9,859,040	$10,158,630	$10,466,720	$10,785,410
II. Bond Interest (Rounded)										
A. (Less) 2020 A Bond Interest @ 3.70%	($6,220,000)	($6,157,000)	($6,083,000)	($5,998,000)	($5,898,000)	($5,787,000)	($5,661,000)	($5,520,000)	($5,361,000)	($5,184,000)
B. (Less) 2020 B Bond Interest 10%	($400,000)	($400,000)	($400,000)	($400,000)	($400,000)	($400,000)	($400,000)	($400,000)	($400,000)	($400,000)
C. Total Bond Interest	($6,620,000)	($6,557,000)	($6,483,000)	($6,398,000)	($6,298,000)	($6,187,000)	($6,061,000)	($5,920,000)	($5,761,000)	($5,584,000)
D. Cash Flow Available for A Bond Redemption (Roundec	$1,700,000	$2,000,000	$2,300,000	$2,700,000	$3,000,000	$3,400,000	$3,800,000	$4,300,000	$4,800,000	$5,300,000
III. Bonds Outstanding										
A. 2020 A Bond										
Bond Amount from Prior Year	$168,100,000	$166,400,000	$164,400,000	$162,100,000	$159,400,000	$156,400,000	$153,000,000	$149,200,000	$144,900,000	$140,100,000
Add: Debt Service Reserve Funds Released	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
(Less) Cash Flow Available for Bond Redemption	($1,700,000)	($2,000,000)	($2,300,000)	($2,700,000)	($3,000,000)	($3,400,000)	($3,800,000)	($4,300,000)	($4,800,000)	($5,300,000)
Bonds Outstanding	*$166,400,000*	*$164,400,000*	*$162,100,000*	*$159,400,000*	*$156,400,000*	*$153,000,000*	*$149,200,000*	*$144,900,000*	*$140,100,000*	*$134,800,000*
B. Cash Flow Available for B Bond Redemption	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
C. 2020 B Bond										
Cash Flow Available for B Bond Redemption	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
(Less) Bond Amount from Prior Year	($4,000,000)	($4,000,000)	($4,000,000)	($4,000,000)	($4,000,000)	($4,000,000)	($4,000,000)	($4,000,000)	($4,000,000)	($4,000,000)
Net Cash Flow	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Bonds Outstanding	*$4,000,000*	*$4,000,000*	*$4,000,000*	*$4,000,000*	*$4,000,000*	*$4,000,000*	*$4,000,000*	*$4,000,000*	*$4,000,000*	*$4,000,000*
D. Total Bonds Outstanding	$170,400,000	$168,400,000	$166,100,000	$163,400,000	$160,400,000	$157,000,000	$153,200,000	$148,900,000	$144,100,000	$138,800,000

(1) Allow for rounding.

Source: Per Investors. October 11, 2021.

Prepared by: Keyser Marston Associates, Inc.
Filename: i:/Escondido_Rowan Haven76 Alcove_Pro Forma Analysis_v4_10-20-21;10/20/2021;mdt

TABLE 7

ESTIMATE OF CASH FLOW AVAILABLE FOR BOND DEBT SERVICE, YEARS 1-30
MIDDLE-INCOME HOUSING PROGRAM - ROWAN, ALCOVE, H
CITY OF ESCONDIDO

	21	22	23	24	25	26	27	28	29	30
I. Cash Flow Available for Debt Service										
A. Net Operating Income (NOI)	$11,824,000	$12,179,000	$12,544,000	$12,921,000	$13,308,000	$13,708,000	$14,119,000	$14,543,000	$14,979,000	$15,428,000
B. Bond Specific Net Expenses										
City Host Fee	$160,500	$160,500	$160,500	$160,500	$160,500	$160,500	$160,500	$160,500	$160,500	$160,500
Project Administrator Fee	$372,100	$383,200	$394,700	$406,600	$418,800	$431,300	$444,300	$457,600	$471,300	$485,500
Other Admin. Expenses	$200,000	$200,000	$200,000	$200,000	$200,000	$200,000	$200,000	$200,000	$200,000	$200,000
Annual Project Admin. Fee	$36,200	$37,300	$38,400	$39,600	$40,800	$42,000	$43,300	$44,600	$45,900	$47,300
Capital Reserves/Unit	$500	$520	$540	$560	$580	$600	$620	$640	$660	$680
Capital Reserves	$170,300	$175,400	$180,700	$186,100	$191,700	$197,500	$203,400	$209,500	$215,800	$222,300
Investment Earnings	($228,000)	($228,000)	($228,000)	($228,000)	($228,000)	($228,000)	($228,000)	($228,000)	($228,000)	($228,000)
Total Bond Specific Net Expenses	$711,600	$728,920	$746,840	$765,360	$784,380	$803,900	$824,120	$844,840	$866,160	$888,280
C. Cash Flow Available for Debt Service	$11,112,400	$11,450,080	$11,797,160	$12,155,640	$12,523,620	$12,904,100	$13,294,880	$13,698,160	$14,112,840	$14,539,720
II. Bond Interest (Rounded)										
A. (Less) 2020 A Bond Interest @ 3.70%	($4,988,000)	($4,773,000)	($4,540,000)	($4,285,000)	($4,007,000)	($3,704,000)	($3,374,000)	($3,019,000)	($2,638,000)	($2,227,000)
B. (Less) 2020 B Bond Interest 10%	($400,000)	($400,000)	($400,000)	($400,000)	($400,000)	($400,000)	($400,000)	($400,000)	($400,000)	($400,000)
C. Total Bond Interest	($5,388,000)	($5,173,000)	($4,940,000)	($4,685,000)	($4,407,000)	($4,104,000)	($3,774,000)	($3,419,000)	($3,038,000)	($2,627,000)
D. Cash Flow Available for A Bond Redemption (Roundec	$5,800,000	$6,300,000	$6,900,000	$7,500,000	$8,200,000	$8,900,000	$9,600,000	$10,300,000	$11,100,000	$12,000,000
III. Bonds Outstanding										
A. 2020 A Bond										
Bond Amount from Prior Year	$134,800,000	$129,000,000	$122,700,000	$115,800,000	$108,300,000	$100,100,000	$91,200,000	$81,600,000	$71,300,000	$60,200,000
Add: Debt Service Reserve Funds Released	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
(Less) Cash Flow Available for Bond Redemption	($5,800,000)	($6,300,000)	($6,900,000)	($7,500,000)	($8,200,000)	($8,900,000)	($9,600,000)	($10,300,000)	($11,100,000)	($12,000,000)
Bonds Outstanding	*$129,000,000*	*$122,700,000*	*$115,800,000*	*$108,300,000*	*$100,100,000*	*$91,200,000*	*$81,600,000*	*$71,300,000*	*$60,200,000*	*$48,200,000*
B. Cash Flow Available for B Bond Redemption	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
C. 2020 B Bond										
Cash Flow Available for B Bond Redemption	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
(Less) Bond Amount from Prior Year	($4,000,000)	($4,000,000)	($4,000,000)	($4,000,000)	($4,000,000)	($4,000,000)	($4,000,000)	($4,000,000)	($4,000,000)	($4,000,000)
Net Cash Flow	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Bonds Outstanding	*$4,000,000*	*$4,000,000*	*$4,000,000*	*$4,000,000*	*$4,000,000*	*$4,000,000*	*$4,000,000*	*$4,000,000*	*$4,000,000*	*$4,000,000*
D. Total Bonds Outstanding	$133,000,000	$126,700,000	$119,800,000	$112,300,000	$104,100,000	$95,200,000	$85,600,000	$75,300,000	$64,200,000	$52,200,000

(1) Allow for rounding.

Source: Per Investors. October 11, 2021.

Prepared by: Keyser Marston Associates, Inc.
Filename: i:/Escondido_Rowan Haven76 Alcove_Pro Forma Analysis_v4_10-20-21;10/20/2021;mdt

TABLE 8

NET SALES PROCEEDS TO CITY AT YEARS 15 AND 30
MIDDLE-INCOME HOUSING PROGRAM - ROWAN, ALCOVE, HAVEN76
CITY OF ESCONDIDO

Key Assumptions	
Market Rent Esc.	*3.00%*
Affordable Rent Esc.	*3.00%*
Operating Expense Esc.	*3.00%*
Turnover	
Year 1	*20%*
Year 2	*40%*
Year 3	*100%*
Year 4	*100%*
Year 5	*100%*

	Year 15	Year 30
I. Adjusted NOI		
Exit NOI	$9,902,000	$15,428,000
(Less) Taxes @ 1.150%	($1,852,000)	($2,886,000)
Adjusted NOI	$8,050,000	$12,542,000
Assumed Capitalization Rate	*5.00%*	*5.00%*
II. Project Value	$161,000,000	$250,840,000
III. Add: Debt Service Reserve - Returned	$8,028,000	$8,028,000
IV. (Less) Bonds Outstanding 2020A	($156,400,000)	($48,200,000)
V. (Less) Bonds Outstanding 2020B	($4,000,000)	($4,000,000)
VI. Net Sales Proceeds	$8,628,000	$206,668,000
VII. (Less) Reimbursement of Property Tax/ Assessments to Other Taxing Entities	($26,567,000)	($62,324,000)
VIII. Net Sales Proceeds to City		
A. Future Value	**($17,939,000)**	**$144,344,000**
Per Unit	**($57,000)**	**$460,000**
Per SF GBA	**($53)**	**$430**
B. Net Present Value in Year 0 (1)	**($4,295,000)**	**$8,272,000**
Per Unit	**($14,000)**	**$26,000**
Per SF GBA	**($13)**	**$25**

(1) Assumes a 10.0% discount rate.

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TABLE 9

ESTIMATE OF FOREGONE PROPERTY TAX PAYMENTS VS. REVENUES TO CITY
MIDDLE-INCOME HOUSING PROGRAM - ROWAN, ALCOVE, HAVEN76
CITY OF ESCONDIDO

	City Foregone	Revenues to City				
Year	**Property Tax Payments**	**Upfront Fee**	**Annual Host Fee**	**Sales Proceeds at Year 30**	**Total Revenues**	**Net Revenues to City**
1	($252,100)	$0	$160,500	$0	$160,500	($91,600)
2	($257,100)	$0	$160,500	$0	$160,500	($96,600)
3	($262,300)	$0	$160,500	$0	$160,500	($101,800)
4	($267,600)	$0	$160,500	$0	$160,500	($107,100)
5	($272,900)	$0	$160,500	$0	$160,500	($112,400)
6	($278,300)	$0	$160,500	$0	$160,500	($117,800)
7	($283,900)	$0	$160,500	$0	$160,500	($123,400)
8	($289,700)	$0	$160,500	$0	$160,500	($129,200)
9	($295,400)	$0	$160,500	$0	$160,500	($134,900)
10	($301,400)	$0	$160,500	$0	$160,500	($140,900)
11	($307,300)	$0	$160,500	$0	$160,500	($146,800)
12	($313,500)	$0	$160,500	$0	$160,500	($153,000)
13	($319,800)	$0	$160,500	$0	$160,500	($159,300)
14	($326,200)	$0	$160,500	$0	$160,500	($165,700)
15	($332,700)	$0	$160,500	$0	$160,500	($172,200)
16	($339,400)	$0	$160,500	$0	$160,500	($178,900)
17	($346,200)	$0	$160,500	$0	$160,500	($185,700)
18	($353,000)	$0	$160,500	$0	$160,500	($192,500)
19	($360,100)	$0	$160,500	$0	$160,500	($199,600)
20	($367,400)	$0	$160,500	$0	$160,500	($206,900)
21	($374,700)	$0	$160,500	$0	$160,500	($214,200)
22	($382,200)	$0	$160,500	$0	$160,500	($221,700)
23	($389,800)	$0	$160,500	$0	$160,500	($229,300)
24	($397,600)	$0	$160,500	$0	$160,500	($237,100)
25	($405,500)	$0	$160,500	$0	$160,500	($245,000)
26	($413,700)	$0	$160,500	$0	$160,500	($253,200)
27	($421,900)	$0	$160,500	$0	$160,500	($261,400)
28	($430,400)	$0	$160,500	$0	$160,500	($269,900)
29	($439,000)	$0	$160,500	$0	$160,500	($278,500)
30	($447,800)	$0	$160,500	$144,344,000	$144,504,500	$144,056,700
Total, Years 1 - 30	**($10,228,900)**	**$0**	**$4,815,000**	**$144,344,000**	**$149,159,000**	**$138,930,100**
Net Present Value in Year 0						
Discount Rate	**4.5%**		**4.5%**	**10.0%**		
NPV	**($5,208,000)**	**$0**	**$2,614,000**	**$8,272,000**	**$10,886,000**	**$5,678,000**

Prepared by: Keyser Marston Associates, Inc.
Filename i:\Escondido_Rowan Haven76 Alcove_Pro Forma Analysis_v4_10-20-21;10/20/2021;lag

RECORDING REQUESTED
AND WHEN RECORDED MAIL TO:

475 Sansome Street, Suite 1700
San Francisco, California 94111
Attention: Josh D. Anzel

THIS SPACE IS FOR RECORDERS USE ONLY

PUBLIC BENEFIT AGREEMENT

(Title of Document)

Per Government Code 27388.1 (a)(1) "A fee of $75 dollars shall be paid at the time of recording of every real estate instrument, paper, or notice required or permitted by law to be recorded, except those expressly exempted from payment of recording fees, per each single transaction per parcel or real property. The fee shall not exceed two hundred twenty-five dollars ($225)"

Reason for Exemption:

☐ Exempt from fee per GC 27388.1 (a) (2); recorded concurrently "in connection with" a transfer subject to the imposition of documentary transfer tax (DTT).

☐ Exempt from fee per GC 27388.1 (a) (2); recorded concurrently "in connection with" a transfer of real property that is a residential dwelling to an owner-occupier.

☐ Exempt from fee per GC 27388.1 (a) (1); fee cap of $225.00 reached.

☐ Exempt from the fee per GC 27388.1 (a) (1); not related to real property.

Failure to include an exemption reason will result in the imposition of the $75.00 Building Homes and Job Act Fee.

RECORDING REQUESTED BY
CMFA Special Finance Agency

WHEN RECORDED RETURN TO:
Jones Hall, A Professional Law Corporation
475 Sansome Street, Suite 1700
San Francisco, California 94111
Attention: Josh D. Anzel

THIS DOCUMENT IS EXEMPT FROM RECORDING FEES PURSUANT TO SECTION 27383 OF THE CALIFORNIA GOVERNMENT CODE

PUBLIC BENEFIT AGREEMENT

By and Between

CMFA SPECIAL FINANCE AGENCY

and

CITY OF ESCONDIDO

____

Dated as of ___________, 2021

____

Relating to

CMFA SPECIAL FINANCE AGENCY
ESSENTIAL HOUSING REVENUE BONDS, SERIES 2021 A-1
(Solana at Grand)

CMFA SPECIAL FINANCE AGENCY
ESSENTIAL HOUSING REVENUE BONDS, SERIES 2021 A-2
(Solana at Grand)

and

CMFA SPECIAL FINANCE AGENCY
SUBORDINATE ESSENTIAL HOUSING REVENUE BONDS, SERIES 2021 B
(Solana at Grand)

PUBLIC BENEFIT AGREEMENT

This PUBLIC BENEFIT AGREEMENT ("*Agreement*") is dated as of November 1, 2021, by and between the CMFA SPECIAL FINANCE AGENCY, a joint exercise of powers agency organized and existing under the laws of the State of California (including its successors and assigns, "*Owner*"), and the CITY OF ESCONDIDO, a California municipal corporation ("*Host*").

BACKGROUND

WHEREAS, the Owner proposes to issue Bonds (as hereinafter defined) to finance Owner's acquisition of the certain multifamily rental housing project (the "*Project*") located at 1501 E. Grand Ave. in the City of Escondido, California, as more particular described in Exhibit A, which is attached to this Agreement and incorporated herein by this reference; and

WHEREAS, the Owner has executed a Regulatory Agreement and Declaration of Restrictive Covenants between Owner and Wilmington Trust, National Association, dated concurrently and recorded in the Official Records of the County of San Diego, California (the "*County*"), which imposes requirements upon the Project with respect to maximum income levels of tenants, maximum rents payable by tenants, maintenance of the Project in accordance with industry standards, and certain other matters, and Host is entering into this Agreement in reliance on Owner's compliance with such requirements; and

WHEREAS, the Owner intends to sell the Project at the instigation of the Host or upon the retirement of all Project Debt (as defined herein) pursuant to this Agreement.

AGREEMENT

In consideration of the mutual covenants herein contained, and such other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, Owner and Host mutually agree as follows:

Section 1. **Right to Cause Sale.** Host shall have the right to cause ("*Sale Right*") Owner to sell the Property (as herein defined) to Host or Host's designee upon payment by the Purchaser (as herein defined) of the Sale Price (as herein provided) within the Sale Right Term (as herein defined) and in compliance with and observance of all of the terms and conditions of this Agreement.

Section 2. **Definitions.** Capitalized terms used in this Agreement shall have the meanings assigned to them in this Section 2 or elsewhere in this Agreement; capitalized terms used in this Agreement and not defined in this Section 2 or elsewhere in this Agreement shall have the meanings assigned to them in the Indenture (herein defined).

(a) "*Bonds*" – collectively, (i) the CMFA Special Finance Agency Senior Essential Housing Revenue Bonds, Series 2021A-1 (Solana at Grand), (ii) the CMFA Special Finance Agency Junior Essential Housing Revenue Bonds, Series 2021A-2 (Solana at Grand), and (iii) the CMFA Special Finance Agency Subordinate Essential Housing Revenue Bonds, Series 2021B (Solana at Grand) (the "*Series B Bonds*"), with such other series and sub-series designations as may be set forth in the Indenture, originally issued to finance Owner's acquisition of the Project and related transaction costs. The original principal amount of the Series B Bonds shall not exceed $5,000,000.

(b) "*Bond Trustee*" – Wilmington Trust, National Association, or any successor trustee under the Indenture.

(c) "*Closing*" – shall have the meaning set forth in Section 8 of this Agreement.

(d) "*Conveyance*" – that transaction or series of transactions by which Owner shall transfer, bargain, sell and convey any and all right, title or interest in and to the Property.

(e) "*Exercise Notice*" – shall have the meaning set forth in Section 4(a) of this Agreement.

(f) "*Extraordinary Costs and Expenses*" – shall have the meaning set forth in the Indenture.

(g) "*Host Indemnified Person*" – Host and each of its Councilmembers, officers, departments, directors, officials, employees, attorneys, agents, and volunteers.

(h) "*Indenture*" – the Trust Indenture between Owner, as issuer, and the Bond Trustee, as trustee, pursuant to which the Bonds were issued.

(i) "*Minimum Sale Price*" – the lowest price at which the Property may be sold, as described in Section 4(c) hereof.

(j) "*Outstanding*" – with respect to Bonds, as of any given date, all Bonds that have been authenticated and delivered by the Trustee under the Indenture, except: (i) Bonds cancelled at or prior to such date or delivered to or acquired by the Trustee at or prior to such date for cancellation; (ii) Bonds deemed to be paid in accordance with Article IX of the Indenture; and (iii) Bonds in lieu of which other Bonds have been authenticated under the Indenture.

(k) "*Owner Indemnified Person*" – the Owner and each of its officers, governing members, directors, officials, employees, attorneys, agents, and members.

(l) "*Project Administrator*" – HomeFed Corporation and its successors and assigns.

(m) "*Project Debt*" – any debt secured by the Project and incurred to finance or refinance Owner's acquisition of the Project and related transaction costs, including any portion of the Bonds and any bonds, notes or other indebtedness issued by Owner to improve the Project or to refund the Bonds in whole or in part.

(n) "*Property*" – all of Owner's right, title and interest (which includes fee simple title to the real property) in and to all property and assets used in or otherwise related to the operation of the Project including, without limitation, all real property and interests in real property, all tangible and intangible personal property including furniture, fixtures, equipment, supplies, intellectual property, licenses, permits, approvals, and contractual rights of any kind or nature together with the right to own and carry on the business and operations of the Project.

(o) "*Purchaser*" – the purchaser of the Property in a sale thereof.

(p) "*Regulatory Agreement*" – the Regulatory Agreement and Declaration of Restrictive Covenants by and between the Owner and the Bond Trustee, relating to the Bonds.

(q) "*Sale Price*" – purchase price of the Property to be paid by the Purchaser upon sale of the Property by the Owner pursuant to the Sale Right in compliance with Section 4 of this Agreement or sale by the Owner pursuant to Section 5 of this Agreement.

(r) "*Sale Right*" – the right of the Host to cause the Owner to sell the Property pursuant to Section 1 hereof.

(s) "*Sale Right Exercise Date*" – the date 15 years from the issuance of the Bonds.

(t) "*Sale Right Term*" – shall commence on the Sale Right Exercise Date and, if not exercised, shall terminate at 11:59 p.m. local time on the date that is the earlier of: (i) 14 years from the Sale Right Exercise Date or (ii) the date on which no Project Debt remains Outstanding.

(u) "*Transaction Costs*" – to the extent not otherwise described herein, any costs or expenses of any kind or nature associated with or incurred by Owner and Bond Trustee in connection with the consummation of the Conveyance, regardless of whether such costs and expenses are customarily borne by the seller or purchaser in any such transaction, including but not limited to taxes, recording fees and other impositions; Owner's and Bond Trustee's legal and other professional fees; fees for verification agents, bidding agents, escrow agents, custodians, or trustees; assumption fees; prepayment fees; the cost of the appraisal; brokers' fees and expenses; surveys, inspections, title commitments, title insurance premiums, and other title-related fees; and all amounts required for indemnification of Owner, Bond Trustee, and Project Administrator.

Section 3. Effectiveness; Term and Termination. The Sale Right shall become effective on the Sale Right Exercise Date and may be exercised during the Sale Right Term. Owner agrees that it will not enter into any agreement to sell all or any part of the Property during the Sale Right Term other than as may be required by the Indenture (e.g., in the event of default), without the specific written request of the Host and delivery of an Opinion of Bond Counsel to the Owner substantially to the effect that such sale will not, in and of itself, adversely affect the exclusion of interest on the Bonds from gross income for purposes of federal income taxation.

Section 4. Exercise of Sale Right.

(a) Host's Notice. To exercise the Sale Right, Host shall provide a notice (an "*Exercise Notice*") to Owner (with a copy to the Project Administrator) at any time during the Sale Right Term.

(b) Owner's Best Efforts to Sell. Unless Host notifies Owner in writing that it is withdrawing its Exercise Notice within 15 business days of delivering the Exercise Notice under Section 4(a) of this Agreement, Owner shall exercise its best efforts to enter into a purchase agreement for the sale of the Property in accordance with Section 7(d) of this Agreement and to sell and convey good and marketable title to the Property to Host or its designee within 90 days following receipt of the Exercise Notice, or as soon as possible thereafter, in accordance with the purchase agreement, but only if it can sell at or above the Minimum Sale Price. The obligation of Owner to enter into the purchase agreement for the sale and conveyance of the Property to Host or its designee shall be on a best efforts basis. Owner shall endeavor to sell the Property at a commercially reasonable price, subject to subsection (c) of this Section, by such means as the parties to the purchase agreement shall determine to be suitable for such purpose; provided that Owner shall incur no liability to any party as a result of or otherwise in connection with the sale or failure to sell. Subject to subsection (c), nothing herein shall require or prevent Owner selling the

Property subject to the restrictions set forth in the Regulatory Agreement. Owner shall direct the Bond Trustee in the foregoing as and to the extent necessary or appropriate.

(c) Sale Price. The Sale Price shall be at least equal to the sum of the amounts set forth below (net of any adjustments or prorations of the type described in Section 8(b) of this Agreement) (the "*Minimum Sale Price*"):

i. an amount sufficient to either prepay, redeem in whole, or fully defease for redemption on the earliest call date all Project Debt; plus

ii. any fees or other amounts not identified in clause (i) that may be necessary to effect the complete release from and discharge of any lien, mortgage or other encumbrance on the Property; plus

iii. any amounts due to Owner (including the Owner Indemnified Persons, as provided in the Indenture), the Bond Trustee or any predecessor or successor, or any other Person under any indenture, loan agreement, bond, note or other instrument relating to any Project Debt (including, without limitation, indemnification amounts, Owner's Extraordinary Costs and Expenses, recurrent and extraordinary fees and expenses, and reimbursable costs and expenses of any kind or nature); plus

iv. Transaction Costs; minus

v. Any funds held by or for Owner under the Indenture applied to the retirement of Project Debt. Owner may retain such portion of moneys in the Extraordinary Expense Fund or similar fund under the Indenture it deems reasonable as a reserve against future expected costs and expenses of the type described in subparagraph (iii). Owner's determination of this amount shall be final and incontestable.

Section 5. Mandatory Conveyance. Upon the retirement of all Project Debt, the Owner shall use its best efforts to effect a Conveyance within 90 days thereafter, subject to Section 4(c) of this Agreement. Owner shall give notice to Host of its intent to convey the Property, and Host (or its designee) shall have the first right to acquire the Property by delivery of an Exercise Notice to Owner within 30 days after receipt of Owner's notice. Nothing herein shall require or prevent Owner selling the Property subject to the restrictions set forth in the Regulatory Agreement.

Section 6. Surplus Cash; Surplus Conveyance Proceeds. Upon a Conveyance of the Property, Owner shall apply the proceeds of such Conveyance (i) to redeem the Bonds then Outstanding, (ii) to prepay, redeem in whole or fully defease any other Project Debt, and (iii) to pay any fees or other amounts listed in Section 4(c)(ii) – (iv) of this Agreement. Any proceeds remaining following the foregoing payments (such remaining amounts hereinafter referred to as "*Surplus Conveyance Proceeds*") shall be transferred to Host, and Host shall equitably share (within Host's reasonable discretion) such Surplus Conveyance Proceeds with the other taxing agencies in the County so as to reimburse such taxing agencies for any foregone property tax revenue.

Section 7. Terms of Conveyance.

(a) The Conveyance shall be in the nature of a grant deed to Purchaser in which Owner shall deliver one or more deeds, bills of sale, or other instruments of transfer without recourse or warranty of any kind or nature.

(b) The Property will be conveyed to Purchaser in AS IS CONDITION, WITH ALL FAULTS, and without representations or warranties of any kind or nature as to the condition of the Property, except as may otherwise be set forth in this Agreement or the purchase agreement.

(c) There shall be no partial transfer and, upon consummation of the Conveyance, Owner shall be fully divested of any and all right, title, or interest in and to the Property.

(d) Upon Host's delivery of the Exercise Notice, Owner shall deliver to Purchaser a purchase agreement for the Property, and the parties shall negotiate in good faith towards a mutually satisfactory purchase agreement form and substance satisfactory to Owner and Purchaser and their counsel subject to the terms and conditions of this Agreement. The purchase agreement shall permit Purchaser to conduct physical inspections of the Property and conduct due diligence related to the purchase of the Property, including without limitation its value and physical and environmental condition, and shall provide Purchaser a due diligence approval period of not less than 60 days after the date of the purchase agreement. The purchase agreement shall provide for Owner to deliver to Purchaser copies of all plans, studies, records, reports, governmental notices and approvals, and other written materials related to the use, occupancy or condition of the Property that Owner has in its possession, including without limitation environmental, structural, mechanical, engineering, and land surveys. Purchaser shall provide Owner with comments to the form of purchase agreement within 15 business days of its receipt thereof, and Owner and Purchaser shall use good faith efforts to negotiate, draft and execute a mutually acceptable purchase agreement as soon as practicable thereafter. The purchase agreement shall provide for closing for the conveyance to Purchaser of good and marketable title to the Property at the Sales Price within the time set forth in Section 8(a) of this Agreement.

Section 8. Closing.

(a) The closing of the Conveyance ("*Closing*") shall take place, in the case of a Conveyance pursuant to Section 4 of this Agreement, not later than the 90th calendar day following the Owner's receipt of the Exercise Notice, or as soon as possible thereafter, and in the case of a mandatory conveyance pursuant to Section 5 of this Agreement, not later than the 90th calendar day following the retirement of all Project Debt, or as soon as possible thereafter.

(b) All general and special real property taxes and assessments, and rents shall be prorated as of the Closing, with Purchaser responsible for all such items to the extent arising or due at any time following the Closing. General real property taxes shall be prorated at the time of Closing based on the net general real property taxes for the year of Closing.

Section 9. Recording. This Agreement, and any amendment thereto, shall be recorded with the recorder's office of the County; *provided*, that upon termination of the term of this Agreement, Host shall cooperate with Owner to remove any such recorded Agreement or amendment thereto from title to the Property upon Owner's reasonable request therefor and, in any event, by no later than 30 days after the expiration of the original term of this Agreement.

Section 10. Subordination. This Agreement shall be subordinate to any claim, pledge, or interest in the Property securing the Bonds or any Project Debt.

Section 11. Annual Host Charge. On each anniversary of the Issue Date, commencing on the first anniversary thereof, and on the earlier of (i) the Closing of the Conveyance or (ii) the expiration of the Sale Right Term (which earlier date shall be the final Annual Host Charge due hereunder), Owner shall pay to Host the Annual Host Charge. The final Annual Host Charge shall be prorated for the actual number of days elapsed since the most recent Annual Host Charge. For purposes of this Section, the term "Issue Date" shall mean the date of issuance of the Bonds, currently expected to occur on November 30, 2021; and the term "Annual Host Charge" shall mean an annual charge payable in arrears in the amount of $115,000, inflated annually for each Annual Host Charge payable after the first anniversary by 2% of the most recent Annual Host Charge. Host represents, acknowledges and agrees that neither Owner, nor Project Administrator nor their representatives have made any representation or warranty about the validity or enforceability of the Annual Host Charge; that Host has sought and relied exclusively upon its own independent legal advice concerning the same; that this Section 11 is severable from this Agreement pursuant to Section 14(h) if found to be invalid; and that Host shall not withdraw as a member of Owner if such withdrawal would have an adverse impact on the exemption of the Property from property taxation or on the validity of, or tax exemption of interest on, the Bonds.

Section 12. Assignment. Neither party to this Agreement shall assign its interests, obligations, rights, and/or responsibilities under this Agreement without the prior written consent of the other party, except as provided herein, except as otherwise provided in this Agreement.

Section 13. Limitation on Liability.

(a) Except as otherwise stated in this Agreement, Owner and Host shall not be directly, indirectly, contingently, or otherwise liable for any costs, expenses, losses, damages, claims, or actions, of any conceivable kind on any conceivable theory, under or by reason of or in connection with this Agreement or any sale or Conveyance or failure or price thereof or application of proceeds thereof, except only as to moneys available therefor under and in accordance with the Indenture or this Agreement.

(b) Except as otherwise stated in this Agreement, no Owner Indemnified Person or Host Indemnified Person shall be individually or personally liable for the payment of any sum hereunder or be subject to any personal liability or accountability by reason of the execution and delivery of this Agreement, or by any proceedings for the sale or Conveyance or failure or price thereof, or Host's exercise or waiver of same, or otherwise except in the case of such Owner Indemnified Person's own willful misconduct.

(c) The Bonds will not be a debt, liability, or obligation of Host but rather, solely indebtedness of the Owner, limited to the Trust Estate pledged and available therefor under the Indenture. Under no circumstances shall Host be obligated to (i) provide any financing to acquire or construct the Project or any refinancing of the Project; (ii) approve any application or request for or take any other action in connection with any planning approval, permit, or other action necessary for the acquisition, construction, rehabilitation, or operation of the Project; or (iii) make any contribution or advance any funds whatsoever to the Owner.

Section 14. Notices, Governing Law, Binding Effect and Other Miscellaneous Provisions.

(a) Notices. All notices provided for in this Agreement shall be in writing and shall be given to Owner or Host at the address set forth below or at such other address as they individually may specify thereafter by written notice in accordance herewith:

If to Owner or: Designated Agent	CMFA Special Finance Agency 2111 Palomar Airport Road, Suite 320 Carlsbad, California 92011 Attention: Financial Advisor
With a copy to:	HomeFed Corporation 1903 Wright Place, Suite 220 Carlsbad, CA 92008 Attention: Chris Foulger
If to Host:	City of Escondido 201 North Broadway Escondido, CA 92025 Attention: City Manager

Such notices shall be deemed effective upon actual delivery or upon the date that any such delivery was attempted and acceptance thereof was refused, or if mailed, certified return receipt requested, postage prepaid, properly addressed, three days after posting.

(b) Consents and Approvals. All consents and approvals and waivers required or asserted hereunder shall be in writing, signed by the party from whom such consent, approval, waiver, or notice is requested.

(c) Non-Liability of Host or Owner Officers and Employees. No officer or employee of the Host shall be personally liable to the Owner, or any successor in interest, in the event of any default or breach by Host of any obligation of the terms of this Agreement. No officer or employee of the Owner shall be personally liable to Host, or any successor in interest, in the event of any default or breach by Owner of any obligation of the terms of this Agreement.

(d) Pronouns. Where appropriate to the context, words of one gender include all genders, and the singular includes the plural and vice versa.

(e) Amendments. This Agreement may not be modified except in a written instrument signed by Host and Owner and recorded in the recorder’s office for the County.

(f) Complete Agreement; Benefits. This Agreement together with all schedules and exhibits attached hereto and made part thereof supersedes all previous agreements, understandings and representations made by or between the parties hereto. This Agreement shall inure solely and exclusively to the benefit of Owner and Host, and no other party shall have any right, remedy, or claim under or by reason of this Agreement.

(g) Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the state of California, without regard to conflicts of law principles. All claims of whatever character arising out of this Agreement, or under any statute or common law relating in any way, directly or indirectly, to the subject matter hereof or to the dealings between Owner and any other party hereto, if and to the extent that such claim potentially could or actually does involve Owner, shall be filed and maintained in the Superior Court of California, County of San Diego, California. By executing and delivering this Agreement, each party hereto irrevocably: (i) accepts generally and unconditionally the exclusive jurisdiction and venue of such court; (ii) waives any defense of forum non-conveniens; and (iii) agrees not to seek removal of such proceedings to any court or forum other than as specified above. The foregoing shall not be deemed or construed to constitute a waiver by Owner of any prior notice or procedural requirements applicable to actions or claims against or involving governmental units and/or political subdivisions of the state of California that may exist at the time of and in connection with such matter.

(h) Legal Construction. In case any one or more of the provisions contained in this Agreement shall for any reason be held by a court of competent jurisdiction to be invalid, illegal or unenforceable in any respect, such invalid provision shall be deemed severable, and shall not affect the validity or enforceability of any other provisions of this Agreement, all of which shall remain fully enforceable.

(i) Term. This Agreement shall terminate upon the Conveyance.

(j) Captions. The captions used in this Agreement are solely for convenience and shall not be deemed to constitute a part of the substance of the Agreement for purpose of its construction.

(k) Counterparts. This Agreement may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original; and all such counterparts shall together constitute but one and the same Agreement.

(l) Regulatory Agreement. Owner shall not increase the maximum income levels or maximum rents of the Affordable Units, or revise the percentages of units to be rented as Low Income Units, Median Income Units and Moderate Income Units, except through a written amendment to the Agreement in accordance with Section 15(e) of this Agreement.

(m) Monitoring Fee. Owner, or the Bond Trustee on its behalf, shall pay to Host an annual monitoring fee of $25 per unit on each anniversary of the date hereof, commencing with the first anniversary; provided, however, that such fee shall be payable solely from revenues of the Project, and Owner shall not otherwise be liable therefor.

(n) Multifamily Rental Property. The Owner hereby represents, covenants, warrants and agrees as follows: (i) the Project will be owned and operated for the purpose of providing multifamily residential rental property; and (ii) the Owner will own, and cause the Project to be managed and operated, as a project to provide multifamily residential rental property comprised of a building or structure or several interrelated buildings or structures, together with any functionally related and subordinate facilities.

[SIGNATURE PAGE TO FOLLOW]

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date set forth above.

CMFA SPECIAL FINANCE AGENCY

By: ______________________________________
Edward J. Becker
Executive Director

CITY OF ESCONDIDO

By: ___________________________________
Paul McNamara
Mayor

Approved as to Form:

By:______________________________
City Attorney

ACKNOWLEDGMENT

A Notary Public or other officer completing this certificate verifies only the identity of the individual who signed the document to which this certificate is attached, and not the truthfulness, accuracy, or validity of that document.

STATE OF CALIFORNIA]

COUNTY OF ________________________]

On ______________________________________, before me,

____, a Notary Public, personally appeared ____, who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature: ____ (Seal)

ACKNOWLEDGMENT

A Notary Public or other officer completing this certificate verifies only the identity of the individual who signed the document to which this certificate is attached, and not the truthfulness, accuracy, or validity of that document.

STATE OF CALIFORNIA]

COUNTY OF ________________________]

On ______________________________________, before me,

____, a Notary Public, personally appeared ____, who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature: ____ (Seal)

EXHIBIT A

LEGAL DESCRIPTION OF REAL PROPERTY

That certain real property situated in the State of California, County of San Diego, City of Escondido, described as follows:

[TO COME]

RECORDING REQUESTED
AND WHEN RECORDED MAIL TO:

475 Sansome Street, Suite 1700
San Francisco, California 94111
Attention: Josh D. Anzel

THIS SPACE IS FOR RECORDERS USE ONLY

PUBLIC BENEFIT AGREEMENT

(Title of Document)

Per Government Code 27388.1 (a)(1) "A fee of $75 dollars shall be paid at the time of recording of every real estate instrument, paper, or notice required or permitted by law to be recorded, except those expressly exempted from payment of recording fees, per each single transaction per parcel or real property. The fee shall not exceed two hundred twenty-five dollars ($225)"

Reason for Exemption:

☐ Exempt from fee per GC 27388.1 (a) (2); recorded concurrently "in connection with" a transfer subject to the imposition of documentary transfer tax (DTT).

☐ Exempt from fee per GC 27388.1 (a) (2); recorded concurrently "in connection with" a transfer of real property that is a residential dwelling to an owner-occupier.

☐ Exempt from fee per GC 27388.1 (a) (1); fee cap of $225.00 reached.

☐ Exempt from the fee per GC 27388.1 (a) (1); not related to real property.

Failure to include an exemption reason will result in the imposition of the $75.00 Building Homes and Job Act Fee.

RECORDING REQUESTED BY
CMFA Special Finance Agency

WHEN RECORDED RETURN TO:
Jones Hall, A Professional Law Corporation
475 Sansome Street, Suite 1700
San Francisco, California 94111
Attention: Josh D. Anzel

THIS DOCUMENT IS EXEMPT FROM RECORDING FEES PURSUANT TO SECTION 27383 OF THE CALIFORNIA GOVERNMENT CODE

PUBLIC BENEFIT AGREEMENT

By and Between

CMFA SPECIAL FINANCE AGENCY

and

CITY OF ESCONDIDO

Dated as of , 2021

Relating to

CMFA SPECIAL FINANCE AGENCY
ESSENTIAL HOUSING REVENUE BONDS, SERIES 2021 A-1
(Latitude33)

CMFA SPECIAL FINANCE AGENCY
ESSENTIAL HOUSING REVENUE BONDS, SERIES 2021 A-2
(Latitude33)

and

CMFA SPECIAL FINANCE AGENCY
SUBORDINATE ESSENTIAL HOUSING REVENUE BONDS, SERIES 2021 B
(Latitude33)

PUBLIC BENEFIT AGREEMENT

This PUBLIC BENEFIT AGREEMENT ("*Agreement*") is dated as of _________, 2021, by and between the CMFA SPECIAL FINANCE AGENCY, a joint exercise of powers agency organized and existing under the laws of the State of California (including its successors and assigns, "*Owner*"), and the CITY OF ESCONDIDO, a California municipal corporation ("*Host*").

BACKGROUND

WHEREAS, the Owner proposes to issue Bonds (as hereinafter defined) to finance Owner's acquisition of the certain multifamily rental housing project (the "*Project*") located at 515 Meander Glen in the City of Escondido, California, as more particularly described in Exhibit A, which is attached to this Agreement and incorporated herein by this reference; and

WHEREAS, the Owner has executed a Regulatory Agreement and Declaration of Restrictive Covenants between Owner and Wilmington Trust, National Association, dated concurrently and recorded in the Official Records of the County of San Diego, California (the "*County*"), which imposes requirements upon the Project with respect to maximum income levels of tenants, maximum rents payable by tenants, maintenance of the Project in accordance with industry standards, and certain other matters, and Host is entering into this Agreement in reliance on Owner's compliance with such requirements; and

WHEREAS, the Owner intends to sell the Project at the instigation of Host or upon the retirement of all Project Debt (as defined herein) pursuant to this Agreement.

AGREEMENT

In consideration of the mutual covenants herein contained, and such other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, Owner and Host mutually agree as follows:

Section 1. Right to Cause Sale. Host shall have the right to cause ("*Sale Right*") Owner to sell the Property (as herein defined) to Host or Host's designee upon payment by the Purchaser (as herein defined) of the Sale Price (as herein provided) within the Sale Right Term (as herein defined) and in compliance with and observance of all of the terms and conditions of this Agreement.

Section 2. Definitions. Capitalized terms used in this Agreement shall have the meanings assigned to them in this Section 2 or elsewhere in this Agreement; capitalized terms used in this Agreement and not defined in this Section 2 or elsewhere in this Agreement shall have the meanings assigned to them in the Indenture (herein defined).

(a) "*Bonds*" – collectively, (i) the CMFA Special Finance Agency Senior Essential Housing Revenue Bonds, Series 2021A-1 (Latitude33), (ii) the CMFA Special Finance Agency Junior Essential Housing Revenue Bonds, Series 2021A-2 (Latitude33), and (iii) the CMFA Special Finance Agency Subordinate Essential Housing Revenue Bonds, Series 2021B (Latitude33) (the "*Series B Bonds*"), with such other series and sub-series designations as may be set forth in the Indenture, originally issued to finance Owner's acquisition of the Project and related transaction costs. The original principal amount of the Series B Bonds shall not exceed $5,000,000.

(b) "*Bond Trustee*" – Wilmington Trust, National Association, or any successor trustee under the Indenture.

(c) "*Closing*" – shall have the meaning set forth in Section 8 of this Agreement.

(d) "*Conveyance*" – that transaction or series of transactions by which Owner shall transfer, bargain, sell and convey any and all right, title or interest in and to the Property.

(e) "*Exercise Notice*" – shall have the meaning set forth in Section 4(a) of this Agreement.

(f) "*Extraordinary Costs and Expenses*" – shall have the meaning set forth in the Indenture.

(g) "*Host Indemnified Person*" – Host and each of its Councilmembers, officers, departments, directors, officials, employees, attorneys, agents, and volunteers.

(h) "*Indenture*" – the Trust Indenture between Owner, as issuer, and the Bond Trustee, as trustee, pursuant to which the Bonds were issued.

(i) "*Minimum Sale Price*" –the lowest price at which the Property may be sold, as described in Section 4(c) of this Agreement.

(j) "*Outstanding*" – with respect to Bonds, as of any given date, all Bonds that have been authenticated and delivered by the Trustee under the Indenture, except: (i) Bonds cancelled at or prior to such date or delivered to or acquired by the Trustee at or prior to such date for cancellation; (ii) Bonds deemed to be paid in accordance with Article IX of the Indenture; and (iii) Bonds in lieu of which other Bonds have been authenticated under the Indenture.

(k) "*Owner Indemnified Person*" – Owner and each of its officers, governing members, directors, officials, employees, attorneys, agents, and members.

(l) "*Project Administrator*" – Ascenda Capital and its successors and assigns.

(m) "*Project Debt*" – any debt secured by the Project and incurred to finance or refinance Owner's acquisition of the Project and related transaction costs, including any portion of the Bonds and any bonds, notes or other indebtedness issued by Owner to improve the Project or to refund the Bonds in whole or in part.

(n) "*Property*" –all of Owner's right, title, and interest (which includes fee simple title to the real property) in and to all property and assets used in or otherwise related to the operation of the Project including, without limitation, all real property and interests in real property, all tangible and intangible personal property including furniture, fixtures, equipment, supplies, intellectual property, licenses, permits, approvals, and contractual rights of any kind or nature together with the right to own and carry on the business and operations of the Project.

(o) "*Purchaser*" –the purchaser of the Property in a sale thereof.

(p) "*Regulatory Agreement*" –the Regulatory Agreement and Declaration of Restrictive Covenants by and between Owner and the Bond Trustee, relating to the Bonds.

(q) "*Sale Price*" – purchase price of the Property to be paid by the Purchaser upon sale of the Property by the Owner pursuant to the Sale Right in compliance with Section 4 of this Agreement or sale by Owner pursuant to Section 5 of this Agreement.

(r) "*Sale Right*" – means the right of the Host to cause the Owner to sell the Property pursuant to Section 1 of this Agreement.

(s) "*Sale Right Exercise Date*" – the date 15 years from the issuance of the Bonds.

(t) "*Sale Right Term"* – shall commence on the Sale Right Exercise Date and, if not exercised, shall terminate at 11:59 p.m. local time on the date that is the earlier of: (i) 14 years from the Sale Right Exercise Date or (ii) the date on which no Project Debt remains Outstanding.

(u) "*Transaction Costs*" – to the extent not otherwise described herein, any costs or expenses of any kind or nature associated with or incurred by Owner and Bond Trustee in connection with the consummation of the Conveyance, regardless of whether such costs and expenses are customarily borne by the seller or purchaser in any such transaction, including but not limited to taxes, recording fees, and other impositions; Owner's and Bond Trustee's legal and other professional fees; fees for verification agents, bidding agents, escrow agents, custodians, or trustees; assumption fees; prepayment fees; the cost of the appraisal; brokers' fees and expenses; surveys, inspections, title commitments, title insurance premiums, and other title-related fees; and all amounts required for indemnification of Owner, Trustee, and Project Administrator.

Section 3. **Effectiveness; Term and Termination.** The Sale Right shall become effective on the Sale Right Exercise Date and may be exercised during the Sale Right Term. Owner agrees that it will not enter into any agreement to sell all or any part of the Property during the Sale Right Term other than as may be required by the Indenture (e.g., in the event of default), without the specific written request of the Host and delivery of an Opinion of Bond Counsel to the Owner substantially to the effect that such sale will not, in and of itself, adversely affect the exclusion of interest on the Bonds from gross income for purposes of federal income taxation.

Section 4. **Exercise of Sale Right.**

(a) Host's Notice. To exercise the Sale Right, Host shall provide a notice (an "*Exercise Notice*") to Owner (with a copy to the Project Administrator) at any time during the Sale Right Term.

(b) Owner's Best Efforts to Sell. Unless Host notifies Owner in writing that it is withdrawing its Exercise Notice within 15 business days of delivering the Exercise Notice under Section 4(a) of this Agreement, Owner shall exercise its best efforts to enter into a purchase agreement for the sale of the Property in accordance with Section 7(d) of this Agreement and to sell and convey good and marketable title to the Property to Host or its designee within 90 days following receipt of the Exercise Notice, or as soon as possible thereafter, in accordance with the purchase agreement, but only if it can sell at or above the Minimum Sale Price. The obligation of the Owner to enter into the purchase agreement for the sale and conveyance of the Property to Host or its designee shall be on a best efforts basis. The Owner shall endeavor to sell the Property at a commercially reasonable price, subject to subsection (c) of this Section, by such means as the parties to the purchase agreement shall determine to be suitable for such purpose; provided that Owner shall incur no liability to any party as a result of or otherwise in connection with the sale or failure to sell. Subject to subsection (c), nothing herein shall require or prevent Owner selling the Property subject to the restrictions set forth in the Regulatory Agreement. The Owner shall direct the Bond Trustee in the foregoing as and to the extent necessary or appropriate.

(c) Sale Price. The Sale Price shall be at least equal to the sum of the amounts set forth below (net of any adjustments or prorations of the type described in Section 8(b) of this Agreement) (the "*Minimum Sale Price*"):

i. an amount sufficient to either prepay, redeem in whole, or fully defease for redemption on the earliest call date all Project Debt; plus

ii. any fees or other amounts not identified in clause (i) that may be necessary to effect the complete release from and discharge of any lien, mortgage or other encumbrance on the Property; plus

iii. any amounts due to Owner (including the Owner Indemnified Persons, as provided in the Indenture), the Bond Trustee or any predecessor or successor, or any other Person under any indenture, loan agreement, bond, note or other instrument relating to any Project Debt (including, without limitation, indemnification amounts, Owner's Extraordinary Costs and Expenses, recurrent and extraordinary fees and expenses, and reimbursable costs and expenses of any kind or nature); plus

iv. Transaction Costs; minus

v. Any funds held by or for Owner under the Indenture applied to the retirement of Project Debt. Owner may retain such portion of moneys in the Extraordinary Expense Fund or similar fund under the Indenture it deems reasonable as a reserve against future expected costs and expenses of the type described in subparagraph (iii). Owner's determination of this amount shall be final and incontestable.

Section 5. Mandatory Conveyance. Upon the retirement of all Project Debt, the Owner shall use its best efforts to effect a Conveyance within 90 days thereafter, subject to Section 4(c) of this Agreement. Owner shall give notice to Host of its intent to convey the Property, and Host (or its designee) shall have the first right to acquire the Property by delivery of an Exercise Notice to Owner within 30 days after receipt of Owner's notice. Nothing herein shall require or prevent Owner selling the Property subject to the restrictions set forth in the Regulatory Agreement.

Section 6. Surplus Cash; Surplus Conveyance Proceeds. Upon a Conveyance of the Property, Owner shall apply the proceeds of such Conveyance (i) to redeem the Bonds then Outstanding, (ii) to prepay, redeem in whole or fully defease any other Project Debt, and (iii) to pay any fees or other amounts listed in Section 4(c)(ii) – (iv) of this Agreement. Any proceeds remaining following the foregoing payments (such remaining amounts hereinafter referred to as "*Surplus Conveyance Proceeds*") shall be transferred to Host, and Host shall equitably share (within Host's reasonable discretion) such Surplus Conveyance Proceeds with the other taxing agencies in the County so as to reimburse such taxing agencies for any foregone property tax revenue.

Section 7. Terms of Conveyance.

(a) The Conveyance shall be in the nature of a grant deed to Purchaser in which Owner shall deliver one or more deeds, bills of sale, or other instruments of transfer without recourse or warranty of any kind or nature.

(b) The Property will be conveyed to Purchaser in AS IS CONDITION, WITH ALL FAULTS, and without representations or warranties of any kind or nature as to the condition of the Property, except as may otherwise be set forth in this Agreement or the purchase agreement.

(c) There shall be no partial transfer, and upon consummation of the Conveyance, Owner shall be fully divested of any and all right, title, or interest in and to the Property.

(d) Upon Host's delivery of the Exercise Notice, Owner shall deliver to Purchaser a purchase agreement for the Property, and the parties shall negotiate in good faith towards a mutually satisfactory purchase agreement form and substance satisfactory to Owner and Purchaser and their counsel subject to the terms and conditions of this Agreement. The purchase agreement shall permit Purchaser to conduct physical inspections of the Property and conduct due diligence related to the purchase of the Property, including without limitation its value and physical and environmental condition, and shall provide Purchaser a due diligence approval period of not less than 60 days after the date of the purchase agreement. The purchase agreement shall provide for Owner to deliver to Purchaser copies of all plans, studies, records, reports, governmental notices and approvals, and other written materials related to the use, occupancy, or condition of the Property that Owner has in its possession, including without limitation environmental, structural, mechanical, engineering, and land surveys. Purchaser shall provide Owner with comments to the form of purchase agreement within 15 business days of its receipt thereof, and Owner and Purchaser shall use good faith efforts to negotiate, draft and execute a mutually acceptable purchase agreement as soon as practicable thereafter. The purchase agreement shall provide for closing for the conveyance to Purchaser of good and marketable title to the Property at the Sales Price within the time set forth in Section 8(a) of this Agreement.

Section 8. <u>Closing</u>.

(a) The closing of the Conveyance ("*<u>Closing</u>*") shall take place, in the case of a Conveyance pursuant to Section 4 of this Agreement, not later than the 90th calendar day following the Owner's receipt of the Exercise Notice, or as soon as possible thereafter, and in the case of a mandatory conveyance pursuant to Section 5 of this Agreement, not later than the 90th calendar day following the retirement of all Project Debt, or as soon as possible thereafter.

(b) All general and special real property taxes and assessments, and rents shall be prorated as of the Closing, with Purchaser responsible for all such items to the extent arising or due at any time following the Closing. General real property taxes shall be prorated at the time of Closing based on the net general real property taxes for the year of Closing.

Section 9. <u>Recording</u>. This Agreement, and any amendment thereto, shall be recorded with the recorder's office of the County; *provided*, that upon termination of the term of this Agreement, Host shall cooperate with Owner to remove any such recorded Agreement or amendment thereto from title to the Property upon Owner's reasonable request therefor and, in any event, by no later than 30 days after the expiration of the original term of this Agreement.

Section 10. <u>Subordination</u>. This Agreement shall be subordinate to any claim, pledge, or interest in the Property securing the Bonds or any Project Debt.

Section 11. **Annual Host Charge.** On each anniversary of the Issue Date, commencing on the first anniversary thereof, and on the earlier of (i) the Closing of the Conveyance or (ii) the expiration of the Sale Right Term (which earlier date shall be the final Annual Host Charge due hereunder), Owner shall pay to Host the Annual Host Charge. The final Annual Host Charge shall be prorated for the actual number of days elapsed since the most recent Annual Host Charge. For purposes of this Section, the term “Issue Date” shall mean the date of issuance of the Bonds, currently expected to occur on November 30, 2021; and the term “Annual Host Charge” shall mean an annual charge payable in arrears in the amount of $107,000, inflated annually for each Annual Host Charge payable after the first anniversary by 2% of the most recent Annual Host Charge. Host represents, acknowledges and agrees that neither Owner, nor Project Administrator nor their representatives have made any representation or warranty about the validity or enforceability of the Annual Host Charge; that Host has sought and relied exclusively upon its own independent legal advice concerning the same; that this Section 11 is severable from this Agreement pursuant to Section 14(h) if found to be invalid; and that Host shall not withdraw as a member of Owner if such withdrawal would have an adverse impact on the exemption of the Property from property taxation or on the validity of, or tax exemption of interest on, the Bonds.

Section 12. **Assignment**. Neither party to this Agreement shall assign its interests, obligations, rights, and/or responsibilities under this Agreement without the prior written consent of the other party, except as otherwise provided in this Agreement.

Section 13. **Limitation on Liability.**

(a) Except as otherwise stated in this Agreement, Owner and Host shall not be directly, indirectly, contingently, or otherwise liable for any costs, expenses, losses, damages, claims or actions, of any conceivable kind on any conceivable theory, under or by reason of or in connection with this Agreement or any sale or Conveyance or failure or price thereof or application of proceeds thereof, except only as to moneys available therefor under and in accordance with the Indenture or this Agreement.

(b) Except as otherwise stated in this Agreement, no Owner Indemnified Person or Host Indemnified Person shall be individually or personally liable for the payment of any sum hereunder or be subject to any personal liability or accountability by reason of the execution and delivery of this Agreement, or by any proceedings for the sale or Conveyance or failure or price thereof, or Host’s exercise or waiver of same, or otherwise except in the case of such Owner Indemnified Person’s own willful misconduct.

(c) The Bonds will not be a debt, liability, or obligation of Host but rather, solely indebtedness of the Owner, limited to the Trust Estate pledged and available therefor under the Indenture. Under no circumstances shall Host be obligated to (i) provide any financing to acquire or construct the Project or any refinancing of the Project; (ii) approve any application or request for or take any other action in connection with any planning approval, permit, or other action necessary for the acquisition, construction, rehabilitation, or operation of the Project; or (iii) make any contribution or advance any funds whatsoever to the Owner.

Section 14. **Notices, Governing Law, Binding Effect and Other Miscellaneous Provisions.**

(a) Notices. All notices provided for in this Agreement shall be in writing and shall be given to Owner or Host at the address set forth below or at such other address as they individually may specify thereafter by written notice in accordance herewith:

If to Owner or: Designated Agent	CMFA Special Finance Agency 2111 Palomar Airport Road, Suite 320 Carlsbad, California 92011 Attention: Financial Advisor
With a copy to:	Ascenda Capital 9242 Beverly Blvd, Suite 300 Beverly Hills, California 90210 Attention: Matthew Avital
If to Host:	City of Escondido 201 North Broadway Escondido, CA 92025 Attention: City Manager

Such notices shall be deemed effective upon actual delivery or upon the date that any such delivery was attempted and acceptance thereof was refused, or if mailed, certified return receipt requested, postage prepaid, properly addressed, three days after posting.

(b) Consents and Approvals. All consents and approvals and waivers required or asserted hereunder shall be in writing, signed by the party from whom such consent, approval, waiver, or notice is requested.

(c) Non-Liability of Host or Owner Officers and Employees. No officer or employee of the Host shall be personally liable to the Owner, or any successor in interest, in the event of any default or breach by Host of any obligation of the terms of this Agreement. No officer or employee of the Owner shall be personally liable to Host, or any successor in interest, in the event of any default or breach by Owner of any obligation of the terms of this Agreement.

(d) Pronouns. Where appropriate to the context, words of one gender include all genders, and the singular includes the plural and vice versa.

(e) Amendments. This Agreement may not be modified except in a written instrument signed by Host and Owner and recorded in the recorder's office for the County.

(f) Complete Agreement; Benefits. This Agreement together with all schedules and exhibits attached hereto and made part thereof supersedes all previous agreements, understandings and representations made by or between the parties hereto. This Agreement shall inure solely and exclusively to the benefit of the Owner and Host, and no other party shall have any right, remedy, or claim under or by reason of this Agreement.

(g) Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the state of California, without regard to conflicts of law principles. All claims of whatever character arising out of this Agreement, or under any statute or common law relating in any way, directly or indirectly, to the subject matter hereof or to the dealings between Owner and any other party hereto, if and to the extent that such claim potentially could or actually does involve Owner, shall be filed and maintained in the Superior Court of California, County of San Diego, California. By executing and delivering this Agreement, each party hereto irrevocably: (i) accepts generally and unconditionally the exclusive jurisdiction and venue of such court; (ii) waives any defense of forum non-conveniens; and (iii) agrees not to seek removal of such proceedings to any court or forum other than as specified above. The foregoing shall not be deemed or construed to constitute a waiver by Owner of any prior notice or procedural requirements applicable to actions or claims against or involving governmental units and/or political subdivisions of the state of California that may exist at the time of and in connection with such matter.

(h) Legal Construction. In case any one or more of the provisions contained in this Agreement shall for any reason be held by a court of competent jurisdiction to be invalid, illegal or unenforceable in any respect, such invalid provision shall be deemed severable, and shall not affect the validity or enforceability of any other provisions of this Agreement, all of which shall remain fully enforceable.

(i) Term. This Agreement shall terminate upon the Conveyance.

(j) Captions. The captions used in this Agreement are solely for convenience and shall not be deemed to constitute a part of the substance of the Agreement for purpose of its construction.

(k) Counterparts. This Agreement may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original; and all such counterparts shall together constitute but one and the same Agreement.

(l) Regulatory Agreement. Owner shall not increase the maximum income levels or maximum rents of the Affordable Units, or to revise the percentages of units to be rented as Low Income Units, Median Income Units and Moderate Income Units, except through a written amendment to the Agreement in accordance with Section 14(e) of this Agreement.

(m) Monitoring Fee. Owner, or the Bond Trustee on its behalf, shall pay to Host an annual monitoring fee of $25 per unit on each anniversary of the date hereof, commencing with the first anniversary; provided, however, that such fee shall be payable solely from revenues of the Project, and Owner shall not otherwise be liable therefor.

(n) Multifamily Rental Property. Owner hereby represents, covenants, warrants and agrees as follows: (i) the Project will be owned and operated for the purpose of providing multifamily residential rental property; and (ii) Owner will own, and cause the Project to be managed and operated, as a project to provide multifamily residential rental property comprised of a building or structure or several interrelated buildings or structures, together with any functionally related and subordinate facilities.

[SIGNATURE PAGE TO FOLLOW]

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date set forth above.

CMFA SPECIAL FINANCE AGENCY

By: ____
Edward J. Becker
Executive Director

CITY OF ESCONDIDO

By: ____________________________________
Paul McNamara
Mayor

Approved as to Form:

By:______________________________
City Attorney

ACKNOWLEDGMENT

A Notary Public or other officer completing this certificate verifies only the identity of the individual who signed the document to which this certificate is attached, and not the truthfulness, accuracy, or validity of that document.

STATE OF CALIFORNIA]

COUNTY OF ______________________]

On __________________________________, before me,

____, a Notary Public, personally appeared ____, who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature: _______________________________________ (Seal)

ACKNOWLEDGMENT

A Notary Public or other officer completing this certificate verifies only the identity of the individual who signed the document to which this certificate is attached, and not the truthfulness, accuracy, or validity of that document.

STATE OF CALIFORNIA]

COUNTY OF ______________________]

On ___________________________________, before me,

____, a Notary Public, personally appeared ____, who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature: ____ (Seal)

EXHIBIT A

LEGAL DESCRIPTION OF REAL PROPERTY

That certain real property situated in the State of California, County of San Diego, City of Escondido, described as follows:

[TO COME]

RECORDING REQUESTED BY
CSCDA Community Improvement Authority

WHEN RECORDED RETURN TO:
Orrick, Herrington & Sutcliffe LLP
405 Howard Street
San Francisco, CA 94105
Attention: Steffi Chan

THIS DOCUMENT IS EXEMPT FROM RECORDING FEES PURSUANT TO SECTION 27383 OF THE CALIFORNIA GOVERNMENT CODE

PUBLIC BENEFIT AGREEMENT

By and Between

CSCDA COMMUNITY IMPROVEMENT AUTHORITY

and

CITY OF ESCONDIDO

Dated as of November 1, 2021

Relating to

CSCDA COMMUNITY IMPROVEMENT AUTHORITY
ESSENTIAL HOUSING SENIOR LIEN REVENUE BONDS, SERIES 2021A
(CITY OF ESCONDIDO PORTFOLIO) (SOCIAL BONDS)

CSCDA COMMUNITY IMPROVEMENT AUTHORITY
ESSENTIAL HOUSING MEZZANINE LIEN REVENUE BONDS, SERIES 2021B
(CITY OF ESCONDIDO PORTFOLIO) (SOCIAL BONDS)

and

CSCDA COMMUNITY IMPROVEMENT AUTHORITY
ESSENTIAL HOUSING SUBORDINATE LIEN REVENUE BONDS, SERIES 2021C
(CITY OF ESCONDIDO PORTFOLIO)

PUBLIC BENEFIT AGREEMENT

This PUBLIC BENEFIT AGREEMENT ("*Agreement* ") is dated as of November 1, 2021 by and between the CSCDA COMMUNITY IMPROVEMENT AUTHORITY a joint exercise of powers agency organized and existing under the laws of the State of California (including its successors and assigns, "*Owner*") and the CITY OF ESCONDIDO, a California municipal corporation ("*Host*").

BACKGROUND

WHEREAS, Owner proposes to issue Bonds (as hereinafter defined) to finance Owner's acquisition of the certain multifamily rental housing project (the "*Project*") located at 700 West Grand Avenue, 2414 South Escondido Boulevard, and 650 Center City Parkway, Escondido, California, as more particularly described in Exhibit A, which is attached to this Agreement and incorporated herein by this reference; and

WHEREAS, Owner has executed a Regulatory Agreement and Declaration of Restrictive Covenants between Owner and Wilmington Trust, National Association, dated concurrently and recorded in the Official Records of the County of San Diego, California (the "*County*"), which imposes requirements upon the Project with respect to maximum income levels of tenants, maximum rents payable by tenants, maintenance of the Project in accordance with industry standards, and certain other matters, and Host is entering into this Agreement in reliance on Owner's compliance with such requirements; and

WHEREAS, Owner intends to sell the Project at the instigation of Host or upon the retirement of all Project Debt (as defined herein) pursuant to this Agreement.

AGREEMENT

In consideration of the mutual covenants herein contained, and such other good and valuable consideration the receipt and sufficiency of which is hereby acknowledged, Owner and Host mutually agree as follows:

Section 1. **Right to Cause Sale.** Host shall have the right to cause ("*Sale Right*") Owner to sell the Property (as herein defined) upon payment by the purchaser thereof (the "*Purchaser*") of the Sale Price (as herein provided) within the Sale Right Term (as herein defined) as provided in Section 4 hereof or following the Sale Right Term as provided in Section 5 hereof, and in each case, in compliance with and observance of all of the terms and conditions of this Agreement.

Section 2. **Definitions.** Capitalized terms used in this Agreement shall have the meanings assigned to them in this Section 2 or elsewhere in this Agreement; capitalized terms used in this Agreement and not defined in this Section 2 or elsewhere in this Agreement shall have the meanings assigned to them in the Indenture (herein defined).

(a) "*Bonds*" – collectively, (i) the CSCDA Community Improvement Authority Essential Housing Senior Lien Revenue Bonds, Series 2021A (City of Escondido Portfolio) (Social Bonds) (the "Series A Bonds"), (ii) the CSCDA Community Improvement Authority Essential Housing Mezzanine Lien Revenue Bonds, Series 2021B (City of Escondido Portfolio)

(Social Bonds) (the "Series B Bonds"), and (iii) the CSCDA Community Improvement Authority Essential Housing Subordinate Lien Revenue Bonds, Series 2021C (City of Escondido Portfolio) (the "Series C Bonds"), with such other series and sub-series designations as may be set forth in the Indenture, originally issued to finance Owner's acquisition of the Project and related transaction costs. The original principal amount of the Series C Bonds shall not exceed $5,000,000.

(b) "*Bond Trustee*" – Wilmington Trust, National Association, or any successor trustee under the Indenture.

(c) "*Closing*" – shall have the meaning set forth in Section 8 of this Agreement.

(d) "*Conveyance*" – that transaction or series of transactions by which Owner shall transfer, bargain, sell and convey any and all right, title or interest in and to the Property.

(e) "*Extraordinary Costs and Expenses*" – shall have the meaning set forth in the Indenture.

(f) "*Host Indemnified Person*" – Host and each of its Councilmembers, officers, departments, directors, officials, employees, attorneys, agents, and volunteers.

(g) "*Indenture*" – the Indenture of Trust between Owner, as issuer, and Bond Trustee, as trustee, pursuant to which the Bonds were issued.

(h) "*Minimum Sale Price*" – the lowest price at which the Property may be sold, as described in Section 4(c) hereof.

(i) "*Outstanding*" – with respect to Bonds, as of any given date, all Bonds that have been authenticated and delivered by the Trustee under the Indenture, except: (i) Bonds cancelled at or prior to such date or delivered to or acquired by the Trustee at or prior to such date for cancellation; (ii) Bonds deemed to be paid in accordance with Article VIII of the Indenture; and (iii) Bonds in lieu of which other Bonds have been authenticated under the Indenture.

(j) "*Owner Indemnified Person*" – Owner and each of its officers, governing members, directors, officials, employees, attorneys, agents, and members.

(k) "*Project Administrator*" – Waterford Property Company, LLC and its successors and assigns.

(l) "*Project Debt*" – any debt secured by the Project and incurred to finance or refinance Owner's acquisition of the Project and related transaction costs, including any portion of the Bonds and any bonds, notes or other indebtedness issued by Owner to improve the Project or to refund the Bonds in whole or in part.

(m) "*Property*" – all of Owner's right, title, and interest (which includes fee simple title to the real property) in and to all property and assets used in or otherwise related to the operation of the Project including, without limitation, all real property and interests in real property, all tangible and intangible personal property including furniture, fixtures, equipment, supplies, intellectual property, licenses, permits, approvals, and contractual rights of any kind or nature together with the right to own and carry on the business and operations of the Project.

(n) "*Regulatory Agreement*" – the Regulatory Agreement and Declaration of Restrictive Covenants by and between Owner and Bond Trustee, relating to the Bonds.

(o) "*Sale Price*" – purchase price of the Property to be paid by the Purchaser upon sale of the Property by Owner pursuant to the Sale Right in compliance with Section 4 of this Agreement or sale by Owner pursuant to Section 5 of this Agreement.

(p) "*Sale Right*" – the right of Host to cause Owner to sell the Property pursuant to Section 1 hereof.

(q) "*Sale Right Exercise Date*" – the date 15 years from the issuance of the Bonds.

(r) "*Sale Right Term*" – shall commence on the Sale Right Exercise Date and, if not exercised, shall terminate on the date on which no Project Debt remains outstanding.

(s) "*Transaction Costs*" – to the extent not otherwise described herein, any costs or expenses of any kind or nature associated with or incurred by Owner and Bond Trustee in connection with the consummation of the Conveyance, regardless of whether such costs and expenses are customarily borne by the seller or purchaser in any such transaction, including but not limited to taxes, recording fees and other impositions; Owner's and Bond Trustee's legal and other professional fees; fees for verification agents, bidding agents, escrow agents, custodians, or trustees; assumption fees; prepayment fees; the cost of the appraisal; brokers' fees and expenses; surveys, inspections, title commitments, title insurance premiums, and other title-related fees; and all amounts required for indemnification of Owner, Bond Trustee, and Project Administrator.

Section 3. Effectiveness; Term and Termination. The Sale Right shall become effective on the Sale Right Exercise Date and may be exercised during the Sale Right Term. Owner agrees that it will not enter into any agreement to sell all or any part of the Property during the Sale Right Term other than as may be required by the Indenture (e.g., in the event of default), without the specific written request of the Host and delivery of an Opinion of Bond Counsel to Bond Trustee substantially to the effect that such sale will not, in and of itself, adversely affect the exclusion of interest on the Bonds from gross income for purposes of federal income taxation.

Section 4. Manner of Exercise.

(a) Host's Notice. To exercise the Sale Right, Host shall provide a notice (an "*Exercise Notice*") to Owner (with a copy to the Project Administrator) at any time during the Sale Right Term.

(b) Unless Host notifies Owner in writing that it is withdrawing its Exercise Notice within 15 business days of delivering the Exercise Notice under Section 4(a) of this Agreement, Owner shall exercise its best efforts to enter into a purchase agreement for the sale of the Property in accordance with Section 7(d) of this Agreement and to sell and convey good and marketable title to the Property to Host or its designee within 90 days following receipt of the Exercise Notice, or as soon as possible thereafter, in accordance with the purchase agreement, but only if it can sell at or above the Minimum Sale Price. The obligation of Owner to enter into the purchase agreement for the sale and conveyance of the Property to Host or its designee shall be on a best efforts basis. Owner shall endeavor to sell the Property at a commercially reasonable price, subject to subsection (c) of this Section, by such means as the parties to the purchase agreement shall determine to be suitable for such purpose; provided that Owner shall incur no liability to any party as a result of or otherwise in connection with the sale or failure to sell. Subject to subsection (c), nothing herein shall require or prevent Owner selling the Property subject to the restrictions set forth in the Regulatory Agreement. Owner shall direct the Bond Trustee in the foregoing as and to the extent necessary or appropriate.

(c) Sale Price. The Sale Price shall be at least equal to the sum of the amounts set forth below (net of any adjustments or prorations of the type described in Section 8(b)) of this Agreement (the "*Minimum Sale Price*"):

i. an amount sufficient to either prepay, redeem in whole, or fully defease for redemption on the earliest call date all Project Debt; plus

ii. any fees or other amounts not identified in clause (i) that may be necessary to effect the complete release from and discharge of any lien, mortgage, or other encumbrance on the Property; plus

iii. any amounts due to Owner (including Owner Indemnified Persons, as provided in the Indenture), the Bond Trustee or any predecessor or successor, or any other Person under any indenture, loan agreement, bond, note or other instrument relating to any Project Debt (including, without limitation, indemnification amounts, Owner's Extraordinary Costs and Expenses, recurrent and extraordinary fees and expenses, and reimbursable costs and expenses of any kind or nature); plus

iv. Transaction Costs; minus

v. Any funds held by or for Owner under the Indenture applied to the retirement of Project Debt. Owner may retain such portion of moneys in the Extraordinary Expense Fund or similar fund under the Indenture it deems reasonable or a reserve against future expected costs and expenses of the type described in subparagraph (iii). Owner's determination of this amount shall be final and incontestable.

Section 5. Mandatory Conveyance. Upon the retirement of all Project Debt, Owner shall use its best efforts to effect a Conveyance within 90 days thereafter, subject to Section 4(c) of this Agreement; provided, however, that Host, by notice to Owner within two weeks after notice from Owner that no Project Debt remains outstanding, shall have the option to cause Owner to sell the Property (i) to a non-profit corporation or a limited partnership (that has a non-profit corporation as a general partner) designated by Host upon payment by such non-profit corporation or limited partnership, as applicable, of a sale price approved by Host, which sale price shall be at least equal to the Minimum Sale Price; or (ii) to Host upon payment of the Minimum Sale Price. Nothing herein shall require or prevent Owner selling the Property subject to the restrictions set forth in the Regulatory Agreement or similar types of restrictions established by Owner with the approval of Host.

Section 6. **Surplus Cash; Surplus Conveyance Proceeds.** Upon a Conveyance of the Property, Owner shall apply the proceeds of such Conveyance (i) to redeem the Bonds then Outstanding; (ii) to prepay, redeem in whole, or fully defease any other Project Debt; and (iii) to pay any fees or other amounts listed in Section 4(c)(ii) – (iv) of this Agreement. Any proceeds remaining following the foregoing payments (such remaining amounts hereinafter referred to as "*Surplus Conveyance Proceeds*") shall be transferred to Host and Host shall equitably share (within Host's reasonable discretion) such Surplus Conveyance Proceeds with other taxing agencies selected in the County so as to reimburse such taxing agencies for any foregone property tax revenue.

Section 7. **Terms of Conveyance.**

(a) The Conveyance shall be in the nature of a grant deed to Purchaser in which Owner shall deliver one or more deeds, bills of sale, or other instruments of transfer without recourse or warranty of any kind or nature.

(b) The Property will be conveyed to Purchaser in AS IS CONDITION, WITH ALL FAULTS, and without representations or warranties of any kind or nature as to the condition of the Property, except as may otherwise be set forth in this Agreement or the purchase agreement.

(c) There shall be no partial transfer, and upon consummation of the Conveyance, Owner shall be fully divested of any and all right, title, or interest in and to the Property.

(d) Upon Host's delivery of the Exercise Notice, Owner shall deliver to Purchaser a purchase agreement for the Property, and the parties shall negotiate in good faith towards a mutually satisfactory purchase agreement form and substance satisfactory to Owner and Purchaser and their counsel subject to the terms and conditions of this Agreement. The purchase agreement shall permit Purchaser to conduct physical inspections of the Property and conduct due diligence related to the purchase of the Property, including without limitation its value and physical and environmental condition, and shall provide Purchaser a due diligence approval period of not less than 60 days after the date of the purchase agreement. The purchase agreement shall provide for Owner to deliver to Purchaser copies of all plans, studies, records, reports, governmental notices and approvals, and other written materials related to the use, occupancy, or condition of the Property that Owner has in its possession, including without limitation environmental, structural, mechanical, engineering, and land surveys. Purchaser shall provide Owner with comments to the form of purchase agreement within 15 business days of its receipt thereof, and Owner and Purchaser shall use good faith efforts to negotiate, draft, and execute a mutually acceptable purchase agreement as soon as practicable thereafter. The purchase agreement shall provide for closing for the conveyance to Purchaser of good and marketable title to the Property at the Sales Price within the time set forth in Section 8(a) of this Agreement.

Section 8. **Closing.**

(a) The closing of the Conveyance ("*Closing*") shall take place, in the case of a Conveyance pursuant to Section 4 of this Agreement, not later than the 90th calendar day following

Owner's receipt of the Exercise Notice, or as soon as possible thereafter, and in the case of a mandatory conveyance pursuant to Section 5 of this Agreement, not later than the 90th calendar day following the retirement of all Project Debt, or as soon as possible thereafter.

(b) Prorations. All general and special real property taxes and assessments, and rents, shall be prorated as of the Closing, with Purchaser responsible for all such items to the extent arising or due at any time following the Closing. General real property taxes shall be prorated at the time of Closing based on the net general real property taxes for the year of Closing.

Section 9. Recording. This Agreement, and any amendment thereto, shall be recorded with the recorder's office of the County; *provided*, that upon termination of the term of this Agreement, Host shall cooperate with Owner to remove any such recorded Agreement or amendment thereto from title to the Property upon Owner's reasonable request therefor and, in any event, by no later than 30 days after the expiration of the original term of this Agreement.

Section 10. Subordination. This Agreement shall be subordinate to any claim, pledge, or interest in the Property securing the Bonds or any Project Debt.

Section 11. Maintenance of Membership. In order to preserve the Property's exemption from property tax, Host agrees to remain a member of Owner's joint powers authority so long as any Bonds remain Outstanding.

Section 12. Assignment. Neither party to this Agreement shall assign its interests, obligations, rights and/or responsibilities under this Agreement without the prior written consent of the other party, except as otherwise provided in this Agreement.

Section 13. Limitation on Liability.

(a) Except as otherwise stated in this Agreement, Owner and Host shall not be directly, indirectly, contingently or otherwise liable for any costs, expenses, losses, damages, claims or actions, of any conceivable kind on any conceivable theory, under or by reason of or in connection with this Agreement or any sale or Conveyance or failure or price thereof or application of proceeds thereof, except only as to moneys available therefor under and in accordance with the Indenture or this Agreement.

(b) Except as otherwise stated in this Agreement, no Owner Indemnified Person or Host Indemnified Person shall be individually or personally liable for the payment of any sum hereunder or be subject to any personal liability or accountability by reason of the execution and delivery of this Agreement, or by any proceedings for the sale or Conveyance or failure or price thereof, or Host's exercise or waiver of same, or otherwise except in the case of such Owner Indemnified Person's own willful misconduct.

(c) The Bonds will not be a debt, liability, or obligation of Host but rather, solely indebtedness of the Owner, limited to the Trust Estate pledged and available therefor under the Indenture. Under no circumstances shall Host be obligated to (i) provide any financing to acquire or construct the Project or any refinancing of the Project; (ii) approve any application or request for or take any other action in connection with any planning approval, permit, or other action necessary for the acquisition, construction, rehabilitation, or operation of the Project; or (iii) make any contribution or advance any funds whatsoever to the Owner.

Section 14. Notices, Governing Law, Binding Effect and Other Miscellaneous Provisions.

(a) Notices. All notices provided for in this Agreement shall be in writing and shall be given to Owner or Host at the address set forth below or at such other address as they individually may specify thereafter by written notice in accordance herewith:

If to Owner or Designated Agent:	CSCDA Community Improvement Authority 1700 North Broadway, Suite 405 Walnut Creek, California 94596 Attention: Jon Penkower Email: jpenkower@cscda.org
With a copy to:	Waterford Property Company, LLC 130 Newport Center, Suite 230 Newport Beach, California 92660 Attention: John Drachman Email: jdrachman@waterfordco.com
If to Host:	City of Escondido 201 North Broadway Escondido, CA 92025 Attention: City Manager

Such notices shall be deemed effective upon actual delivery or upon the date that any such delivery was attempted and acceptance thereof was refused, or if mailed, certified return receipt requested, postage prepaid, properly addressed, three days after posting.

(b) Consents and Approvals. All consents and approvals and waivers required or asserted hereunder shall be in writing, signed by the party from whom such consent, approval, waiver, or notice is requested.

(c) Non-liability of Host or Owner Officers and Employees. No officer or employee of Host shall be personally liable to Owner, or any successor in interest, in the event of any default or breach by Host of any obligation of the terms of this Agreement. No officer or employee of the Owner shall be personally liable to Host, or any successor in interest, in the event of any default or breach by Owner of any obligation of the terms of this Agreement.

(d) Pronouns. Where appropriate to the context, words of one gender include all genders, and the singular includes the plural and vice versa.

(e) Amendments. This Agreement may not be modified except in a written instrument signed by Host and Owner and recorded in the recorder's office for the County.

(f) Complete Agreement; Benefits. This Agreement together with all schedules and exhibits attached hereto and made part thereof supersedes all previous agreements, understandings and representations made by or between the parties hereto. This Agreement shall inure solely and exclusively to the benefit of Owner and Host, and no other party shall have any right, remedy, or claim under or by reason of this Agreement.

(g) Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the state of California, without regard to conflicts of law principles. All claims of whatever character arising out of this Agreement, or under any statute or common law relating in any way, directly or indirectly, to the subject matter hereof or to the dealings between Owner and any other party hereto, if and to the extent that such claim potentially could or actually does involve Owner, shall be filed and maintained in the Superior Court of California, County of San Diego, California. By executing and delivering this Agreement, each party hereto irrevocably: (i) accepts generally and unconditionally the exclusive jurisdiction and venue of such court; (ii) waives any defense of forum non-conveniens; and (iii) agrees not to seek removal of such proceedings to any court or forum other than as specified above. The foregoing shall not be deemed or construed to constitute a waiver by Owner of any prior notice or procedural requirements applicable to actions or claims against or involving governmental units and/or political subdivisions of the state of California that may exist at the time of and in connection with such matter.

(h) Legal Construction. In case any one or more of the provisions contained in this Agreement shall for any reason be held by a court of competent jurisdiction to be invalid, illegal or unenforceable in any respect, such invalid provision shall be deemed severable, and shall not affect the validity or enforceability of any other provisions of this Agreement, all of which shall remain fully enforceable.

(i) Term. This Agreement shall terminate upon the Conveyance.

(j) Captions. The captions used in this Agreement are solely for convenience, and shall not be deemed to constitute a part of the substance of the Agreement for purpose of its construction.

(k) Counterparts. This Agreement may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original; and all such counterparts shall together constitute but one and the same Agreement.

(l) Regulatory Agreement. Owner shall not increase the maximum income levels or maximum rents of the Affordable Units, or revise the percentages of units to be rented as Low Income Units, Median Income Units, and Moderate Income Units, except through a written amendment to the Agreement in accordance with Section 15(e) of this Agreement.

(m) Annual Host Charge. On each anniversary of the Issue Date, commencing on the first anniversary thereof, and on the earlier of (i) the Closing of the Conveyance or (ii) the expiration of the Sale Right Term (which earlier date shall be the final Annual Host Charge due hereunder), Owner shall pay to Host the Annual Host Charge. The final Annual Host Charge shall be prorated for the actual number of days elapsed since the most recent Annual Host Charge. For purposes of this Section, the term “Issue Date” shall mean the date of issuance of the Bonds, currently expected to occur on November 30, 2021; and the term “Annual Host Charge” shall mean an annual charge payable in arrears in the amount of $115,000, inflated annually for each Annual Host Charge payable after the first anniversary by 2% of the most recent Annual Host Charge.

[SIGNATURE PAGE TO FOLLOW]

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date set forth above.

CSCDA COMMUNITY IMPROVEMENT AUTHORITY

By: ______________________________

Authorized Signatory

CITY OF ESCONDIDO

By: ______________________________

Paul McNamara
Mayor

Approved as to Form:

By:______________________________

City Attorney

Signature Page to Public Benefit Agreement

ACKNOWLEDGEMENT

A Notary Public or other officer completing this certificate verifies only the identity of the individual who signed the document to which this certificate is attached, and not the truthfulness, accuracy, or validity of that document.

State of California)
County of ______________________)

On _________________________, before me, _________________________________,
(insert name and title of the officer)

Notary Public, personally appeared ____,

who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature__________________________________ (Seal)

ACKNOWLEDGEMENT

A Notary Public or other officer completing this certificate verifies only the identity of the individual who signed the document to which this certificate is attached, and not the truthfulness, accuracy, or validity of that document.

State of California)
County of ______________________)

On _________________________, before me, __________________________________,
(insert name and title of the officer)

Notary Public, personally appeared ____,

who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature___________________________________ (Seal)

EXHIBIT A

LEGAL DESCRIPTION OF REAL PROPERTY

That certain real property situated in the State of California, County of San Diego, City of Escondido, described as follows:

[TO COME]

RESOLUTION NO. 2021-151

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF ESCONDIDO APPROVING, AUTHORIZING AND DIRECTING EXECUTION OF A JOINT EXERCISE OF POWERS AGREEMENT RELATING TO THE CSCDA COMMUNITY IMPROVEMENT AUTHORITY AND THE FORM OF A PUBLIC BENEFIT AGREEMENT; AND APPROVING THE ISSUANCE OF REVENUE BONDS BY SAID AGENCY FOR THE PURPOSE OF FINANCING THE ACQUISITION, CONSTRUCTION OR IMPROVEMENT OF PROJECTS LISTED HEREIN

WHEREAS, pursuant to Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (the “Act”), certain public agencies (the “Members”) propose to enter into a Joint Exercise of Powers Agreement Relating to the CSCDA Community Improvement Authority (the “Agreement”) in order to form the CSCDA Community Improvement Authority (the “Authority”) for the purpose of promoting economic, cultural, and community development and in order to exercise any powers common to the Members or granted by the Act, including by the issuance of bonds, notes, or other evidences of indebtedness; and

WHEREAS, the City of Escondido (the “City”) has determined that it is in the public interest and for the public benefit that the City become a Member of the Authority in order to facilitate the promotion of economic, cultural, and community development activities in the City, including the financing of projects therefor by the Authority; and

WHEREAS, the Agreement has been filed with the City, and the members of the City Council of the City (the “City Council”), with the assistance of its staff, have reviewed said document; and

WHEREAS, the Authority is authorized to issue and sell revenue bonds for the purpose, among others, of financing or refinancing the construction, acquisition, and rehabilitation of capital projects; and

WHEREAS, among projects that may be financed by the Authority, the Authority proposes to issue from time to time its governmental purpose revenue bonds (the "Bonds") to finance the acquisition, construction, development and certain related costs of a middle-income multifamily rental housing development within the City located at 700 W Grand, Escondido, CA 92025, known as Rowan Apartments, 2414 S. Escondido Boulevard, Escondido, CA, 92025, known as Haven 76 Apartments, and 650 N. Centre City Parkway, Escondido, CA 92025, known as Alcove Apartments (together the "Project"), provided, however, that the issuance of the Bonds is subject to certain terms and conditions as further described in the Public Benefit Agreement and the "Regulatory Agreement and Declaration of Restrictive Covenants" documents applicable to the Project ("Project Agreements"); and

WHEREAS, the Authority proposes to grant to the City in connection with the financing of the Project the right to cause the Authority to sell the Project to the City or its designee, starting upon the date 15 years from the issuance of the Bonds pursuant to the Project Agreements; and

WHEREAS, it is in the public interest and for the public benefit that the City Council approve the issuance of the Bonds by the Authority for the aforesaid purposes; and

WHEREAS, Section 3(A) of the Agreement, in accordance with Section 6508.1 of the California Government Code, expressly provides that the Bonds and other debts, liabilities, and obligations of the Authority do not constitute debts, liabilities, or obligations of any Members;

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Escondido, California, as follows:

1. The foregoing recitals are true.

2. The City hereby requests to become a Member of the Authority. The Agreement is hereby approved and the Mayor is hereby authorized to execute said document.

3. The proposed form of Project Agreements on file with the City Council are hereby approved. In connection with the Project, the City Manager or the designee thereof is hereby authorized and directed to execute such Project Agreements in substantially the same form, with such immaterial changes therein as such officer executing the same may require consistent with this Resolution and its basic purpose, and subject to the approval as to form of the City Attorney. Any material changes to the form of the Project Agreements must be approved by the City Council. The City Council hereby approves the issuance of Bonds by the Authority from time to time prior to the date that is the two year-anniversary of the date hereof.

4. The issuance of Bonds shall be subject to the approval of the Authority of all financing documents relating thereto to which the Authority is a party. Pursuant to the Agreement and the Project Agreements, the City shall have no responsibility or liability whatsoever with respect to the Bonds or any other debts, liabilities, and obligations issued by the Authority, and such Bonds and any other debts, liabilities, and obligations of the Authority do not constitute debts, liabilities, or obligations of any Members, including the City.

5. The adoption of this Resolution shall not obligate the City or any department thereof to (i) provide any financing to acquire or construct the Project or any refinancing of the Project; (ii) approve any application or request for or take any other action in connection with any planning approval, permit, or other action necessary for the acquisition, construction, rehabilitation, or operation of the Project; (iii) make any contribution or advance any funds

whatsoever to the Authority; or (iv) except as provided in this Resolution, take any further action with respect to the Authority or its membership therein.

6. The Mayor and all other proper officers and officials of the City are hereby authorized and directed to execute such other agreements, documents, and certificates, and to perform such other acts and deeds, as may be necessary or convenient to effect the purposes of this Resolution and the transactions herein authorized.

7. The City Clerk shall forward a certified copy of this Resolution and an originally executed Agreement to the Authority:

CSCDA Community Improvement Authority
1100 K Street, Suite 101
Sacramento, CA 95814
Attention: Chair

SECTION 8. This resolution shall take effect immediately upon its passage.

RESOLUTION NO. 2021-152

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF ESCONDIDO APPROVING, AUTHORIZING AND DIRECTING EXECUTION OF A JOINT EXERCISE OF POWERS AGREEMENT RELATING TO THE CMFA SPECIAL FINANCE AGENCY AND THE FORM OF A PUBLIC BENEFIT AGREEMENT; AND APPROVING THE ISSUANCE OF REVENUE BONDS BY SAID AGENCY FOR THE PURPOSE OF FINANCING THE ACQUISITION, CONSTRUCTION OR IMPROVEMENT OF PROJECTS LISTED HEREIN

WHEREAS, pursuant to Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (the “Act”), the City of Escondido (the “City”) and the California Municipal Finance Authority (the “CMFA” and together with the City, the “Members”) propose to enter into a Joint Exercise of Powers Agreement Relating to the CMFA Special Finance Agency (the “Agreement”) in order to form the CMFA Special Finance Agency (the “Agency”) for the purpose of promoting economic, cultural, and community development and in order to exercise any powers common to the Members or granted by the Act, including by the issuance of bonds, notes, or other evidences of indebtedness; and

WHEREAS, the City has determined that it is in the public interest and for the public benefit that the City become a Member of the Agency in order to facilitate the promotion of economic, cultural, and community development activities in the City, including the financing of projects therefor by the Agency; and

WHEREAS, the Agreement has been filed with the City, and the members of the City Council of the City (the “City Council”), with the assistance of its staff, have reviewed said document; and

WHEREAS, the Agency is authorized to issue and sell revenue bonds for the purpose, among others, of financing or refinancing the construction, acquisition, and rehabilitation of capital projects; and

WHEREAS, among projects that may be financed by the Agency, the Agency proposes to issue from time to time its governmental purpose revenue bonds (the “Bonds”) to finance the acquisition, construction, development and certain related costs of a middle-income multifamily rental housing development within the City located at 1501 East Grand Avenue, Escondido, CA 92027, known as Solano at Grand (the “Project”), provided, however, that the issuance of the Bonds is subject to certain terms and conditions as further described in the Public Benefit Agreement and the “Regulatory Agreement and Declaration of Restrictive Covenants” documents applicable to the Project (“Project Agreements”); and

WHEREAS, the Agency proposes to grant to the City in connection with the financing of the Project the right to cause the Agency to sell the Project to the City or its designee, starting upon the date 15 years from the issuance of the Bonds pursuant to the Project Agreements; and

WHEREAS, it is in the public interest and for the public benefit that the City Council approve the issuance of the Bonds by the Agency for the aforesaid purposes; and

WHEREAS, Section 3(A) of the Agreement, in accordance with Section 6508.1 of the California Government Code, expressly provides that the Bonds and other debts, liabilities, and obligations of the Agency do not constitute debts, liabilities, or obligations of any Members;

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Escondido, California, as follows:

1. The foregoing recitals are true and correct.

2. The City hereby requests to become a Member of the Agency. The Agreement is hereby approved and the Mayor is hereby authorized to execute said document.

3. The proposed form of Project Agreements on file with the City Council are hereby approved. In connection with the Project, the City Manager or the designee thereof is hereby authorized and directed to execute such Project Agreements in substantially the same form, with such immaterial changes therein as such officer executing the same may require consistent with this Resolution and its basic purpose, and subject to the approval as to form of the City Attorney. Any material changes to the form of the Project Agreements must be approved by the City Council. The City Council hereby approves the issuance of Bonds by the Agency from time to time prior to the date that is the two year-anniversary of the date hereof.

4. The issuance of Bonds shall be subject to the approval of the Agency of all financing documents relating thereto to which the Agency is a party. Pursuant to the Agreement and the Project Agreements, the City shall have no responsibility or liability whatsoever with respect to the Bonds or any other debts, liabilities, and obligations issued by the Agency, and such Bonds and any other debts, liabilities, and obligations of the Agency do not constitute debts, liabilities, or obligations of any Members, including the City.

5. The adoption of this Resolution shall not obligate the City or any department thereof to (i) provide any financing to acquire or construct the Project or any refinancing of the Project; (ii) approve any application or request for or take any other action in connection with any planning approval, permit, or other action necessary for the acquisition, construction,

rehabilitation, or operation of the Project; (iii) make any contribution or advance any funds whatsoever to the Agency; or (iv) except as provided in this Resolution, take any further action with respect to the Agency or its membership therein.

6. The Mayor and all other proper officers and officials of the City are hereby authorized and directed to execute such other agreements, documents, and certificates, and to perform such other acts and deeds, as may be necessary or convenient to effect the purposes of this Resolution and the transactions herein authorized.

7. The City Clerk shall forward a certified copy of this Resolution and an originally executed Agreement to the Agency:

Jones Hall, A Professional Law Corporation
475 Sansome Street, Suite 1700
San Francisco, California 94111
Attention: Ronald E. Lee, Esq.

8. This resolution shall take effect immediately upon its passage.

RESOLUTION NO. 2021-153

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF ESCONDIDO APPROVING, AUTHORIZING AND DIRECTING EXECUTION OF A JOINT EXERCISE OF POWERS AGREEMENT RELATING TO THE CMFA SPECIAL FINANCE AGENCY AND THE FORM OF A PUBLIC BENEFIT AGREEMENT; AND APPROVING THE ISSUANCE OF REVENUE BONDS BY SAID AGENCY FOR THE PURPOSE OF FINANCING THE ACQUISITION, CONSTRUCTION OR IMPROVEMENT OF PROJECTS LISTED HEREIN

WHEREAS, pursuant to Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (the “Act”), the City of Escondido (the “City”) and the California Municipal Finance Authority (the “CMFA” and together with the City, the “Members”) propose to enter into a Joint Exercise of Powers Agreement Relating to the CMFA Special Finance Agency (the “Agreement”) in order to form the CMFA Special Finance Agency (the “Agency”) for the purpose of promoting economic, cultural, and community development and in order to exercise any powers common to the Members or granted by the Act, including by the issuance of bonds, notes, or other evidences of indebtedness; and

WHEREAS, the City has determined that it is in the public interest and for the public benefit that the City become a Member of the Agency in order to facilitate the promotion of economic, cultural, and community development activities in the City, including the financing of projects therefor by the Agency; and

WHEREAS, the Agreement has been filed with the City, and the members of the City Council of the City (the “City Council”), with the assistance of its staff, have reviewed said document; and

WHEREAS, the Agency is authorized to issue and sell revenue bonds for the purpose, among others, of financing or refinancing the construction, acquisition, and rehabilitation of capital projects; and

WHEREAS, among projects that may be financed by the Agency, the Agency proposes to issue from time to time its governmental purpose revenue bonds (the “Bonds”) to finance the acquisition, construction, development and certain related costs of a middle-income multifamily rental housing development within the City located at 515 Meander Glen, Escondido, CA 92025, known as Latitude33 (the “Project”), provided, however, that the issuance of the Bonds is subject to certain terms and conditions as further described in the Public Benefit Agreement and the “Regulatory Agreement and Declaration of Restrictive Covenants” documents applicable to the Project (“Project Agreements”); and

WHEREAS, the Agency proposes to grant to the City in connection with the financing of the Project the right to cause the Agency to sell the Project to the City or its designee, starting upon the date 15 years from the issuance of the Bonds pursuant to the Project Agreements; and

WHEREAS, it is in the public interest and for the public benefit that the City Council approve the issuance of the Bonds by the Agency for the aforesaid purposes; and

WHEREAS, Section 3(A) of the Agreement, in accordance with Section 6508.1 of the California Government Code, expressly provides that the Bonds and other debts, liabilities, and obligations of the Agency do not constitute debts, liabilities, or obligations of any Members;

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Escondido, California, as follows:

1. The foregoing recitals are true and correct.

2. The City hereby requests to become a Member of the Agency. The Agreement is hereby approved and the Mayor is hereby authorized to execute said document.

3. The proposed form of Project Agreements on file with the City Council are hereby approved. In connection with the Project, the City Manager or the designee thereof is hereby authorized and directed to execute such Project Agreements in substantially the same form, with such immaterial changes therein as such officer executing the same may require consistent with this Resolution and its basic purpose, and subject to the approval as to form of the City Attorney. Any material changes to the form of the Project Agreements must be approved by the City Council. The City Council hereby approves the issuance of Bonds by the Agency from time to time prior to the date that is the two year-anniversary of the date hereof.

4. The issuance of Bonds shall be subject to the approval of the Agency of all financing documents relating thereto to which the Agency is a party. Pursuant to the Agreement and the Project Agreements, the City shall have no responsibility or liability whatsoever with respect to the Bonds or any other debts, liabilities, and obligations issued by the Agency, and such Bonds and any other debts, liabilities, and obligations of the Agency do not constitute debts, liabilities, or obligations of any Members, including the City.

5. The adoption of this Resolution shall not obligate the City or any department thereof to (i) provide any financing to acquire or construct the Project or any refinancing of the Project; (ii) approve any application or request for or take any other action in connection with any planning approval, permit, or other action necessary for the acquisition, construction,

rehabilitation, or operation of the Project; (iii) make any contribution or advance any funds whatsoever to the Agency; or (iv) except as provided in this Resolution, take any further action with respect to the Agency or its membership therein.

6. The Mayor and all other proper officers and officials of the City are hereby authorized and directed to execute such other agreements, documents, and certificates, and to perform such other acts and deeds, as may be necessary or convenient to effect the purposes of this Resolution and the transactions herein authorized.

7. The City Clerk shall forward a certified copy of this Resolution and an originally executed Agreement to the Agency:

Jones Hall, A Professional Law Corporation
475 Sansome Street, Suite 1700
San Francisco, California 94111
Attention: Ronald E. Lee, Esq.

8. This resolution shall take effect immediately upon its passage.

FUTURE CITY COUNCIL AGENDA ITEMS

Updated October 21, 2021

AGENDA ITEMS AND CITY COUNCIL MEETING DATES ARE SUBJECT TO CHANGE. CHECK WITH THE CITY CLERK'S OFFICE AT (760) 839-4617

November 3, 2021
5:00 p.m.

PRESENTATION

Police Department Public Safety Update
(E. Varso)

In September 2021, SANDAG released the latest Mid-Year crime statistics for Escondido and the San Diego region. An update will be provided regarding the City of Escondido's crime statistics, crime trends throughout the region and law enforcement response to address crime trends.

CONSENT CALENDAR

Fiscal Year 2020-21 U.S. Department of Justice Edward Byrne Memorial Justice Assistance Grant – Local Solicitation and Budget Adjustment
(E. Varso)

It is requested that the City Council authorize the Police Department to accept a $41,255 FY 2020-21 Edward Byrne Memorial Justice Assistance Grant (JAG); authorize the Chief of Police or his designee to execute grant documents on behalf of the City; and approve budget adjustments needed to spend grant funds. Grant funds will cover salary expenses for part-time patrol technicians and mandated National Incident-based Reporting System (NIBRS) training expenses. Patrol technicians are assigned to the Patrol unit and are utilized to augment front-line law enforcement services, allowing officers to focus on crime-prevention and suppression efforts. NIBRS is a uniform crime reporting system used by law enforcement agencies throughout the country for uniformity in FBI reporting data. NIBRS training will enhance support staff knowledge of the crime reporting system.

Fiscal Year 2020 State Homeland Security Grant Program and Budget Adjustment
(E. Varso)

It is requested that the City Council authorize the Escondido Police Department to accept FY 2020 State Homeland Security Grant funds in the amount of $120,718; authorize the Chief of Police or his designee to execute grant documents on behalf of the City; and approve budget adjustments needed to spend grant funds. The County of San Diego Office of Emergency Services authorized the City of Escondido to spend its funds on equipment to support regional public safety projects. The Fire Department will utilize $59,930 to purchase portable radios. The Police Department will utilize $60,788 to purchase patrol laptops.

Third Quarter 2021 Treasurer's Report
(D. Shultz)

It is requested that the City Council receive and file the July through September 2021 Treasurer's Report.

	Proposed Annual Adjustment to Escondido Disposal's Solid Waste and Recycling Rates/Fees for Residential and Commercial Collections (C. McKinney) *It is requested that the City Council adopt Resolution No. 2021-158 approving the requested annual residential and commercial solid waste and recycling rates/fees adjustments pursuant to the terms of the City's adopted Solid Waste Disposal and Recycling Franchise Agreement with Escondido Disposal.*
PUBLIC HEARINGS	
CURRENT BUSINESS	
	Appointing a Member and an Alternate Member of the Board of Directors of the Clean Energy Alliance to Represent the City of Escondido (C. McKinney) *It is requested that the City Council adopt Resolution No. 2021-171 appointing a member and an alternate member to the Board of Directors of the Clean Energy Alliance to represent the City of Escondido.*
	Board and Commission Policy Update (Z. Beck) *It is requested that the City Council introduce Ordinance No. 2021-XX, 2021-XX, 2021-XX and 2021-XX and adopt Resolution No. 2021-XX updating the by-laws for the City's Boards and Commissions.*
FUTURE AGENDA ITEMS	

November 10, 2021 NO MEETING (Veteran's Day)