

PRELIMINARY OFFICIAL STATEMENT DATED AUGUST __, 2020

NEW ISSUE – BOOK-ENTRY ONLY

Ratings: See the caption “RATINGS.”

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described in this Official Statement, interest (and original issue discount) on the 2020A 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 opinion of Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest (and original issue discount) on the 2020B Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended. In the further opinion of Bond Counsel, interest (and original issue discount) on the 2020 Bonds is exempt from State of California personal income tax. See the caption “TAX MATTERS.”

\$ _____*
**SALINAS FACILITIES
FINANCING AUTHORITY
LEASE REVENUE REFUNDING BONDS,
SERIES 2020A-1**

\$ _____*
**SALINAS FACILITIES
FINANCING AUTHORITY
LEASE REVENUE REFUNDING BONDS,
SERIES 2020A-2
(QUALIFIED 501(c)(3) BONDS)**

\$ _____*
**SALINAS FACILITIES
FINANCING AUTHORITY
LEASE REVENUE REFUNDING BONDS,
SERIES 2020B
(FEDERALLY TAXABLE)**

Dated: Date of Delivery

Due: November 1, as shown on inside cover

The 2020 Bonds will be issued pursuant to two Indentures, each dated as of August 1, 2020, each by and among the City, the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee. The 2020 Bonds are payable from Base Rental Payments to be made by the City for the right to the use of certain real property pursuant to two Lease Agreements, each dated as of August 1, 2020, each by and between the City, as lessee, and the Authority, as lessor.

The 2020A-1 Bonds are being issued to provide funds: (i) to prepay the Lease Agreement, dated as of October 1, 2014, by and between the City and the Authority and a portion of the Lease/Purchase Agreement (Refunding of 2005 Certificates of Participation), dated as of September 1, 2015, by and between the City and the Authority; (ii) to pay a portion of the cost of a municipal bond debt service reserve insurance policy issued by _____ for deposit in the 2020A Reserve Fund in satisfaction of the 2020A Reserve Requirement; and (iii) to pay the costs of issuing the 2020A-1 Bonds, including but not limited to a portion of the premium for a municipal bond insurance policy to be issued by _____ insuring the payment of principal of and interest on the 2020A Bonds.

The 2020A-2 Bonds are being issued to provide funds: (i) to prepay a portion of the Lease/Purchase Agreement (Refunding of 2005 Certificates of Participation), dated as of September 1, 2015, by and between the City and the Authority; (ii) to pay a portion of the cost of a municipal bond debt service reserve insurance policy issued by _____ for deposit in the 2020A Reserve Fund in satisfaction of the 2020A Reserve Requirement; and (iii) to pay the costs of issuing the 2020A-2 Bonds, including but not limited to a portion of the premium for a municipal bond insurance policy to be issued by _____ insuring the payment of principal of and interest on the 2020A Bonds.

The 2020B Bonds are being issued to provide funds: (i) to prepay the City of Salinas Variable Rate Taxable Refunding Certificates of Participation (Fairways Golf Project) Series 2008; (ii) to pay the cost a municipal bond debt service reserve insurance policy issued by _____ for deposit in the 2020B Reserve Fund in satisfaction of the 2020B Reserve Requirement; and (iii) to pay the costs of issuing the 2020B Bonds, including but not limited to the premium for a municipal bond insurance policy to be issued by _____ insuring the payment of principal of and interest on the 2020B Bonds.

The City has covenanted under each Lease Agreement to take such action as may be necessary to include all Rental Payments due thereunder as a separate line item in its annual budgets and to make necessary annual appropriations for all such Rental Payments. The City’s obligation to make Base Rental Payments under each Lease Agreement is subject to abatement during any period in which, by reason of material damage to, or destruction or condemnation of, the applicable Property, or any defects in title to the applicable Property, there is substantial interference with the City’s right to use and occupy any portion of the applicable Property.

The 2020 Bonds are being issued in fully registered book-entry only form, initially registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York. Interest on the 2020 Bonds is payable semiannually on November 1, 2020 and each May 1 and November 1 thereafter. Purchasers will not receive certificates representing their interest in the 2020 Bonds. Individual purchases will be in principal amounts of integral multiples of \$5,000. Principal of and interest and premium, if any, on the 2020 Bonds will be paid by the Trustee to DTC for subsequent disbursement to DTC Participants who are obligated to remit such payments to the beneficial owners of the 2020 Bonds.

The Authority may issue Additional Bonds payable from Base Rental Payments. The 2020 Bonds and any Additional Bonds are collectively referred to as the “Bonds.”

The 2020 Bonds are subject to optional, mandatory sinking fund and extraordinary redemption prior to maturity as described in this Official Statement.

The scheduled payment of principal of and interest on each series of the 2020 Bonds when due will be guaranteed under respective municipal bond insurance policies to be issued concurrently with the delivery of the Bonds by _____.

[BOND INSURER LOGO]

The 2020 Bonds are special obligations of the Authority, payable solely from the applicable Base Rental Payments and the other assets pledged therefor under the applicable Indenture. Neither the faith and credit nor the taxing power of the Authority, the City or the State of California, or any political subdivision thereof, is pledged to the payment of the 2020 Bonds. The Authority has no taxing power.

The obligation of the City to make Base Rental Payments does not constitute a debt of the City or the State of California or any political subdivision thereof within the meaning of any constitutional or statutory debt limit or restriction, and does not constitute an obligation for which the City or the State of California is obligated to levy or pledge any form of taxation or for which the City or the State of California has levied or pledged any form of taxation.

The 2020 Bonds are not subject to acceleration in the event of a payment default.

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION.

* Preliminary; subject to change.

The 2020 Bonds will be offered when, as and if issued and received by the Underwriter, subject to the approval as to their validity by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel. Certain legal matters will be passed upon for the City and the Authority by the City Attorney. Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California is acting as disclosure counsel. Certain legal matters will be passed upon for the Underwriter by Kutak Rock LLP, Irvine, California, for the Insurer by its counsel and for the Trustee by its counsel. It is anticipated that the 2020 Bonds in definitive form will be available for delivery to DTC on or about August 19, 2020.

STIFEL

Dated: August __, 2020

MATURITY SCHEDULE

BASE CUSIP[†]: _____

\$_____*

**SALINAS FACILITIES FINANCING AUTHORITY
LEASE REVENUE REFUNDING BONDS, SERIES 2020A-1**

<i>Principal Payment Date (November 1)</i>	<i>Principal</i>	<i>Interest Rate</i>	<i>Yield</i>	<i>Price</i>	<i>CUSIP[†]</i>
20__	\$	%	%		

\$_____ % Term 2020A-1 Bonds due _____ 1, 20__ ; Yield _____ %; Price _____; CUSIP[†]: _____

\$_____*

**SALINAS FACILITIES FINANCING AUTHORITY
LEASE REVENUE REFUNDING BONDS, SERIES 2020A-2 (QUALIFIED 501(c)(3) BONDS)**

<i>Principal Payment Date (November 1)</i>	<i>Principal</i>	<i>Interest Rate</i>	<i>Yield</i>	<i>Price</i>	<i>CUSIP[†]</i>
20__	\$	%	%		

\$_____ % Term 2020B Bonds due _____ 1, 20__ ; Yield _____ %; Price _____; CUSIP[†]: _____

\$_____*

**SALINAS FACILITIES FINANCING AUTHORITY
LEASE REVENUE REFUNDING BONDS, SERIES 2020B (FEDERALLY TAXABLE)**

<i>Principal Payment Date (November 1)</i>	<i>Principal</i>	<i>Interest Rate</i>	<i>Yield</i>	<i>Price</i>	<i>CUSIP[†]</i>
20__	\$	%	%		

\$_____ % Term 2020B Bonds due _____ 1, 20__ ; Yield _____ %; Price _____; CUSIP[†]: _____

* Preliminary; subject to change.

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No dealer, broker, salesperson or other person has been authorized by the City or the Authority to give any information or to make any representations in connection with the offer or sale of the 2020 Bonds other than those contained in this Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized by the City or the Authority. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor will there be any sale of the 2020 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 or owners of the 2020 Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described in this Official Statement, are intended solely as such and are not to be construed as representations of fact.

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.

This Official Statement and the information contained in this Official Statement are subject to completion or amendment without notice and neither delivery of this Official Statement nor any sale made hereunder will, under any circumstances, create any implication that there has been no change in the affairs of the City or the Authority or any other parties described in this Official Statement since the date hereof. These securities may not be sold, nor may an offer to buy be accepted, prior to the time the Official Statement is delivered in final form. This Official Statement is being submitted in connection with the sale of the 2020 Bonds referred to in this Official Statement and may not be reproduced or used, in whole or in part, for any other purpose, unless authorized in writing by the City. All summaries of documents and laws are made subject to the provisions thereof and do not purport to be complete statements of any or all such provisions.

Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements” within the meaning of the United States 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. Such statements are generally identifiable by the terminology used such as “plan,” “expect,” “estimate,” “project,” “budget,” “intend” or similar words. Such forward-looking statements include, but are not limited to, certain statements contained under the captions “THE CITY” and “CITY FINANCIAL INFORMATION.”

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE CITY DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THE FORWARD-LOOKING STATEMENTS SET FORTH IN THIS OFFICIAL STATEMENT. IN EVALUATING SUCH STATEMENTS, POTENTIAL INVESTORS SHOULD SPECIFICALLY CONSIDER THE VARIOUS FACTORS THAT COULD CAUSE ACTUAL EVENTS OR RESULTS TO DIFFER MATERIALLY FROM THOSE INDICATED BY SUCH FORWARD-LOOKING STATEMENTS.

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

THE 2020 BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT AND HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

The City maintains a website; however, information presented there is not a part of this Official Statement and should not be relied upon in making an investment decision with respect to the 2020 Bonds.

[BOND INSURER LANGUAGE TO COME]

CITY OF SALINAS, CALIFORNIA

CITY COUNCIL*

Christie Cromeenes, *Council Member, District 5, and Mayor Pro Tem*
Scott Davis, *Council Member, District 1*
Tony Barrera, *Council Member, District 2*
Steve McShane, *Council Member, District 3*
Gloria De La Rosa, *Council Member, District 4*
John “Tony” Villegas, *Council Member, District 6*

SALINAS FACILITIES FINANCING AUTHORITY*

Christie Cromeenes, *Vice Chair*
Scott Davis, *Board Member*
Tony Barrera, *Board Member*
Steve McShane, *Board Member*
Gloria De La Rosa, *Board Member*
John “Tony” Villegas, *Board Member*

CITY/AUTHORITY STAFF

Ray E. Corpuz, Jr., *City Manager*[†]
Jim Pia, *Assistant City Manager*[†]
Matt N. Pressey, CPA, *Finance Director*
David Jacobs, P.E., L.S., *Public Works Director*
Patricia M. Barajas, *City Clerk*
Christopher A. Callihan, *City Attorney*

SPECIAL SERVICES

Bond Counsel and Disclosure Counsel

Stradling Yocca Carlson & Rauth, a Professional Corporation
Newport Beach, California

Trustee

The Bank of New York Mellon Trust Company, N.A.
Los Angeles, California

Verification Agent

[]
[], []

* The position of Mayor of the City and Chair of the Authority is currently vacant.

† Mr. Corpuz has announced his retirement effective at the end of September 2020. The City has commenced a nationwide recruitment process for a new City Manager and is expected to appoint Jim Pia to serve as interim City Manager after Mr. Corpuz retires until a permanent City Manager is appointed.

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\$ _____*
**SALINAS FACILITIES
FINANCING AUTHORITY
LEASE REVENUE
REFUNDING BONDS,
SERIES 2020A-1**

\$ _____*
**SALINAS FACILITIES
FINANCING AUTHORITY
LEASE REVENUE
REFUNDING BONDS,
SERIES 2020A-2
(QUALIFIED 501(c)(3) BONDS)**

\$ _____*
**SALINAS FACILITIES
FINANCING AUTHORITY
LEASE REVENUE
REFUNDING BONDS,
SERIES 2020B
(FEDERALLY TAXABLE)**

INTRODUCTION

General

This Official Statement, which includes the cover page and appendices (the “**Official Statement**”), provides certain information concerning the above-captioned bonds (the “**2020A-1 Bonds**,” the “**2020A-2 Bonds**” and the “**2020B Bonds**,” respectively, and together, the “**2020 Bonds**”). The 2020 Bonds are being issued by the Salinas Facilities Financing Authority (the “**Authority**”), a joint exercise of powers agency the members of which are the City of Salinas, California (the “**City**”) and the Parking Authority of the City of Salinas (the “**Parking Authority**”).

The 2020A-1 Bonds and the 2020A-2 Bonds (collectively, the “**2020A Bonds**”) will be issued pursuant to Articles 9 through 11 of Chapter 3 of Part 1 of Division 2 of Title 5 (commencing with Section 53550) of the California Government Code (the “**Refunding Law**”), and an Indenture relating to the 2020A Bonds, dated as of August 1, 2020 (the “**2020A Indenture**”), by and among the Authority, the City and The Bank of New York Mellon Trust Company, N.A., as trustee (the “**Trustee**”).

The 2020B Bonds will be issued pursuant to the Refunding Law and an Indenture relating to the 2020B Bonds, dated as of August 1, 2020 (the “**2020B Indenture**” and, together with the 2020A Indenture, the “**Indentures**” or individually, an “**Indenture**”), by and among the Authority, the City and the Trustee.

Each Indenture is substantially identical with the exception of certain tax covenants of the City and the Authority in the 2020A Indenture which have not been made in the 2020B Indenture.

The 2020 Bonds are being issued in fully registered book-entry only form, initially registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“**DTC**”). Purchasers will not receive certificates representing their interest in the 2020 Bonds. Individual purchases will be in integral multiples of \$5,000. Principal of and interest on the 2020 Bonds will be paid by the Trustee to DTC for subsequent disbursement to DTC Participants who are obligated to remit such payments to the beneficial owners of the 2020 Bonds. See the caption “THE 2020 BONDS—Book-Entry Only System.”

The 2020 Bonds are subject to optional, mandatory sinking fund and extraordinary redemption prior to maturity as described in this Official Statement. See the caption “THE 2020 BONDS—Redemption.”

The 2020A-1 Bonds are being issued to provide funds to: (i) prepay: (1) a Lease Agreement, dated as of October 1, 2014 (the “**2014 Lease**”), by and between the City and the Authority, which is currently outstanding in the principal amount of \$18,539,341.30; and (2) a \$2,940,000.00 principal portion of the Lease/Purchase Agreement (Refunding of 2005 Certificates of Participation), dated as of September 1, 2015 (the “**2015 Lease**”), by and between the City and the Authority; (ii) to pay a portion of the cost of a municipal bond debt service reserve insurance policy (the “**2020A Reserve Policy**”) issued by _____ (the “**Insurer**”) for deposit in the Reserve Fund established under the 2020A Indenture (the “**2020A Reserve Fund**”) in satisfaction of the Reserve Requirement established for the 2020A Bonds (the “**2020A Reserve Requirement**”); and (iii) to pay the costs of issuing the 2020A-1 Bonds, including but not limited to a portion

* Preliminary; subject to change.

of the premium for a municipal bond insurance policy (the “**2020A Policy**”) to be issued by the Insurer insuring the payment of principal of and interest on the 2020A Bonds.

The 2020A-2 Bonds are being issued to provide funds to: (i) prepay a \$4,845,000.00 principal portion of 2015 Lease; (ii) to pay a portion of the cost of the 2020A Reserve Policy; and (iii) to pay the costs of issuing the 2020A-2 Bonds, including but not limited to a portion of the premium for the 2020A Policy. **The 2020A-2 Bonds are “qualified 501(c)(3) bonds” and are subject to certain requirements to ensure that the interest payable thereon remains exempt from federal income taxation. See the caption “TAX MATTERS—2020A Bonds—Tax Concerns Related to 2020A-2 Bonds” and “RISK FACTORS—Tax-Related Issues—Tax-Exempt Status of the Foundation and Effect on 2020A-2 Bonds” for a discussion of such matters.**

The 2020B Bonds are being issued to provide funds to: (i) prepay the City of Salinas Variable Rate Taxable Refunding Certificates of Participation (Fairways Golf Project) Series 2008 (the “**2008 Certificates**”), which are currently outstanding in the principal amount of \$4,280,000.00; (ii) to purchase a municipal bond debt service reserve insurance policy (the “**2020B Reserve Policy**”) issued by the Insurer for deposit in the Reserve Fund established under the 2020B Indenture (the “**2020B Reserve Fund**”) in satisfaction of the Reserve Requirement established for the 2020B Bonds (the “**2020B Reserve Requirement**”); and (iii) to pay the costs of issuing the 2020B Bonds, including but not limited to the premium for a municipal bond insurance policy (the “**2020B Policy**”) to be issued by the Insurer insuring the payment of principal of and interest on the 2020B Bonds.

See the captions “PREPAYMENT PLAN,” “SECURITY AND SOURCES OF PAYMENT FOR THE 2020 BONDS—Reserve Policies” and “BOND INSURANCE.”

Security for the 2020 Bonds; Base Rental Payments

Pursuant to a Ground Lease relating to the 2020A Bonds, dated as of August 1, 2020 (the “**2020A Ground Lease**”), by and between the City, as lessor, and the Authority, as lessee, the City has leased certain real property of the City and the improvements thereon (the “**2020A Property**”) to the Authority in consideration for the Authority’s assistance in issuing the 2020A Bonds.

Pursuant to a Ground Lease relating to the 2020B Bonds, dated as of August 1, 2020 (the “**2020B Ground Lease**” and, together with the 2020A Ground Lease, the “**Ground Leases**” or individually, a “**Ground Lease**”), by and between the City, as lessor, and the Authority, as lessee, the City has leased certain real property of the City and the improvements thereon (the “**2020B Property**” and, together with the 2020A Property, the “**Property**”) to the Authority in consideration for the Authority’s assistance in issuing the 2020B Bonds.

Each Ground Lease is substantially identical with the exception of the Property described therein. See the caption “THE LEASED PROPERTY” for a description of the Property.

Pursuant to a Lease Agreement relating to the 2020A Bonds, dated as of August 1, 2020 (the “**2020A Lease Agreement**”), by and between the Authority, as sublessor, and the City, as sublessee, the Authority has subleased the 2020A Property back to the City. The 2020A-1 Bonds and the 2020A-2 Bonds are equally and ratably payable from base rental payments (the “**2020A-1 Base Rental Payments**” and the “**2020A-2 Base Rental Payments**,” respectively, and together, the “**2020A Base Rental Payments**”) to be made by the City for the right to use the 2020A Property pursuant to the 2020A Lease Agreement.

Pursuant to a Lease Agreement relating to the 2020B Bonds, dated as of August 1, 2020 (the “**2020B Lease Agreement**” and, together with the 2020A Lease Agreement, the “**Lease Agreements**” or individually, a “**Lease Agreement**”), by and between the Authority, as sublessor, and the City, as sublessee, the Authority has subleased the 2020B Property back to the City. The 2020B Bonds are equally and ratably payable from

base rental payments (the “**2020B Base Rental Payments**” and, together with the 2020A Base Rental Payments, the “**Base Rental Payments**”) to be made by the City for the right to use the 2020B Property pursuant to the 2020B Lease Agreement.

Each Lease Agreement is substantially identical with the exception of the property described therein. See Appendix B under the caption “LEASE AGREEMENT” for a summary of the terms of the Lease Agreements.

The Trustee and the Authority have entered into an Assignment Agreement relating to the 2020A Bonds, dated as of August 1, 2020 (the “**2020A Assignment Agreement**”), pursuant to which the Authority has assigned to the Trustee for the benefit of the 2020A Bond Owners substantially all of the Authority’s right, title and interest in and to the 2020A Ground Lease and the 2020A Lease Agreement, including its right to receive the 2020A Base Rental Payments due under the 2020A Lease Agreement and to enforce any remedies in the event of a default by the City.

The Trustee and the Authority have also entered into an Assignment Agreement relating to the 2020B Bonds, dated as of August 1, 2020 (the “**2020B Assignment Agreement**” and, together with the 2020A Assignment Agreement, the “**Assignment Agreements**” or individually, an “**Assignment Agreement**”), pursuant to which the Authority has assigned to the Trustee for the benefit of the 2020B Bond Owners substantially all of the Authority’s right, title and interest in and to the 2020B Ground Lease and the 2020B Lease Agreement, including its right to receive the 2020B Base Rental Payments due under the 2020B Lease Agreement and to enforce any remedies in the event of a default by the City.

Each Assignment Agreement is substantially identical.

The City has covenanted under each Lease Agreement to take such action as may be necessary to include all Rental Payments (including the applicable Base Rental Payments and certain Additional Rental Payments described under the caption “SECURITY AND SOURCES OF PAYMENT FOR THE 2020 BONDS—Additional Rental Payments”) due thereunder as a separate line item in its annual budgets and to make necessary annual appropriations for all such Rental Payments. The City has also covenanted deliver to the Authority and the Trustee a Written Certificate of the City stating that its final annual budget includes all Base Rental Payments due in such Fiscal Year within ten days after the filing or adoption of its budget.

The Base Rental Payments attributable to each series of 2020 Bonds are payable solely for the benefit of the 2020 Bondholders of such series and are not available to support the payment of the 2020 Bonds of other series.

Base Rental Payments payable under each Lease Agreement are subject to complete or partial abatement in the event and to the extent that there is substantial interference with the City’s right to use and occupy the applicable Property or any portion thereof. See the captions “SECURITY AND SOURCES OF PAYMENT FOR THE 2020 BONDS—Abatement” and “RISK FACTORS—Abatement.” Abatement of Base Rental Payments under a Lease Agreement, to the extent that payment is not made from alternative sources as set forth in the following sentence, would result in all Owners of the applicable series of 2020 Bonds receiving less than the full amount of principal of and interest on such series of 2020 Bonds. To the extent that moneys in any of the funds and accounts established under the applicable Indenture or proceeds of insurance are available, Base Rental Payments (or a portion thereof) may be made during periods of abatement.

Limited Obligation

THE 2020 BONDS ARE SPECIAL OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM THE APPLICABLE BASE RENTAL PAYMENTS AND THE OTHER ASSETS PLEDGED THEREFOR UNDER THE APPLICABLE INDENTURE. NEITHER THE FAITH AND CREDIT NOR

THE TAXING POWER OF THE AUTHORITY, THE CITY OR THE STATE OF CALIFORNIA (THE “STATE”), OR ANY POLITICAL SUBDIVISION THEREOF, IS PLEDGED TO THE PAYMENT OF THE 2020 BONDS. THE AUTHORITY HAS NO TAXING POWER.

THE OBLIGATION OF THE CITY TO MAKE BASE RENTAL PAYMENTS DOES NOT CONSTITUTE A DEBT OF THE CITY OR THE STATE OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMIT OR RESTRICTION, AND DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE CITY OR THE STATE IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY OR THE STATE HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

Reserve Policies

A Reserve Fund for the each series of the 2020 Bonds is established pursuant to each Indenture in an amount equal to the Reserve Requirement applicable to each series of 2020 Bonds. The Insurer has committed to issue, concurrently with the delivery of the 2020 Bonds, the 2020A Reserve Policy in the initial amount of \$_____ for deposit in the 2020A Reserve Fund and the 2020B Reserve Policy in the initial amount of \$_____ for deposit in the 2020B Reserve Fund. The City is not obligated: (i) to make any additional deposits into either Reserve Fund in the event that the Insurer defaults on its obligation to make payments under either Reserve Policy; or (ii) to replace the Reserve Policies in the event of a rating downgrade of the Insurer. See the caption “SECURITY FOR THE 2020 BONDS—Reserve Policies.”

The 2020A Reserve Policy is available solely to make payments on the 2020A Bonds and the 2020B Reserve Policy is available solely to make payments on the 2020B Bonds.

Bond Insurance Policies

Concurrently with the issuance of each series of the 2020 Bonds, the Insurer will issue a Municipal Bond Insurance Policy for each series of the 2020 Bonds. Each Policy guarantees the scheduled payment of principal of and interest on the applicable series 2020 Bonds when due as set forth in the form of the Policy that is included as Appendix G to this Official Statement. See the caption “BOND INSURANCE.”

The 2020A Policy is available solely to make payments on the 2020A Bonds and the 2020B Policy is available solely to make payments on the 2020B Bonds.

Additional Bonds

Under each Lease Agreement, the Authority may issue additional bonds (the “Additional Bonds”) payable from the applicable Base Rental Payments on a parity basis with the applicable series 2020 Bonds. The 2020 Bonds and any Additional Bonds are collectively referred to in this Official Statement as the “Bonds.” See the caption “SECURITY AND SOURCES OF PAYMENT FOR THE 2020 BONDS—Additional Bonds.”

The City

See the captions “THE CITY” and “CITY FINANCIAL INFORMATION,” as well as Appendices A and C for information with respect to the City and the General Fund, including other obligations which are payable from general revenues of the City.

The City notes that much of the historical information related to the City is the latest available but does not in certain instances reflect the impact of the COVID-19 pandemic. See the caption “THE CITY—COVID-19 Outbreak.” Accordingly, such historical information below does not necessarily reflect present economic conditions and future information could be significantly different from such historical information.

Continuing Disclosure

The City has agreed to provide, or to cause to be provided, to the Municipal Securities Rulemaking Board's Electronic Municipal Market Access System for purposes of Securities and Exchange Commission Rule 15c2-12 (the "**Rule**") certain annual financial information and operating data and, in a timely manner, notice of certain listed events. See the caption "CONTINUING DISCLOSURE."

Risk Factors

Certain events could affect the ability of the City to make the Base Rental Payments when due. See the caption "RISK FACTORS" for a discussion of certain factors that should be considered, in addition to other matters that are set forth in this Official Statement, in evaluating an investment in the 2020 Bonds.

Summaries Not Definitive

The summaries of and references to documents, statutes, reports and other instruments in this Official Statement do not purport to be complete, comprehensive or definitive, and each such summary and reference is qualified in its entirety by the complete document, statute, report or instrument. The capitalization of any word that is not conventionally capitalized, or otherwise defined in this Official Statement, indicates that such word is defined in a particular agreement or other document and, as has the meaning that is given to such word in Appendix B. Copies of the documents described in this Official Statement will be available at the Finance Director's office, City of Salinas, 200 Lincoln Avenue, Salinas, California 93901.

PREPAYMENT PLAN

2008 Certificates

The City caused the 2008 Certificates, which are currently outstanding in the aggregate principal amount of \$4,280,000.00, to be executed and delivered pursuant to a Trust Agreement, dated as of August 1, 2008 (the "**2008 Trust Agreement**"), by and among the City, the Salinas Public Financing Authority (the "**SPFA**") and The Bank of New York Mellon Trust Company, N.A., as trustee (the "**2008 Trustee**"). The 2008 Certificates are payable from lease payments made under a Lease Agreement, dated as of August 1, 2008 (the "**2008 Lease**"), by and between the City and the SPFA. The City plans to apply a portion of the proceeds of the 2020B Bonds to prepay the 2008 Certificates in full on or about the date of issuance of the 2020B Bonds at a prepayment price equal to the outstanding principal amount of the 2008 Certificates, plus accrued interest to such date, without premium.

Sufficiency of the moneys delivered to the 2008 Trustee for such purposes will be verified by [____] (the "**Verification Agent**"). Assuming the accuracy of the Verification Agent's computations, as a result of the deposit and application of funds as described above, the 2008 Certificates will be prepaid and defeased in full pursuant to the provisions of the 2008 Lease and the 2010 Trust Agreement as of the date of issuance of the 2020B Bonds.

Upon the issuance of the 2020B Bonds, 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 delivered to the 2008 Trustee to pay the prepayment price of the 2008 Certificates.

The amounts delivered to the 2008 Trustee to prepay the 2008 Certificates are pledged solely to the prepayment of the 2008 Certificates. Neither such moneys nor any related interest will be available for the payments of principal of and interest on the 2020 Bonds.

2014 Lease

The City plans to apply a portion of the proceeds of the 2020A Bonds to prepay on [November 1, 2020] all outstanding amounts due under the 2014 Lease. The District will prepay the 2014 Lease, which is currently outstanding in the principal amount of \$18,539,341.30, at a prepayment price equal to 102% of the aggregate outstanding principal amount, plus accrued interest.

In order to prepay the 2014 Lease, the Authority will cause to be delivered a portion of the proceeds of the 2020A Bonds to the City on or about the date of issuance of the 2020A Bonds. The City will apply such moneys to pay the prepayment price of the 2014 Lease to Banc of America Public Capital Corp, the holder of the 2014 Lease obligation, on [November 1, 2020]. As a result of the application of such moneys, the 2014 Lease will be defeased pursuant to the provisions thereof as of the date of issuance of the 2020A Bonds.

The portion of the proceeds of the 2020A Bonds that is applied to prepay the 2014 Lease is pledged solely to the payment of the prepayment price of the 2014 Lease and will not be available for the payments of principal of and interest on the 2020 Bonds.

2015 Lease

The 2015 Lease is currently outstanding in the principal amount of \$7,785,000.00. The 2015 Lease was originally entered into to refinance certain capital improvements of the City on a tax-exempt basis (the “**2015 Tax-Exempt Project**”) and certain capital improvements of the City as an issue of “qualified 501(c)(3) bonds” (the “**2015 501(c)(3) Project**”). The 2015 501(c)(3) Project, which consists of a golf course and related improvements, is managed by Future Citizen’s Foundation, a California non-profit public benefit corporation, doing business as The First Tee of Monterey County (the “**Foundation**”), pursuant to a Sublease, dated as of November 1, 2004 (the “**Sublease**”), as amended, by and between the City and the Foundation.

The 2020A-2 Bonds are “qualified 501(c)(3) bonds” and the activities of the Foundation are subject to certain requirements to ensure that the interest payable on the 2020A-2 Bonds remains exempt from federal income taxation. See the caption “TAX MATTERS—2020A Bonds—Tax Concerns Related to 2020A-2 Bonds” and “RISK FACTORS—Tax-Related Issues—Tax-Exempt Status of the Foundation and Effect on 2020A-2 Bonds” for a discussion of such matters.

The City plans to apply: (i) a portion of the proceeds of the 2020A-1 Bonds to prepay on [September 1, 2020] a \$2,940,000.00 principal portion of the 2015 Lease which is allocable to the 2015 Tax-Exempt Project; and (ii) a portion of the proceeds of the 2020A-2 Bonds to prepay on [September 1, 2020] a \$4,845,000.00 principal portion of the 2015 Lease which is allocable to the 2015 501(c)(3) Project. Upon the application of such moneys, the 2015 Lease will be prepaid in full. The District will prepay the 2015 Lease at a prepayment price equal to 100% of the aggregate outstanding principal amount, plus accrued interest, without premium.

In order to prepay the 2015 Lease, the Authority will cause to be delivered a portion of the proceeds of the 2020A Bonds to the City on or about the date of issuance of the 2020A Bonds. The City will apply such moneys to pay the prepayment price of the 2015 Lease to CoBiz Public Finance, Inc., the holder of the 2015 Lease obligation, on [September 1, 2020]. As a result of the application of such moneys, the 2015 Lease will be defeased pursuant to the provisions thereof as of the date of issuance of the 2020A Bonds.

The portion of the proceeds of the 2020A Bonds that is applied to prepay the 2015 Lease is pledged solely to the payment of the prepayment price of the 2015 Lease and will not be available for the payments of principal of and interest on the 2020 Bonds.

Estimated Sources and Uses of Funds

The estimated sources and uses of funds with respect to the 2020 Bonds are shown below.

	<i>2020A-1 Bonds</i>	<i>2020A-2 Bonds</i>	<i>2020B Bonds</i>	<i>Total</i>
<i>Sources</i> ⁽¹⁾				
Principal Amount of 2020 Bonds	\$	\$	\$	\$
Plus Net Original Issue Premium				
Less Net Original Issue Discount				
City Contribution ⁽²⁾				
Total Sources	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
<i>Uses</i> ⁽¹⁾				
Prepayment of 2008 Certificates	\$	\$	\$	\$
Prepayment of 2014 Lease				
Prepayment of 2015 Lease				
Costs of Issuance ⁽³⁾				
Total Uses	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>

(1) Rounded to the nearest dollar.

(2) Reflects moneys set aside by the City to pay the 2008 Certificates, the 2014 Lease and the 2015 Lease.

(3) Includes legal fees, Underwriter’s discount, printing costs, rating agency fees, premiums for the Policies and the Reserve Policies and other miscellaneous expenses.

THE LEASED PROPERTY

2020A Property

The 2020A Property is currently owned by the City and leased to the Authority pursuant to the 2020A Ground Lease and subleased back to the City pursuant to the 2020A Lease Agreement. The 2020A Property consists of a City Hall office building and the City Council Rotunda at 200 Lincoln Avenue, Salinas, California 93901 and an adjacent City Hall office building located at 220 Lincoln Avenue, Salinas, California 93901.

The City Hall buildings were originally built in 1964 and expanded in 1974. The properties located at 200 Lincoln Avenue consist of two buildings totaling approximately 60,570 square feet of gross building area and 41,940 square feet of gross leasable area, which excludes basement garage area of 19,080 square feet. The office building includes conference rooms and kitchen areas, as well as an interior courtyard and an adjacent plaza. Electric vehicle charging stations are available on Lincoln Avenue adjacent to the City Hall Rotunda. The City Hall building located at 220 Lincoln Avenue consists of approximately [] square feet of gross building area and includes conference rooms and kitchen areas.

The insured value of the 2020A Property, including land and improvements, is set forth below.

<i>Property</i>	<i>Value</i>
Office Building – 200 Lincoln Avenue	\$14,214,220
City Council Rotunda	1,241,467
Office Building – 220 Lincoln Avenue	<u>8,377,881</u>
TOTAL	\$23,833,568

The City has certified in the 2020A Lease Agreement that the annual fair rental value of the 2020A Property is at least equal to the annual 2020A Base Rental Payments.

For a discussion of the insurance required to be maintained on the 2020A Property, see the caption “SECURITY AND SOURCES OF PAYMENT FOR THE 2020 BONDS—Insurance.”

The City has the right to substitute or release all or portion of the 2020A Property subject to certain conditions precedent. See the caption “SECURITY AND SOURCES OF PAYMENT FOR THE—Substitution or Release of the Property.”

2020B Property

The 2020B Property is currently owned by the City and leased to the Authority pursuant to the 2020B Ground Lease and subleased back to the City pursuant to the 2020B Lease Agreement. The 2020B Property consists of: (i) Fire Station #3, which includes a fire station and training tower at 827 Abbott Street, Salinas, California 93901; (ii) Fire Station #4, which is located at 308 Williams Road, Salinas, California 93905; (iii) Fire Station #5, which is located at 1400 Rider Avenue, Salinas, California 93905; and (iv) Fire Station #6, which is located at 45 East Bolivar Street, Salinas, California 93906.

Fire Station #3. Fire Station #3 was originally constructed in 1957 and consists of approximately 5,000 square feet of gross building area, including a kitchen area and conference rooms. Fire Station #3 is home to the City Fire Department’s Division of Training and all fire academy training sessions are held onsite. California State Fire Marshal training classes are also held onsite from time to time. The training grounds are comprised of a classroom, a traditional concrete drill tower and props that simulate all of the activities involved in firefighting, such as roof props for ventilation, door props for forcible entry and props for breaching. The City’s Police Department also uses the training center for tactical training and the Monterey Peninsula College Fire Academy uses it for weekend drills. Fire Station #3 houses a three-person Advanced Life Support engine company, which serves the southern area of the City. One reserve fire engine is also kept onsite.

Fire Station #4. Fire Station #4 was originally constructed in 1966 and consists of approximately 5,860 square feet of gross building area, including a kitchen area. Fire Station #4 houses a three-person Advanced Life Support engine company and is the base for the City’s Dry Chemical Unit 5350 vehicle, which responds to aircraft-related emergencies, and a retired 1972 American La France Engine which was restored in 2000 and serves in parades throughout the County. Fire Station #4 serves the Alisal area of the City.

Fire Station #5. Fire Station #5 was originally constructed in 2000 and consists of approximately 6,281 square feet of gross building area, including conference rooms and kitchen areas. Fire Station #5 is the City’s newest fire station and houses a three-person Advanced Life Support engine company and a four-person Advanced Life Support Ladder Truck. Fire Station #5 primarily serves the northeast portion of the City, but provides added protection to the City as a whole. A Type III Wildland Apparatus is assigned to Fire Station #5, which is available for response within the City as well as to a Statewide Mutual Aid requests.

Fire Station #6. Fire Station #6 was originally constructed in 19[___] and consists of approximately 6,000 square feet of gross building area, including a kitchen area. Fire Station #6 houses a three-person Advanced Life Support engine company. Fire Station #6 serves the Santa Rita and Harden Ranch areas of the City, and also responds to emergencies in unincorporated areas adjacent to City limits by contract with by the Monterey County Regional Fire District.

The insured value of the 2020B Property, including land and improvements, is set forth below.

<i>Property</i>	<i>Value</i>
Training Tower	\$ 266,100
Fire Station #3	994,988
Fire Station #4	1,507,702
Fire Station #5	2,575,462
Fire Station #6	<u>1,438,861</u>
TOTAL	\$6,783,113

The City has certified in the 2020B Lease Agreement that the annual fair rental value of the 2020B Property is at least equal to the annual 2020B Base Rental Payments.

For a discussion of the insurance required to be maintained on the 2020B Property, see the caption “SECURITY AND SOURCES OF PAYMENT FOR THE 2020 BONDS—Insurance.”

BASE RENTAL PAYMENT SCHEDULE

Set forth below is a schedule of Base Rental Payments, which secure the 2020 Bonds.

<i>Base Rental Payment Date⁽¹⁾</i>	<i>Base Rental Payments Attributable to 2020A-1 Bonds</i>		<i>Base Rental Payments Attributable to 2020A-2 Bonds</i>		<i>Base Rental Payments Attributable to 2020B Bonds</i>		<i>Total Base Rental Payments</i>
	<i>Principal</i>	<i>Interest</i>	<i>Principal</i>	<i>Interest</i>	<i>Principal</i>	<i>Interest</i>	
11/1/2020	\$	\$	\$	\$	\$	\$	\$
5/1/2021							
11/1/2021							
5/1/2022							
11/1/2022							
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5/1/2036							
11/1/2036							
5/1/2037							
11/1/2037							
5/1/2038							
11/1/2038							
Total:	\$	\$	\$	\$	\$	\$	\$

⁽¹⁾ The Base Rental Payment Date is the second day prior to the corresponding Interest Payment Date for the 2020 Bonds.

THE 2020 BONDS

General

The 2020 Bonds will be issued in fully registered form without coupons in denominations of integral multiples of \$5,000. The 2020 Bonds will be dated as of and bear interest (calculated on the basis of a 360-day year comprised of twelve 30-day months) from the dated date thereof at the rates set forth on the inside cover page. Interest on the 2020 Bonds will be paid semiannually on November 1, 2020 and each May 1 and November 1 thereafter (each, an “**Interest Payment Date**”).

Interest on the 2020 Bonds will be payable from the Interest Payment Date next preceding the date of authentication thereof unless: (i) a 2020 Bond is authenticated on or before an Interest Payment Date and after the close of business on the preceding Record Date, in which event it will bear interest from such Interest Payment Date; (ii) a 2020 Bond is authenticated on or before the first Record Date, in which event interest thereon will be payable from the dated date thereof; or (iii) interest on any 2020 Bond is in default as of the date of authentication thereof, in which event interest thereon will be payable from the date to which interest has been paid in full, payable on each Interest Payment Date. Interest will be paid in lawful money of the United States on each Interest Payment Date to the Persons in whose names the ownership of the 2020 Bonds is registered on the Registration Books at the close of business on the immediately preceding Record Date, except as provided below. Interest will be paid by check of the Trustee mailed by first class mail, postage prepaid, on each Interest Payment Date to the 2020 Bond Owners at their respective addresses shown on the Registration Books as of the close of business on the preceding Record Date.

The principal and premium, if any, of the 2020 Bonds will be payable in lawful money of the United States upon presentation and surrender thereof upon maturity or earlier redemption at the Office of the Trustee. The 2020 Bonds will be subject to optional, mandatory sinking fund and extraordinary redemption as set forth in this Official Statement.

Registration, Transfers and Exchanges

The 2020 Bonds will be issued as fully registered bonds, registered in the name of Cede & Co. as nominee of DTC, and will be available to actual purchasers of the 2020 Bonds (the “**Beneficial Owners**”) in the denominations set forth above, under the book-entry system maintained by DTC, only through brokers and dealers who are or act through DTC Participants (as defined in Appendix F) as described in this Official Statement. Beneficial Owners will not be entitled to receive physical delivery of the 2020 Bonds. See the caption “—Book-Entry Only System.”

Redemption

Optional Redemption. The 2020A-1 Bonds maturing on or after ____ 1, 20__, are subject to optional redemption, in whole or in part, on _____ 1, 20__ or any date thereafter, as directed by the City in a Written Request of the City provided to the Trustee not less than 30 days (or such lesser number of days acceptable to the Trustee, in the sole discretion of the Trustee) prior to such date, in Authorized Denominations, from and to the extent of prepaid 2020A-1 Base Rental Payments paid pursuant to the 2020A Lease Agreement, at a Redemption Price equal to the principal amount of the 2020A-1 Bonds to be redeemed, plus accrued interest thereon to the date of redemption, without premium.

The 2020A-2 Bonds maturing on or after ____ 1, 20__, are subject to optional redemption, in whole or in part, on _____ 1, 20__ or any date thereafter, as directed by the City in a Written Request of the City provided to the Trustee not less than 30 days (or such lesser number of days acceptable to the Trustee, in the sole discretion of the Trustee) prior to such date, in Authorized Denominations, from and to the extent of prepaid 2020A-2 Base Rental Payments paid pursuant to the 2020A Lease Agreement, at a Redemption Price

equal to the principal amount of the 2020A-2 Bonds to be redeemed, plus accrued interest thereon to the date of redemption, without premium.

The 2020B Bonds maturing on or after ____ 1, 20__, are subject to optional redemption, in whole or in part, on _____ 1, 20__ or any date thereafter, as directed by the City in a Written Request of the City provided to the Trustee not less than 30 days (or such lesser number of days acceptable to the Trustee, in the sole discretion of the Trustee) prior to such date, in Authorized Denominations, from and to the extent of prepaid 2020B Base Rental Payments paid pursuant to the 2020B Lease Agreement, at a Redemption Price equal to the principal amount of the 2020B Bonds to be redeemed, plus accrued interest thereon to the date of redemption, without premium.

Mandatory Sinking Fund Redemption. The 2020A-1 Bonds with stated maturities on ____ 1, 20__, are subject to mandatory sinking fund redemption in part (by lot) on ____ 1, 20__ and each ____ 1 thereafter, in integral multiples of \$5,000 at a Redemption Price of the principal amount thereof plus accrued interest to the date fixed for redemption, without premium, in accordance with the following schedule:

<i>Redemption Date</i> (____ 1)	<i>Principal Amount</i>
20__	\$
20__	
20__	
20__	
20__*	

* Final Maturity.

The 2020A-2 Bonds with stated maturities on ____ 1, 20__, are subject to mandatory sinking fund redemption in part (by lot) on ____ 1, 20__ and each ____ 1 thereafter, in integral multiples of \$5,000 at a Redemption Price of the principal amount thereof plus accrued interest to the date fixed for redemption, without premium, in accordance with the following schedule:

<i>Redemption Date</i> (____ 1)	<i>Principal Amount</i>
20__	\$
20__	
20__	
20__	
20__*	

* Final Maturity.

The 2020B Bonds with stated maturities on ____ 1, 20__, are subject to mandatory sinking fund redemption in part (by lot) on ____ 1, 20__ and each ____ 1 thereafter, in integral multiples of \$5,000 at a Redemption Price of the principal amount thereof plus accrued interest to the date fixed for redemption, without premium, in accordance with the following schedule:

<i>Redemption Date</i> (____ 1)	<i>Principal Amount</i>
20__	\$
20__	
20__	
20__	
20__*	

* Final Maturity.

Purchase in Lieu of Redemption. If, during the Fiscal Year immediately preceding one of the redemption dates specified above under the heading “—Mandatory Sinking Fund Redemption,” the Authority purchases 2020 Bonds, at least 45 days prior to the redemption date, the Authority will notify the Trustee as to the principal amount purchased and the amount of 2020 Bonds so purchased shall be credited at the time of purchase, to the extent of the full principal amount thereof, to reduce such upcoming mandatory sinking fund redemption payment for the applicable series of 2020 Bonds so purchased. All 2020 Bonds purchased pursuant to the foregoing provisions will be cancelled pursuant to the Indenture.

Extraordinary Redemption from Condemnation Award or Insurance Proceeds. The 2020 Bonds of a series are subject to redemption, in whole or in part, on any date as directed by the City in a Written Request of the City provided to the Trustee not less than 30 days (or such lesser number of days acceptable to the Trustee, in the sole discretion of the Trustee) prior to such date, in Authorized Denominations, from and to the extent of any Net Insurance Proceeds received with respect to all or a portion of the applicable Property, deposited by the Trustee in the Redemption Fund pursuant to the applicable Indenture, at a Redemption Price equal to the principal amount of the 2020 Bonds of such series to be redeemed, plus accrued interest thereon to the date of redemption, without premium.

Selection of Bonds for Redemption. Whenever provision is made in the Indenture for the redemption of less than all of the 2020 Bonds, the Trustee will select the 2020 Bonds to be redeemed from all Bonds of such series not previously called for redemption: (a) with respect to any optional redemption of 2020 Bonds, among maturities of 2020 Bonds of such series as directed in a Written Request of the Authority; (b) with respect to any redemption from and to the extent of any Net Insurance Proceeds, among maturities of all 2020 Bonds of such series on a pro rata basis as nearly as practicable, and (c) with respect to any other redemption of Additional Bonds of such series, among maturities as provided in the Supplemental Indenture pursuant to which such Additional Bonds of such series are issued, and by lot among Bonds of the same series with the same maturity in any manner which the Trustee in its sole discretion will deem appropriate and fair. For purposes of such selection, all Bonds will be deemed to be comprised of separate \$5,000 denominations, and such separate denominations will be treated as separate Bonds that may be separately redeemed.

Notice of Redemption. So long as the 2020 Bonds are held in book-entry form, notices of redemption will be mailed by the Trustee only to DTC and not to any Beneficial Owners. The Trustee on behalf and at the expense of the Authority will mail (by first class mail) notice of any redemption to the respective Owners of any Bonds designated for redemption at their respective addresses appearing on the Registration Books, to the Securities Depositories and to one or more Information Services, at least 20 but not more than 60 days prior to the date fixed for redemption. Such notice will state the date of the notice, the redemption date, the redemption place and the Redemption Price and will designate the CUSIP numbers and the maturity or portion of the maturity of the 2020 Bonds to be redeemed, and will require that such 2020 Bonds be then surrendered at the principal corporate trust office of the Trustee for redemption at the Redemption Price, giving notice also

that further interest on such 2020 Bonds will not accrue from and after the date fixed for redemption. Such notice of redemption may also state that no representation is made as to the accuracy or correctness of the CUSIP numbers printed therein or on the 2020 Bonds. Neither the failure to receive any notice so mailed, nor any defect in such notice, will affect the validity of the proceedings for the redemption of the 2020 Bonds or the cessation of accrual of interest thereon from and after the date fixed for redemption.

With respect to any notice of optional redemption of 2020 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 2020 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 2020 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.

Partial Redemption of Bonds. Upon surrender of any Bonds redeemed in part only, the Authority will execute and the Trustee will authenticate and deliver to the Owner thereof, at the expense of the Authority, a new 2020 Bond or Bonds of such series in Authorized Denominations equal in aggregate principal amount representing the unredeemed portion of the 2020 Bonds surrendered.

Effect of Notice of Redemption. If a redemption notice has been mailed, and moneys for the Redemption Price, and the interest to the applicable date fixed for redemption, have been set aside in the Redemption Fund, the 2020 Bonds will become due and payable on the redemption date, and, upon presentation and surrender of a Bond at the principal corporate trust office of the Trustee, the Authority will pay the Redemption Price of the Bond, together with interest accrued and unpaid to said date.

If, on the redemption date, moneys for the Redemption Price of all the 2020 Bonds to be redeemed, together with interest to said date, is held by the Trustee so as to be available therefor on such date, and, if a notice of redemption has been mailed and not canceled, then, from and after said date, interest on the 2020 Bonds to be redeemed will cease to accrue and become payable. All moneys held by or on behalf of the Trustee for the redemption of Bonds will be held in trust for the account of the Owners of the 2020 Bonds so to be redeemed without liability to such Owners for interest thereon. All Bonds paid at maturity or redeemed prior to maturity pursuant to the provisions of the Indenture will be canceled upon surrender thereof and destroyed.

Book-Entry Only System

The 2020 Bonds are registered in the name of Cede & Co., as nominee of DTC. DTC will act as securities depository for the Certificates. Ownership interests in the 2020 Bonds may be purchased in book-entry form only. So long as DTC, or Cede & Co. as its nominee, is the registered owner of all 2020 Bonds, all payments on the 2020 Bonds will be made directly to DTC, and disbursement of such payments to the DTC Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of the Participants, as more fully described in Appendix F.

As long as Cede & Co. is the registered owner of the 2020 Bonds, references herein to the Owners of the 2020 Bonds will refer to Cede & Co. and not to the Beneficial Owners. Neither the Authority nor the City gives any assurance that DTC, DTC Participants nor others will distribute payments with respect to the 2020 Bonds nor notices concerning the 2020 Bonds to the Beneficial Owners or that DTC will otherwise serve and act in the manner described in this Official Statement. See Appendix F for a further description of DTC and its book-entry system. The information presented therein is based solely on information provided by DTC.

SECURITY AND SOURCES OF PAYMENT FOR THE 2020 BONDS

Pledge of Base Rental Payments

Each series of 2020 Bonds is equally and ratably payable from and secured by the applicable Base Rental Payments and certain amounts on deposit in the funds and accounts established under the applicable Indenture. Base Rental Payments will be paid by the City from any and all legally available funds.

The Authority, pursuant to each Assignment Agreement, has assigned to the Trustee for the benefit of the respective 2020 Bond Owners all of the Authority's right, title and interest in and to the applicable Ground Lease and the applicable Lease Agreement, including, without limitation, its right to receive the applicable Base Rental Payments to be paid by the City under and pursuant to the applicable Lease Agreement; provided that the Authority will retain the rights to indemnification and to payment of reimbursement of its reasonable costs and expenses under each Lease Agreement. The City will pay Base Rental Payments directly to the Trustee, as assignee of the Authority. See the caption "—Base Rental Payments."

The Base Rental Payments attributable to each series of 2020 Bonds are payable solely for the benefit of the 2020 Bondholders of such series and are not available to support the payment of the 2020 Bonds of other series.

Pursuant to each Indenture, the Authority may issue Additional Bonds payable from the applicable Base Rental Payments on parity with the applicable series of 2020 Bonds. See the caption "—Additional Bonds."

Subject only to the provisions of each Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in such Indenture, all of the Base Rental Payments and any other amounts (including proceeds of the sale of the applicable series of 2020 Bonds) held in the applicable Base Rental Payment Fund, Interest Fund, Principal Fund and Redemption Fund are pledged by the Authority pursuant to the applicable Indenture to secure the payment of the principal of, premium, if any, and interest on the respective series of 2020 Bonds in accordance with their terms and the provisions of the applicable Indenture. Said pledge constitutes a first lien on such assets.

THE 2020 BONDS ARE SPECIAL OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM THE APPLICABLE BASE RENTAL PAYMENTS AND THE OTHER ASSETS PLEDGED THEREFOR UNDER THE APPLICABLE INDENTURE. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE AUTHORITY, THE CITY OR THE STATE OR ANY POLITICAL SUBDIVISION THEREOF, IS PLEDGED TO THE PAYMENT OF THE 2020 BONDS. THE AUTHORITY HAS NO TAXING POWER.

Additional Bonds

The Authority may at any time issue one or more Series of Additional Bonds under each Indenture (in addition to the 2020 Bonds of a series issued thereunder) payable from Base Rental Payments as provided in the applicable Indenture on a parity with all other Bonds of such series theretofore issued under such Indenture, but only subject to the following conditions, which are conditions precedent to the issuance of such Additional Bonds:

(a) The issuance of such Additional Bonds has been authorized under and pursuant to the applicable Indenture and has been provided for by a Supplemental Indenture which specifies the following: (1) the application of the proceeds of the sale of such Additional Bonds; (2) the principal amount and designation of such Series of Additional Bonds and the denomination or denominations of the Additional Bonds; (3) the date, the maturity date or dates, the interest payment dates and the dates on which mandatory sinking fund redemptions, if any, are to be made for such Additional Bonds; provided, however, that: (i) the serial Bonds of

such Series of Additional Bonds will be payable as to principal annually on November 1 of each year in which principal falls due, and the term Bonds of such Series of Additional Bonds will have annual mandatory sinking fund redemptions on November 1; (ii) the Additional Bonds will be payable as to interest semiannually on May 1 and November 1 of each year, except that the first installment of interest may be payable on either May 1 or November 1 and will be for a period of not longer than twelve months and the interest will be payable thereafter semiannually on May 1 and November 1; (iii) all Additional Bonds of a Series of like maturity will be identical in all respects, except as to number or denomination; and (iv) serial maturities of serial Bonds or mandatory sinking fund redemptions for term Bonds, or any combination thereof, will be established to provide for the redemption or payment of such Additional Bonds on or before their respective maturity dates; (4) the redemption premiums and terms, if any, for such Additional Bonds; (5) the form of such Additional Bonds; and (6) such other provisions that are appropriate or necessary and are not inconsistent with the provisions of the Indenture;

(b) the Authority is in compliance with all agreements, conditions, covenants and terms contained in the applicable Indenture, Lease Agreement and Ground Lease required to be observed or performed by it;

(c) the City is in compliance with all agreements, conditions, covenants and terms contained in the applicable Indenture, Lease Agreement and Ground Lease required to be observed or performed by it; and

(d) the applicable Ground Lease has been amended, to the extent necessary, and the applicable Lease Agreement has been amended so as to increase the Base Rental Payments payable by the City thereunder by an aggregate amount equal to the principal of and interest on such Additional Bonds, payable at such times and in such manner as may be necessary to provide for the payment of the principal of and interest on such Additional Bonds; provided, however, that no such amendment will be made such that the sum of such Base Rental Payments, including any increase in the Base Rental Payments as a result of such amendment, plus Additional Rental Payments, in any Rental Period is in excess of the annual fair rental value of the applicable Property after taking into account the use of the proceeds of any Additional Bonds issued in connection therewith (evidence of the satisfaction of such condition will be made by a Written Certificate of the City).

Nothing contained in the Indentures limits the issuance of any bonds or other obligations payable from Base Rental Payments if, after the issuance and delivery of such bonds or other obligations, none of the Bonds theretofore issued under such Indenture will be Outstanding.

Notwithstanding satisfaction of the other conditions to the issuance of Additional Bonds set forth in the Indentures, Additional Bonds may not be issued if an Event of Default (or any event which, once all notice or grace periods have passed, would constitute an Event of Default) exists, unless such default will be cured upon such issuance.

Base Rental Payments

General. Rental Payments, including Base Rental Payments, will be paid by the City to the Authority for and in consideration of the right to use and occupy the applicable Property and in consideration of the continued right to the quiet use and enjoyment thereof during each Rental Period for which such Rental Payments are to be paid. Each Base Rental Payment will be deposited with the Trustee no later than second day next preceding each Interest Payment Date (the “**Base Rental Deposit Date**”). All Base Rental Payments will be paid directly by the City to the Trustee, and if received by the Authority at any time will be transferred by the Authority to the Trustee within one Business Day after the receipt thereof. All Base Rental Payments received by the Trustee will be deposited by the Trustee in the applicable Base Rental Payment Fund.

Pursuant to each Indenture, on the Business Day immediately preceding each Interest Payment Date, the Trustee will transfer amounts in the applicable Base Rental Payment Fund as are necessary to the

applicable Interest Fund and the Principal Fund to provide for the payment of the interest on and principal of the 2020 Bonds.

Fair Rental Value. The City and the Authority have agreed and determined that the annual fair rental value of each Property is not less than the maximum annual Rental Payments due in any year for such Property. In making such determination of fair rental value, consideration has been given to the uses and purposes that may be served by the Property and the benefits therefrom which will accrue to the City and the general public. Payments of the Rental Payments for each Property during each Rental Period constitute the total rental for said Rental Period.

Covenant to Budget and Appropriate. The City covenants in the Lease Agreements to take such action as may be necessary to include all Rental Payments due under the Lease Agreements as a separate line item in its annual budgets and to make necessary annual appropriations for all such Rental Payments. The City covenants to deliver to the Authority and the Trustee a Written Certificate of the City stating that its final annual budget includes all Base Rental Payments due in such fiscal year within 10 days after the filing or adoption of the final annual budget. The Lease Agreements declare that these covenants are and will be construed to be duties imposed by law and that it is the duty of each and every public official of the City to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the City to carry out and perform the City's covenants and agreements under the Lease Agreements. See, however, the caption "—Abatement."

Limited Obligation. THE OBLIGATION OF THE CITY TO MAKE BASE RENTAL PAYMENTS DOES NOT CONSTITUTE A DEBT OF THE CITY, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMIT OR RESTRICTION, AND DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE CITY OR THE STATE IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY OR THE STATE HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

Additional Rental Payments

For the right to use and occupy the applicable Property, each Lease Agreement requires the City to pay, as Additional Rental Payments, such amounts as will be required for the payment of the following:

- (i) All taxes and assessments of any type or nature charged to the Authority or the City or affecting the applicable Property or the respective interests or estates of the Authority or the City therein.
- (ii) All reasonable administrative costs of the Authority relating to the applicable Property including, but without limiting the generality of the foregoing, salaries, wages, fees and expenses, compensation and indemnification of the Trustee payable by the Authority under the applicable Indenture, fees of auditors, accountants, attorneys or engineers, and all other necessary and reasonable administrative costs of the Authority or charges required to be paid by it in order to maintain its existence or to comply with the terms of the applicable Indenture or Lease Agreement or to defend the Authority and its members, officers, agents and employees.
- (iii) Insurance premiums for all insurance required pursuant to the applicable Lease Agreement.
- (iv) Any amounts with respect to the 2020A Lease Agreement or the 2020A Bonds required to be rebated to the federal government in accordance with section 148(f) of the Internal Revenue Code of 1986, as amended.
- (v) All other payments required to be paid by the City under the provisions of the applicable Lease Agreement or Indenture.

Amounts constituting Additional Rental Payments payable under the Lease Agreements will be paid by the City directly to the person or persons to whom such amounts will be payable. The City will pay all such amounts when due or at such later time as such amounts may be paid without penalty or, in any other case, within 60 days after notice in writing from the Trustee to the City stating the amount of Additional Rental Payments then due and payable and the purpose thereof.

Abatement

Base Rental Payments and Additional Rental Payments are paid by the City in each Rental Period for and in consideration of the right to use and occupy the Property. Except as otherwise specifically provided in each Lease Agreement, during any period in which, by reason of material damage to, or destruction or condemnation of, the applicable Property, or any defect in title to the applicable Property, there is substantial interference with the City's right to use and occupy any portion of such Property, Rental Payments will be subject to abatement proportionately, and the City waives the benefits of Civil Code Sections 1932(1), 1932(2) and 1933(4) and any and all other rights to terminate the applicable Lease Agreement by virtue of any such interference, and such Lease Agreement will continue in full force and effect. The amount of such abatement will be agreed upon by the City and the Authority; provided, however, that the Rental Payments due for any Rental Period will not exceed the annual fair rental value of that portion of the applicable Property available for use and occupancy by the City during such Rental Period. Any such abatement will continue for the period commencing with the date of interference resulting from such damage, destruction, condemnation or title defect and, with respect to damage to or destruction of the applicable Property, ending with the substantial completion of the work of repair or replacement of such Property, or the portion thereof so damaged or destroyed; and the term of the applicable Lease Agreement will be extended as provided in such Lease Agreement, except that the term will in no event be extended ten years beyond the stated termination date of such Lease Agreement. The Trustee cannot terminate the applicable Lease Agreement in the event of such substantial interference. Abatement of Base Rental Payments and Additional Rental Payments is not an event of default under the Lease Agreements and does not permit the Trustee to take any action or avail itself of any remedy against the City.

Notwithstanding the foregoing, to the extent that moneys are available for the payment of Rental Payments due under the applicable Lease Agreement in any of the funds and accounts established under the corresponding Indenture (including as a result of the availability of insurance proceeds), such Rental Payments will not be abated as provided above but, rather, will be payable by the City as a special obligation payable solely from said funds and accounts. The City is permitted to apply Net Insurance Proceeds: (a) together with other legally available funds that the City elects to appropriate, to the repair, reconstruction or replacement of the damaged or destroyed portions of the Property; (b) to redeem 2020 Bonds of the applicable series; and/or (c) if the annual fair rental value of the applicable Property is at least equal to 100% of the Base Rental Payments, to any other lawful purpose, including Base Rental Payments. See the captions "THE 2020 BONDS—Redemption—Extraordinary Redemption from Condemnation Award or Insurance Proceeds," "RISK FACTORS—Abatement" and Appendix B under the caption "INDENTURE—SECURITY FOR BONDS; FLOW OF FUNDS; INVESTMENTS—Application of Net Insurance Proceeds."

Substitution or Release of the Property

The Authority and the City may amend each Lease Agreement to substitute alternate real property for any portion of the applicable Property or to release a portion of such Property from the applicable Lease Agreement, upon compliance with all of the conditions set forth in such Lease Agreement and described below. After a substitution or release, the portion of the Property for which the substitution or release has been effected will be released from the leasehold encumbrance of the applicable Lease Agreement.

The Lease Agreements provide that there will be no reduction in or abatement of the applicable Base Rental Payments due from the City as a result of such substitution or release. Any such substitution or release will be subject to the following specific conditions precedent:

(a) The City will deliver a Written Certificate to the Trustee setting forth its findings that the applicable Property, as constituted after such substitution or release: (i) has an annual fair rental value at least equal to the maximum applicable Base Rental Payments payable by the City in any Rental Period; and (ii) has a useful life in excess of the final maturity of any Outstanding Bonds of the applicable series.

(b) The City will obtain or cause to be obtained a CLTA or ALTA title insurance policy or policies with respect to any substituted property in an amount at least equal to the aggregate principal amount of any Outstanding Bonds of the applicable series, of the type and with the endorsements described in the applicable Lease Agreement.

(c) With respect to the 2020A Bonds only, the City will provide the Trustee with an opinion of counsel to the effect that such substitution or release will not, in and of itself, cause the interest on the 2020A Bonds to be included in gross income for federal income tax purposes.

(d) The City, the Authority and the Trustee will execute, and the City will cause to be recorded with the Monterey County Recorder, any document necessary to reconvey to the City the portion of the applicable Property being released and to include any substituted real property in the description of such Property contained in applicable Lease Agreement and Ground Lease.

(e) The City will provide notice of such substitution to each rating agency then rating the 2020 Bonds.

Action on Default

Should the City default under a Lease Agreement, the Trustee, as assignee of the Authority under the Lease Agreements, may terminate such Lease Agreement and recover certain damages from the City, or may retain such Lease Agreement and hold the City liable for all Base Rental Payments thereunder on an annual basis, and will have the right to re-enter and re-let the applicable Property. *Base Rental Payments may not be accelerated upon a default under a Lease Agreement.* See the caption “RISK FACTORS—No Acceleration of Base Rental.”

For purposes of certain actions of 2020 Bond Owners of a series under the applicable Indenture and Lease Agreement, such as certain consents and amendments and the direction of remedies following default, such 2020 Bond Owners do not act alone and may not control such matters to the extent such matters are not supported by the requisite number of the Owners of all Bonds and Additional Bonds, if any, of such series.

For a description of the events of default and permitted remedies of the Trustee (as assignee of the Authority) contained in the Lease Agreements and the Indentures, see Appendix B.

Reserve Policies

There has been established with the Trustee a separate account known as the “**Reserve Fund**” in each Indenture solely as security for payments by the City on the applicable series of 2020 Bonds.

The Reserve Requirement for each series of 2020 Bonds will be satisfied by the deposit of the applicable Reserve Policy by the Insurer on the date of issuance of such series 2020 Bonds. The Insurer has made a commitment to issue each Reserve Policy for deposit in the applicable Reserve Fund, effective as of the date of issuance of each series of 2020 Bonds. Under the terms of the Reserve Policy, the Insurer will, subject to the applicable Reserve Policy Limit described below, unconditionally and irrevocably guarantee to

pay that portion of the scheduled principal of and interest on the applicable series of 2020 Bonds that becomes due for payment but is unpaid by reason of nonpayment by the City (the “**Insured Payments**”).

The Insurer will pay each portion of an Insured Payment that is due for payment and unpaid by reason of nonpayment by the City to the Trustee, as beneficiary of the applicable Reserve Policy on behalf of the holders of the applicable series 2020 Bonds, on the later of: (i) the Business Day on which principal and interest becomes due for payment; or (ii) the Business Day next following the Business Day on which the Insurer receives a notice of nonpayment by the City in accordance with the terms of each Reserve Policy.

No payment will be made under the 2020A Reserve Policy in excess of the lesser of \$_____ and the 2020A Reserve Requirement (the “**2020A Reserve Policy Limit**”). “**2020A Reserve Requirement**” means, on the date of issuance of the 2020A Bonds, \$_____, and, on any date thereafter, the lesser of: (i) \$_____; or (ii) the maximum principal of and interest on the 2020A Bonds due in the then current or any future Fiscal Year. No payment will be made under the 2020B Reserve Policy in excess of the lesser of \$_____ and the 2020B Reserve Requirement (the “**2020B Reserve Policy Limit**”). “**2020B Reserve Requirement**” means, on the date of issuance of the 2020B Bonds, \$_____, and, on any date thereafter, the lesser of: (i) \$_____; or (ii) the maximum principal of and interest on the 2020B Bonds due in the then current or any future Fiscal Year. See Appendix B.

Pursuant to the terms of each Reserve Policy, the amount available at any particular time to be paid to the Trustee will automatically be reduced to the extent of any payment made by the Insurer under a Reserve Policy, provided that, to the extent of the reimbursement of such payment by the City to the Insurer, the amount available under such Reserve Policy will be reinstated in full or in part, in an amount not to exceed the applicable Reserve Policy Limit.

The Reserve Policies do not insure against nonpayment caused by the insolvency or negligence of the Trustee.

The City is not obligated: (i) to make any additional deposits into a Reserve Fund in the event that the Insurer defaults on its obligation to make payments under the applicable Reserve Policy; or (ii) to replace a Reserve Policy in the event of a rating downgrade of the Insurer.

Insurance

Each Lease Agreement requires the City to maintain or cause to be maintained, throughout the term of such Lease Agreement:

(1) A standard commercial general liability insurance policy or policies in protection of the City, the Authority and their respective members, officers, agents and employees. Said policy or policies will provide for indemnification of said parties against direct or contingent loss or liability for damages for bodily and personal injury, death or property damage occasioned by reason of the use or ownership of the applicable Property. Said policy or policies must provide coverage in the minimum liability limits of \$1,000,000 for personal injury or death of each person and \$3,000,000 for personal injury or deaths of two or more persons in a single accident or event, and in a minimum amount of \$500,000 for damage to property resulting from a single accident or event. Such commercial general liability and property damage insurance may, however, be in the form of a single limit policy in the amount of \$3,000,000 covering all such risks. Such liability insurance may be maintained as part of or in conjunction with any other liability insurance coverage carried or required to be carried by the City, and may be maintained in whole or in part in the form of self-insurance by the City, provided that such self-insurance complies with the provisions of the applicable Lease Agreement. The Net Insurance Proceeds of such liability insurance will be applied toward extinguishment or satisfaction of the liability with respect to which the Net Insurance Proceeds of such insurance have been paid.

(2) Workers' compensation insurance issued by a responsible carrier authorized under the laws of the State to insure employers against liability for compensation under the California Labor Code, or any act enacted as an amendment or supplement thereto or in lieu thereof, such workers' compensation insurance to cover all persons employed by the City in connection with the applicable Property and to cover full liability for compensation under any such act, that the City's obligations to carry workers' compensation insurance may be satisfied by self-insurance, provided that such self-insurance complies with the provisions of the applicable Lease Agreement.

(3) The City will maintain or cause to be maintained, fire, lightning and special extended coverage insurance (which includes coverage for vandalism and malicious mischief, but need not include coverage for earthquake damage) on all improvements constituting any part of the applicable Property in an amount equal to the greater of 100% of the replacement cost of such improvements or 100% of the outstanding principal amount of the applicable Bonds. The City has an insurance policy which provides replacement cost coverage. All of the foregoing insurance may be subject to a deductible in an amount not to exceed \$500,000. The foregoing obligations may be satisfied by self-insurance, provided that such self-insurance complies with the provisions of the applicable Lease Agreement.

(4) The City will maintain rental interruption insurance to cover the Authority's loss, total or partial, of Base Rental Payments under a Lease Agreement resulting from the loss, total or partial, of the use of any part of the applicable Property as a result of any of the hazards required to be covered pursuant to clause (3) above in an amount sufficient at all times to pay an amount not less than the product of two times the maximum amount of the applicable Base Rental Payments scheduled to be paid during any Rental Period. *The City is not permitted to self-insure its obligation to maintain rental interruption insurance.*

The insurance required to be maintained by the Lease Agreements must be provided by reputable insurance companies with claims-paying abilities determined, in the reasonable opinion of a professionally certified risk manager or an independent insurance consultant, to be adequate for the purposes hereof.

The City will provide, at its own expense, one or more CLTA or ALTA title insurance policies for each Property, in the aggregate amount of not less than the initial aggregate principal amount of the applicable series of 2020 Bonds. Such policy or policies will insure: (a) the fee interest of the City in the applicable Property; (b) the Authority's ground leasehold estate in such Property under the applicable Ground Lease; and (c) the City's leasehold estate under the applicable Lease Agreement in such Property, subject only to Permitted Encumbrances. All Net Insurance Proceeds received under said policy or policies will be deposited with the Trustee and applied as provided in the applicable Indenture. So long as any of the Bonds of the applicable series remain Outstanding, each policy of title insurance obtained pursuant to the applicable Indenture or Lease Agreement or required thereby must provide that all proceeds thereunder shall be payable to the Trustee for the benefit of the applicable Bond Owners.

BOND INSURANCE

The information under this caption has been prepared by the Insurer for inclusion in this Official Statement. Neither the City nor the Underwriter has reviewed this information, nor do the City or the Underwriter make any representation with respect to the accuracy or completeness thereof. The following information is not a complete summary of the terms of the 2020A Policy or the 2020B Policy and reference is made to Appendix F for a specimen of each Policy.

[TO COME FROM BOND INSURER]

THE CITY

General

The City serves as the County seat of the County of Monterey (the “**County**”) in the Central Coast region of California, 17 miles inland from Monterey Bay, 325 miles north of Los Angeles and 105 miles south of San Francisco. The City was incorporated as a charter city in 1874 and has an area of approximately 24 square miles. The population of the City is estimated to be approximately 162,200.

The City operates under a Council/Manager form of government. Councilmembers are elected by districts for four-year alternating terms and a mayor is elected at large for a two-year term. The City Council appoints the City Attorney and the City Manager, who is responsible for day-to-day administration of the City under the policy direction of the City Council.

The City provides a wide range of municipal services, including public safety (police and fire), public works/maintenance services (streets, lighting, signals, facilities, parks and trees), development and permit services, current and advanced planning and traffic and facilities engineering, library, recreation/parks and general administrative services. Business-type services include a municipal airport, an industrial waste system, two municipal golf courses, sanitary sewer and storm drain systems, a water utility and a parking district.

Government and Administration

The City had approximately 734 full and part-time employees as of June 30, 2020. City employees are represented by 11 labor unions and associations, which represent approximately 527 employees as of June 30, 2020. Relations between the City and the employee bargaining units are governed by memoranda of understanding (each, an “**MOU**”). Information about each MOU is set forth below.

CITY OF SALINAS EMPLOYEE ASSOCIATIONS

<i>Employee Association</i>	<i>MOU Expiration Date</i>
Association of Management Personnel ⁽¹⁾	December 31, 2019
Confidential Management ⁽¹⁾	December 31, 2019
Confidential Non-Management ⁽¹⁾	December 31, 2019
Department Directors	None
Fire Supervisors Association ⁽¹⁾	December 31, 2019
International Association of Firefighters	December 31, 2022
Police Managers Association	December 31, 2021
Salinas Police Officers Association	None
Salinas Municipal Employees Association ⁽¹⁾	April 30, 2020
Service Employees International Union – Blue Collar ⁽¹⁾	April 30, 2020
Service Employees International Union – Crew Supervisors ⁽¹⁾	April 30, 2020

⁽¹⁾ Relations with the applicable employee association are governed by the terms of the expired MOU while a new MOU is being negotiated.

Source: City.

A total of approximately 19 management and confidential employees are exempt from collective bargaining. Salaries for exempt employees are set by the City Council. The City has never experienced a strike, slowdown or work stoppage.

The City operates under a council-manager form of government. The City Council members and the expiration dates of their respective terms are as follows:

<i>Name</i>	<i>Office</i>	<i>Term Expires</i>
Christie Cromeenes	Council Member, District 5, and Mayor Pro Tem	December 2022
Scott Davis	Council Member, District 1	November 2020
Tony Barrera	Council Member, District 2	December 2022
Steve McShane	Council Member, District 3	December 2022
Gloria De La Rosa	Council Member, District 4	November 2020
John “Tony” Villegas	Council Member, District 6	November 2020

The City Manager, who is appointed by the City Council, serves as the City’s chief administrative officer and is responsible for overseeing the daily operations of City departments and efficient management of all City business. Functions of the City Manager’s Office include external and internal support for a number of essential functions related to the management operations of City government, including logistical support for the Mayor and City Council, recording and archiving of the City’s official records and Human Resources.

Ray E. Corpuz, Jr. serves as the City Manager. Mr. Corpuz was appointed City Manager in 2012. Mr. Corpuz has over 45 years of local government management experience. Prior to his appointment as City Manager, Mr. Corpuz served as City Manager for the Cities of Tacoma, Washington, and Seaside, California. Mr. Corpuz has a Bachelor of Arts degree in Business Administration from Saint Martin’s University in Lacey, Washington. Mr. Corpuz has announced his retirement effective at the end of September 2020. The City has commenced a nationwide recruitment process for a new City Manager and is expected to appoint Jim Pia to serve as interim City Manager after Mr. Corpuz retires until a permanent City Manager is appointed.

Other key personnel responsible for management of the City include the Assistant City Manager, the Finance Director and the Public Works Director. In addition, the City Attorney provides legal services to the City.

Jim Pia is the Assistant City Manager of the City. Mr. Pia was appointed Assistant City Manager in 2011. Prior to his appointment, Mr. Pia served as the City’s Parks and Community Services Director. Mr. Pia has a Bachelor of Science degree in Political Science from Santa Clara University. Mr. Pia is expected to assume the role of interim City Manager after the retirement of Mr. Corpuz until a permanent City Manager is appointed.

Matt N. Pressey, CPA, is the Finance Director of the City. Mr. Pressey was appointed Finance Director in 2011. Prior to his appointment as Finance Director, Mr. Pressey served as a finance administrator or finance director for several public agencies, including the San Diego Association of Governments, Rancho California Water District and the Cities of Costa Mesa, Lake Elsinore and Pasadena, and as supervisor in a private accounting firm providing services to public agencies. Mr. Pressey has a Bachelor of Arts degree in Business Economics from the University of California, Santa Barbara, and is a certified public accountant.

David Jacobs is the Public Works Director of the City. Mr. Jacobs was appointed Public Works Director in 2018. Prior to his appointment as Public Works Director, Mr. Jacobs served as the Public Works Director of the City of Buena Park, California, as a private consultant acting as outside City Engineer and Assistant City Engineer for several Central Valley communities and in various roles with the City of Visalia, California. Mr. Jacobs has a Bachelor of Science degree in Civil Engineering from the University of Nevada, Las Vegas and is both a registered Professional Engineer and Land Surveyor.

Chris Callihan is the City Attorney. Mr. Callihan was appointed City Attorney in 2014. Prior to his appointment as City Attorney, Mr. Callihan served as Deputy City Attorney, Senior Deputy City Attorney and Assistant City Attorney. Mr. Callihan has a Bachelor of Arts degree in History from the University of California, Davis, and a Juris Doctorate from Santa Clara University School of Law.

Risk Management

The City is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions, injuries to employees and natural disasters. The City has a self-insurance program and carries excess insurance for catastrophic losses. National Casualty Company and Berkley National Insurance Company provide general liability coverage up to a maximum of \$15,000,000 after a self-insured retention of \$1,000,000 per occurrence is met. Safety National Casualty Corporation provides worker's compensation excess coverage up to statutory limits (pursuant to the California Worker's Compensation Act) after the self-insurance retention of \$1,000,000 for public safety and \$750,000 for non-public safety employees is met.

The City maintains property insurance through the Alliant Property Insurance Program, a public entity group property insurance purchase program with multiple carriers. Property insurance coverage is generally maintained at replacement value (based on City-scheduled values), with a \$275,000,000 aggregate limit. Certain property, such as vehicles and equipment, will be insured at established cash values beginning July 1, 2018. The City does not maintain earthquake insurance.

Claims have not exceeded the City's insurance coverage in any of the last three years.

No assurance can be given as to the adequacy of the insurance maintained now or in the future by the City to fund necessary repairs or replacement of any portion of the Property. Significant damage to any of the Property could cause Base Rental Payments to be abated. See the captions "SECURITY AND SOURCES OF PAYMENT FOR THE 2020 BONDS—Abatement" and "RISK FACTORS—Natural Disasters."

COVID-19 Outbreak

The spread of the novel strain of coronavirus called SARS-CoV-2, which causes the disease known as COVID-19 ("COVID-19"), and local, state and federal actions in response to COVID-19, are having a significant impact on the City's operations and finances. In response to the increasing number of cases of COVID-19 infections and fatalities, health officials and experts have recommended, and some governments have 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 have temporarily closed some or all school campuses (including Salinas City Elementary School District and Salinas Union High School District 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. The County has also declared a state of emergency in response to the COVID-19 outbreak. The current shelter-in-place directives are being gradually lifted in the County as certain targets are met.

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 assistance 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 are expended to address the impacts of the pandemic, although the City cannot predict what State and/or federal funding or other relief it will ultimately receive. Any funds received by the City under the CARES Act are not available for payment of Base Rental Payments and cannot be used to backfill City revenue losses related to COVID-19.

While the effects of COVID-19 may be temporary, the outbreak and governmental actions in response to it are altering the behavior of businesses and people in a manner that is having significant negative impacts

on global and local economies. In addition, financial markets in the United States and globally have seen significant declines and experienced significant volatility attributed to COVID-19 concerns. CalPERS has reportedly lost significant value in its investments as a result of declines in the stock market and elsewhere, which could result in a significant increase in the City's unfunded pension liability and future pension costs, commencing in Fiscal Year 2023. See the caption "CITY FINANCIAL INFORMATION—Retirement Contributions." The outbreak has resulted in increased pressure on State finances, as budgetary resources are directed toward containing the pandemic and tax revenues sharply decline. Identified cases of COVID-19 and deaths attributable to the COVID-19 outbreak are continuing to increase throughout the United States, including the City, many residents of which live in close quarters with others and work in crowded conditions in the agricultural and agricultural packing industries.

In addition, the Governor extended the deadline to file and pay spring 2020 property taxes for residential and certain commercial property owners, and first quarter 2020 sales and use tax returns by 90 days for all but the very largest taxpayers. As a result of the extended deadline to file sales and use tax returns, it is estimated that up to 361,000 California businesses with less than \$5 million in taxable annual sales will be allowed to defer up to \$50,000 in sales tax and enter into 12-month payment plans at zero interest. These actions will result in delays in the receipt by the City of its portion of such tax payments. The COVID-19 outbreak is expected to result in material declines in major General Fund revenues of the City, including in sales taxes, business license taxes and transient occupancy taxes. See the captions "CITY FINANCIAL INFORMATION—Property Taxes" and "CITY FINANCIAL INFORMATION—Sales Taxes."

Other 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 transient occupancy tax revenue, sales tax revenue and other revenues, and potential declines in property values.

On-site City personnel are wearing masks and practicing social distancing while working. The City does not expect its operations to be materially affected by such actions. However, there can be no assurance that absences of employees or City leadership due to COVID-19 will not adversely impact City operations.

The COVID-19 outbreak is ongoing, and the ultimate geographic spread of the virus, 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 effects are uncertain. The ultimate impact of COVID-19 on the operations and finances of the City is unknown at this time. The City is currently estimating that, as a result of the COVID-19 outbreak, Fiscal Year 2020 General Fund revenues will be approximately \$5.2 million lower than budgeted (primarily due to a loss of sales tax revenues during the fourth quarter of Fiscal Year 2020), while expenses will be lower than budgeted by approximately \$3.3 million. Despite the anticipated loss in revenues relative to the Fiscal Year 2020 budget, the City does not expect Fiscal Year 2020 General Fund expenditures to exceed revenues given the City's conservative budgeting practices. See the caption "CITY FINANCIAL INFORMATION—General Economic Condition and Outlook of the City."

The City's Fiscal Year 2021 General Fund budget (including proceeds of Measure E and Measure G, which are discussed under the caption "CITY FINANCIAL INFORMATION—Measure E Taxes" and "CITY FINANCIAL INFORMATION—Measure G Taxes," respectively) includes consideration of the effect of the COVID-19 outbreak and an anticipated recession. The budget reflects the City's initial projection of a \$19.3 million budget deficit, which was addressed in part by \$12.6 million of operating expense reductions. The City expects to close the remaining \$6.7 million budget deficit through \$3.5 million of cost savings from freezing vacant positions and staff furloughs (or, if necessary, layoffs) and a \$3.2 million carryover of unexpended Fiscal Year 2020 appropriations. See the caption "CITY FINANCIAL INFORMATION—Budget Procedure, Current Budget and Historical Budget Information—Fiscal Year 2021 Budget."

The City does not currently believe that the COVID-19 outbreak will materially adversely affect its ability to pay Base Rental Payments.

CITY FINANCIAL INFORMATION

Accounting and Financial Reporting

The City maintains its accounting records in accordance with Generally Accepted Accounting Principles (“GAAP”) and the standards established by the Governmental Accounting Standards Board (“GASB”). The City Council and City staff review fiscal performance against the budget each month. Combined financial statements of the City and its component units are produced following the close of each fiscal year of the City ended June 30 (each, a “Fiscal Year”).

The City Council employs an independent certified public accountant who examines at least annually the financial statements of the City in accordance with GAAP, including tests of the accounting records and other auditing procedures as such accountant considers necessary. As soon as practicable, after the end of the Fiscal Year, a final audit and report is submitted by the independent accountant to the City Council.

The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate.

Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The budget is adopted in accordance with GAAP. Revenues are recognized on the accrual basis (i.e., when they are earned). Expenditures are recorded when the related fund liability is incurred.

See the caption “—City Financial Statements” for a discussion of the City’s audited financial statements for Fiscal Year 2019.

The General Fund is the general operating fund of the City. It is used to account for all financial resources except those that are required to be accounted for in another fund. It is expected that Base Rental Payments will be paid for from amounts in the General Fund. Tables 1 through 3 below set forth certain historical and current Fiscal Year budget information for the General Fund. Information on the remaining governmental funds of the City as of June 30, 2019, is set forth in Appendix C.

General Economic Condition and Outlook of the City

Financial Conditions. As of June 30, 2019, the General Fund (including the Measure E and G funds) had a year-end surplus (revenues in excess of expenditures) of approximately \$17.0 million, exceeding the anticipated year-end deficit of approximately \$0.9 million that was set forth in the Fiscal Year 2019 budget. The surplus was primarily due to actual revenues (and in particular, sales tax, property tax revenues and licenses and permits), exceeding budgeted revenues by approximately \$11.7 million, along with expenditures coming in under budget by approximately \$5.9 million (excluding transfers out).

For Fiscal Year 2020, the adopted General Fund (including the Measure E and G funds) operating budget projected revenues of approximately \$140.6 million, which is approximately \$8.4 million (5.7%) below Fiscal Year 2019 audited revenues. In addition, the adopted Fiscal Year 2020 General Fund operating budget projected expenditures of approximately \$118.0 million, an increase of approximately \$8.4 million (7.7%) over Fiscal Year 2019 audited expenditures, as discussed further below.

In light of the COVID-19 outbreak that is discussed under the caption “THE CITY—COVID-19 Outbreak,” the City currently expects Fiscal Year 2020 General Fund revenues to come in approximately \$5.2 million under budget as a result of reduced economic activity (and consequently, reduced tax revenues) during the fourth quarter of Fiscal Year 2020, although revenues are still expected to be in excess of expenditures given the City’s conservative budgeting practices. In particular, sales tax revenues, including Measure E and Measure G tax revenues, which were budgeted at approximately \$68.8 million for Fiscal Year 2020, are expected to total approximately \$64.0 million.

As discussed above, the City also projects a General Fund deficit of approximately \$6.7 million in Fiscal Year 2021 as a result of the COVID-19 outbreak, including expenditures that will total approximately \$136.8 million absent additional action and revenues of approximately \$130.1 million. The City expects to address this deficit as described below. See the caption “THE CITY—COVID-19 Outbreak.”

Budgeted Fiscal Year 2021 expenditures reflect scheduled increases totaling approximately \$5.3 million in employee compensation. Personnel costs (including salaries and benefits) make up over 80% of General Fund expenditures and City staff have recommended employee layoffs, buyouts and furloughs totaling approximately \$3.5 million to close the \$6.7 million General Fund deficit. The remaining \$3.2 million is expected to be covered by carryover of unexpended Fiscal Year 2020 appropriations.

Budgeted Fiscal Year 2021 revenues reflect a decrease of approximately \$14 million in total General Fund revenue sources, including: (i) a decrease of approximately \$5.6 million (18.9%) in the City’s second largest General Fund revenue source (sales taxes); (ii) a decrease of approximately \$4.9 million (19.1%) in the City’s third largest General Fund revenue source (Measure G taxes); and (iii) a decrease of approximately \$2.5 million (19.1%) in the City’s fifth largest General Fund revenue source (Measure E taxes). The City expects such decreases to be driven by the closure of many businesses in the wake of the COVID-19 pandemic. See the caption “THE CITY—COVID-19 Outbreak.”

The City is projecting increased General Fund expenditures in Fiscal Year 2021 and future Fiscal Years in order to address significantly higher required pension contributions resulting from the California Public Employees Retirement System (“CalPERS”) lowering the discount rate attributable to pension investments. Based on information from CalPERS, during the seven year phase-in period relating to the reduction in the discount rate (Fiscal Years 2019 through 2025), the City expects to contribute a cumulative additional amount of approximately \$60.5 million above its base contribution, over the seven year phase-in period. See the caption “—Retirement Contributions—CalPERS.” The City currently projects that, primarily as a result of such increased pension contributions, it will have a General Fund structural deficit (meaning that expenditures and transfers out exceed revenues and transfers in) of approximately \$19.6 million in Fiscal Year 2025.

The City also expects that CalPERS’ earnings will be reduced in Fiscal Year 2020 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. The City is unable to quantify the magnitude of such increases in future contribution rates at this time. See the caption “THE CITY—COVID-19 Outbreak.”

The Salinas Plan and Fiscal Sustainability. The Salinas Plan is a ten-year plan initiated in Fiscal Year 2018 with the assistance of the National Resource Center which is designed to provide the City with a path toward maintaining a long-term balanced budget while preserving City services and addressing affordable housing. The plan provides 32 recommended initiatives, which are now in various stages of implementation.

The ten-year projections in the plan (prior to the COVID-19 outbreak) showed that the City’s general governmental funds (including the General, Measure E and Measure G Funds) were projected to incur a deficit of \$2.8 million in Fiscal Year 2019 that would grow to \$10.5 million by Fiscal Year 2028 absent any corrective action. The largest drivers of the increased costs were expected to be salaries, pension costs, health insurance costs and workers’ compensation costs. CalPERS pension rates and health care costs were

anticipated to push overall cost growth higher than revenue growth. Overall annual expenditure growth was projected to grow at an annual compound rate of 2.9%, outpacing anticipated annual revenue growth of 2.4%. With the corrective actions recommended, the City would achieve a surplus of approximately \$2 million each year beginning in Fiscal Year 2021. The City achieved \$1,044,000 in savings in Fiscal Year 2020 and projects \$2,279,543 in savings in Fiscal Year 2021 from the implementation of the Salinas Plan. Monthly updates are presented to the Finance Committee on specific initiatives and quarterly updates are presented to the City Council on all 32 recommended initiatives.

The City approved balanced budgets for Fiscal Years 2018 through 2021 and will be managing its budget in successive years under the auspices of the Salinas Plan with the goal of balancing the budget in future Fiscal Years.

See the caption “—Budget Procedure, Current Budget and Historical Budget Information” for additional information relating to the adopted budgets for Fiscal Year 2021 and prior Fiscal Years.

Budget Procedure, Current Budget and Historical Budget Information

General. The City Council adopts the City’s annual operating budget, which is prepared under the supervision of the City Manager, by no later than June 30 of each Fiscal Year. Beginning July 1, the budget process approves operating appropriations at the department and fund level and allows the City to make resource allocation decisions, including choices about staffing, technology and equipment, as well as determining which program priorities will be addressed in the coming Fiscal Year. Although the City Council deliberates the proposed budget in June, the budget process occurs throughout the year, as described below.

Financial information containing actual revenue receipts and expenditures trends is presented to the City Council’s Finance Committee at least once every month. During the Fiscal Year, the City Council may amend the budget with the approval of supplemental appropriations and reviews and amends the budget at mid-year and at year-end.

Budgetary control is maintained at the program level. Formal budgetary integration is employed as a management control device during the Fiscal Year for the General Fund, Special Revenue Funds, Debt Service Funds, Capital Projects Funds, Enterprise Funds and Internal Service Funds.

The City Manager may transfer budget appropriations between departments and Department Directors may transfer appropriations between programs and accounts within their individual departments and divisions, but only the City Council may appropriate funds from reserves or fund balances.

Budget policy excludes the use of taxes, accounts receivable, interest receivable assets and long-term advances that are not currently available resources for budget purposes. Condemnation deposits are also excluded because they are returned upon right of way acquisition.

Expenditures may not legally exceed budgeted appropriations at the department level. Appropriations lapse at Fiscal Year end to the extent that they have not been expended and new budget appropriations are approved for the coming year. Project-length financial plans are adopted for all capital projects funds and appropriations are carried forward until project completion. Grant funds are carried forward until the grant expires.

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of money are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the governmental funds. Encumbrances outstanding at Fiscal Year end are recorded as reservations of fund balance and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

Budget Timeline. The City has developed a three-year forecasting model for operating revenues and expenditures. The City also produces a six-year capital improvements plan. Staff begins work on the budget in earnest each January based on projections of City revenues, costs associated with contractual obligations, assessments of City needs and a review of the City’s overall financial position.

From January through March of each year, City departments review their functional responsibilities and services and their current Fiscal Year budget objectives in light of any modifications in City Council priorities or other direction to staff. These are considered in conjunction with projections of revenues and expenditures as the departments prepare their preliminary budget requests.

Each City department is initially provided an annual appropriation that is sufficient to fund current service levels and any other costs that the department is responsible for managing. In addition, the budget includes cost increases for other contractual obligations (such as utilities increases and vendor service contract rate increases). Unexpended funds from a prior Fiscal Year are known as carryover funds. The City Council’s practice is to allocate carryover funds pursuant to the City’s adopted financial policy. The policy states that General Fund carryover balances will be allocated to reserves in the following priority: (i) Insurance Reserves; (ii) Operating Budget Reserve; (iii) Capital Improvement Program Reserve; (iv) funding of pension obligations; and (v) funding of other post-employment benefit obligations. See the caption “—City Reserve Policies.”

The City Manager reviews department budget requests in March and April each year. From these reviews, budget parameters may be modified and changes made to the preliminary budget for presentation to the City Council. During the month of April, the City’s Finance Department compiles all department requests and the City’s financial data to produce a preliminary budget document.

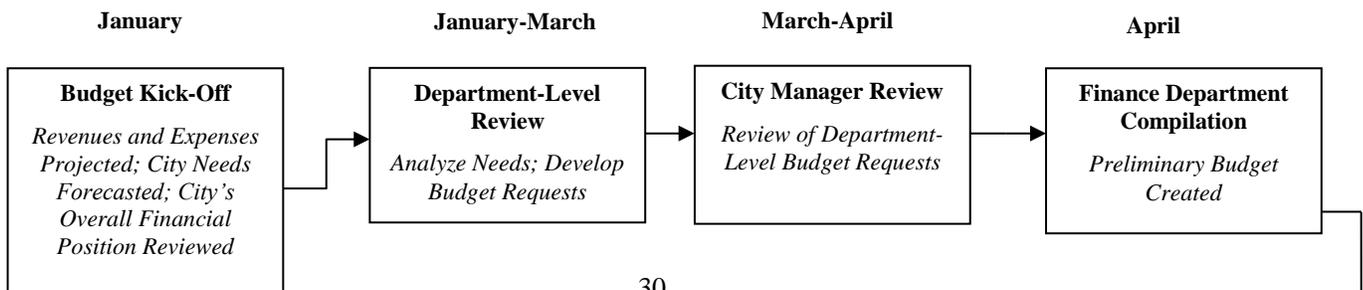
The presentation of the City Manager’s Proposed Budget in early June is intended to provide the City Council and the public time to review the budget. Included in the City Manager’s presentation are an update of the City’s financial position and long-range plan, review of the national, State and local economies and a discussion of financial policies and department activities.

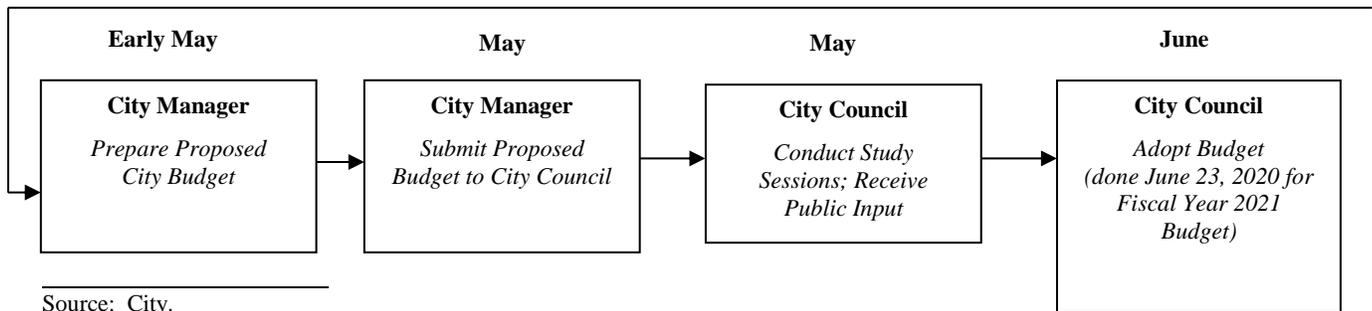
After the City Council reviews the proposed budget and receives public comment, the City Council may revise the proposed budget. Then, on or before June 30, the City Council votes to adopt the budget, including any amendments to the proposed budget that may occur, by an affirmative vote of the majority of the City Council. At any meeting after the adoption of the budget, the City Council may amend or supplement the budget by a majority vote of the City Council.

Upon final adoption by city ordinance, the budget becomes the legal authorization for the various departments to expend revenues, subject to any controls established by the City Manager, City Council and internal audit requirements. The City Council has adopted several financial and budgetary policies, which address debt, reserves and spending authorizations.

A summary of the actions taken during the year-long budgetary process is set forth below:

**CITY OF SALINAS
BUDGET PROCESS**





Fiscal Year 2020 Budget. The City Council adopted a balanced budget for Fiscal Year 2020 on June 4, 2019. The budgeted expenditures for all funds totaled approximately \$196.1 million for Fiscal Year 2020. The City’s initial Fiscal Year 2020 budgeted expenditures for the General Fund (including Measures E and G) totaled approximately \$118.0 million. The City subsequently increased budgeted expenditures in a mid-year adjustment to incorporate a \$4.5 million buy-down of the City’s CalPERS pension liability. See the caption “CITY FINANCIAL INFORMATION—Retirement Contributions—CalPERS.” Based on unaudited actual Fiscal Year 2020 results, the City currently expects actual expenditures for the General Fund (before transfers out) to total approximately \$116.3 million, or approximately \$1.7 million (1.4%) less than the revised Fiscal Year 2020 budget.

Based on unaudited actual Fiscal Year 2020 results, the City currently expects actual revenues for the General Fund to total approximately \$143.6 million, or approximately \$3.0 million (2.1%) less than budgeted, primarily as a result of significant reductions in sales taxes and utility users taxes arising from limitations on business operations in response to the COVID-19 outbreak. See the caption “THE CITY—COVID-19 Outbreak.”

Fiscal Year 2021 Budget. The City Council adopted a budget for Fiscal Year 2021 on June 23, 2020 which includes consideration of the effect of the COVID-19 outbreak and an anticipated recession and projects a General Fund budget deficit of approximately \$6.7 million, after operating expense reductions of approximately \$12.6 million.

The budgeted expenditures for all funds total approximately \$191.1 million for Fiscal Year 2021 and the budgeted expenditures for the General Fund total approximately \$116.8 million for Fiscal Year 2021, a decrease of approximately \$1.2 million (1.0%) below Fiscal Year 2020 budgeted expenditures. Expenditure assumptions include the following: wage increases of 2.25%, health insurance cost increases of 5% and workers compensation cost increase of 4%.

Budgeted Fiscal Year 2021 revenues reflect a decrease of approximately \$14 million in total General Fund revenue sources, including: (i) a decrease of approximately \$5.6 million (18.9%) in the City’s second largest General Fund revenue source (sales taxes); (ii) a decrease of approximately \$4.9 million (19.1%) in the City’s third largest General Fund revenue source (Measure G taxes); (iii) a decrease of approximately \$2.5 million (19.1%) in the City’s fifth largest General Fund revenue source (Measure E taxes); (iv) a decrease of approximately \$240,000 (2.0%) in utility users taxes; and (v) a decrease of approximately \$500,000 (9.4%) in business license taxes. The City expects such decreases to be driven by the closure of many businesses in the wake of the COVID-19 pandemic as well as an economic recession affecting consumer spending. See the caption “THE CITY—COVID-19 Outbreak.”

Certain General Fund revenue sources are expected to increase slightly in Fiscal Year 2021, including property taxes (with a budgeted increase of \$558,000 (1.8%)) and franchise fees (with a budgeted increase of \$555,000 (6.3%)), based on current trends and County Assessor estimates.

The Fiscal Year 2021 General budget deficit of approximately \$6.7 million is expected to be covered in part by employee layoffs, buyouts and furloughs totaling approximately \$3.5 million and in part by carryover of unexpended Fiscal Year 2020 appropriations totaling \$3.2 million.

Future Budgets. Looking forward, the City currently anticipates a budget deficit of \$4.1 million in Fiscal Year 2022, rising to \$5.5 million by Fiscal Year 2025. The average budget deficit over the next 5 years is currently estimated at approximately \$5.0 million per year, for a cumulative total of \$25.2 million. The causes of such deficits includes reductions in revenues as a result of the COVID-19 pandemic as well as the City’s structural deficit, pursuant to which expenditure growth exceeds revenue growth each Fiscal Year, in particular because compensation costs are growing faster than projected revenue. The City believes that controlling the main cost drivers of wages, pension, health insurance and workers compensation pursuant to the Salinas Plan is key to managing and eliminating the structural deficit. See the caption “—General Economic Condition and Outlook of the City—The Salinas Plan and Fiscal Sustainability.”

Set forth in the table below are the General Fund budgets for Fiscal Years 2017 through 2021, the audited General Fund results for Fiscal Years 2017 through 2019 and the unaudited preliminary General Fund results for Fiscal Year 2020. During the course of each Fiscal Year, the budget is amended and revised as necessary by the City Council; budgeted amounts shown below reflect such amendments and revisions in certain Fiscal Years.

**TABLE 1
CITY OF SALINAS
GENERAL FUND BUDGETS AND RESULTS**

	<i>Adopted Fiscal Year 2017 Budget</i>	<i>Audited Fiscal Year 2017 Results</i>	<i>Adopted Fiscal Year 2018 Budget</i>	<i>Audited Fiscal Year 2018 Results</i>	<i>Adopted Fiscal Year 2019 Budget</i>	<i>Audited Fiscal Year 2019 Results</i>	<i>Adopted Fiscal Year 2020 Budget</i>	<i>Actual Fiscal Year 2020 Results⁽³⁾</i>	<i>Adopted Fiscal Year 2021 Budget</i>
Revenues									
Property Tax ⁽¹⁾	\$ 25,950,100	\$ 27,115,352	\$ 28,029,000	\$ 28,664,547	\$ 28,869,660	\$ 30,133,585	\$ 31,038,000	\$ 30,993,814	\$ 31,596,000
Sales Tax	27,342,000	28,054,681	28,637,500	27,896,297	29,267,000	31,724,440	29,950,000	29,972,865	24,332,000
Measure E Tax	11,690,000	12,167,850	12,285,100	12,310,312	12,555,000	13,688,397	13,048,000	13,006,182	10,562,000
Measure G Tax	22,860,500	24,356,989	24,406,700	24,718,260	24,943,000	27,453,643	25,793,000	26,023,834	20,878,000
Utility Users Tax	12,494,000	11,669,515	12,200,000	12,562,782	12,237,000	11,663,551	12,240,000	11,737,457	12,000,000
Franchise Fees	8,580,000	8,822,611	8,689,000	8,773,716	8,865,000	8,912,059	8,800,000	9,049,178	9,355,000
Business License Tax	4,720,000	5,031,411	4,900,000	5,632,119	4,964,000	6,494,499	5,300,000	6,703,250	4,800,000
Transient Occupancy Tax	2,550,000	2,730,456	2,450,000	2,917,997	2,900,000	3,610,295	3,000,000	3,338,442	2,550,000
Plan Check/Building Permit	1,350,000	1,610,967	-	725,603	914,400	996,407	682,118	824,804	772,650
Other Revenue ⁽²⁾	3,357,300	8,357,451	5,606,900	8,215,202	6,190,400	10,126,008	6,722,832	8,008,272	9,135,800
Transfers In	4,003,100	3,973,600	4,011,200	3,871,130	3,837,730	4,298,230	4,088,300	3,968,328	4,088,300
Total Revenues	\$ 124,897,000	\$ 133,890,883	\$ 131,215,400	\$ 136,287,965	\$ 135,543,190	\$ 149,101,114	\$ 140,662,250	\$ 143,626,425	\$ 130,069,750
Expenditures									
Current:									
General Government	\$ 21,498,022	\$ 19,263,512	\$ 20,936,883	\$ 30,460,954	\$ 19,276,435	\$ 16,316,339	\$ 20,066,133	\$ 24,932,054	\$ 18,636,136
Public Safety	65,100,264	66,319,568	71,788,954	72,386,055	73,520,633	72,741,824	75,928,700	71,701,989	76,519,513
Public Works	12,629,472	11,664,665	12,685,790	11,698,252	11,677,390	11,235,904	12,217,145	11,551,010	12,147,459
Recreation	2,727,668	2,471,488	2,890,730	2,566,808	3,455,945	3,807,537	3,911,975	3,200,040	4,123,152
Library	4,930,611	4,358,793	5,218,140	4,577,667	5,078,563	4,739,101	5,341,593	4,335,097	4,813,656
Capital Outlay	463,803	924,645	482,753	901,328	475,067	746,267	506,567	547,115	525,267
Total Expenditures	\$ 107,349,840	\$ 105,002,671	\$ 114,003,250	\$ 122,591,064	\$ 113,484,033	\$ 109,586,972	\$ 117,972,113	\$ 116,267,305	\$ 116,765,183
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$ 17,547,160	\$ 28,888,212	\$ 17,212,150	\$ 13,696,901	\$ 22,059,157	\$ 39,514,142	\$ 22,690,137	\$ 27,359,120	\$ 13,304,567⁽⁴⁾

⁽¹⁾ Includes property taxes in lieu of vehicle license fees. See the captions “—Property Taxes” and “—State of California Motor Vehicle In-Lieu Payments.”

⁽²⁾ Includes interest income, rental income, fines and forfeitures and other miscellaneous income.

⁽³⁾ Based on preliminary unaudited results to date. Subject to change.

⁽⁴⁾ The City’s Fiscal Year 2021 budget reflects a deficit of approximately \$6.7 million, to be covered by cost savings from freezing vacant positions and staff furloughs and a carryover of excess revenues over expenditures from Fiscal Year 2020.

Sources: Adopted budgets of the City for Fiscal Years 2017 through 2021; audited financial statements of the City for Fiscal Years 2017 through 2019; City for Fiscal Year 2020 results.

Change in Fund Balance of the City General Fund

Set forth in the table below are the City's audited General Fund statements of revenues, expenditures and changes in fund balance for Fiscal Years 2015 through 2019.

TABLE 2
CITY OF SALINAS
GENERAL FUND STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
(FISCAL YEARS 2015 THROUGH 2019)

	<i>Fiscal Year Ended June 30,</i>				
	<i>2015</i>	<i>2016</i>	<i>2017</i>	<i>2018</i>	<i>2019</i>
Revenues					
Taxes ⁽¹⁾	\$ 91,443,865	\$ 115,987,206	\$ 114,892,539	\$ 117,813,701	\$ 127,139,518
Licenses and Permits	1,469,919	1,591,305	6,642,379 ⁽⁵⁾	6,357,723	7,490,908
Intergovernmental	1,196,114	1,201,899	1,272,017	1,222,994	933,586
Charges for Services	3,859,668	4,427,695	5,548,867 ⁽⁶⁾	5,075,630	5,685,066
Interest	137,041	304,982	330,709	649,803	1,871,068
Rental Income	340,695	380,900	316,854	378,022	370,372
Fines and Forfeitures	289,055	60,235	273,723	377,759	321,889
Miscellaneous	<u>223,105</u>	<u>329,155</u>	<u>640,195</u>	<u>541,203</u>	<u>990,477</u>
Total Revenues	<u>\$ 98,959,462</u>	<u>\$ 124,283,377</u>	<u>\$ 129,917,283</u>	<u>\$ 132,416,835</u>	<u>\$ 144,802,884</u>
Expenditures					
Current:					
General government	\$ 16,096,574	\$ 18,525,311	\$ 19,263,512	\$ 30,460,954 ⁽⁷⁾	\$ 16,316,339
Public Safety ⁽²⁾	52,982,137	60,792,599	66,319,568	72,386,055	72,741,824
Public Works	11,815,626	11,594,567	11,664,665	11,698,252	11,235,904
Recreation	1,615,001	1,930,449	2,471,488	2,566,808	3,807,537
Library	3,556,485	3,977,832	4,358,793	4,577,667	4,739,101
Capital Outlay	<u>205,689</u>	<u>1,662,023</u>	<u>924,645</u>	<u>901,328</u>	<u>746,267</u>
Total Expenditures	<u>\$ 86,271,512</u>	<u>\$ 98,482,781</u>	<u>\$ 105,002,671</u>	<u>\$ 122,591,064</u>	<u>\$ 109,586,972</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ 12,687,950</u>	<u>\$ 25,800,596</u>	<u>\$ 24,914,612</u>	<u>\$ 9,825,771</u>	<u>\$ 35,215,912</u>
Other Financing Sources (Uses)					
Operating Transfers In ⁽³⁾	\$ 2,151,766	\$ 3,907,000	\$ 3,973,600	\$ 3,871,130	\$ 4,298,230
Operating Transfers Out ⁽⁴⁾	<u>(8,243,937)</u>	<u>(14,551,850)</u>	<u>(19,250,242)</u>	<u>(22,677,235)</u>	<u>(22,554,977)</u>
Total Other Financing Sources (Uses)	<u>\$ (6,092,171)</u>	<u>\$ (10,644,850)</u>	<u>\$ (15,276,642)</u>	<u>\$ (18,806,105)</u>	<u>\$ (18,256,747)</u>
Net Change in Fund Balances	\$ 6,595,779	\$ 15,155,746	\$ 9,637,970	\$ (8,980,334)	\$ 16,959,165
Fund Balance, Beginning of Year	<u>11,504,180</u>	<u>18,099,959</u>	<u>33,255,705</u>	<u>42,893,675</u>	<u>35,313,076⁽⁸⁾</u>
Fund Balances, End of Year	<u>\$ 18,099,959</u>	<u>\$ 33,255,705</u>	<u>\$ 42,893,675</u>	<u>\$ 33,913,341</u>	<u>\$ 50,872,506</u>

(1) Increase in Fiscal Year 2016 reflects adoption of Measure G. See the caption “—Measure G Taxes.” Decrease in Fiscal Year 2017 reflects end of “triple flip,” a series of revenue exchanges between the State and local governments to address prior State budget deficits.

(2) Increases in Fiscal Years 2016 and 2017 reflect hiring of police and fire personnel with Measure G and Measure E tax proceeds. See the captions “—Measure G Taxes” and “—Measure E Taxes.”

(3) Primarily reflects transfers in from Gas Tax Funds.

(4) Primarily reflects expenditures on capital projects and associated debt service, including the construction of a new policy headquarters facility and the reconstruction of one of the City’s libraries. See the captions “—Other Indebtedness—General Fund Supported Obligations—2018 Police Lease Revenue Bonds” and “—Other Indebtedness—General Fund Supported Obligations—2018 Library Lease Revenue Bonds.”

(5) Increase in Fiscal Year 2017 reflects reclassification of business licenses from Taxes to Licenses and Permits in Fiscal Year 2017.

(6) Increase in Fiscal Year 2017 reflects increases in component revenues, including administrative service revenues.

(7) Increase in Fiscal Year 2018 reflects salary, healthcare and pension costs, including a lump sum payment to reduce the City’s unfunded actuarial liability. See the caption “—Retirement Contributions.”

(8) Includes prior period adjustment of \$1,399,735 related to GASB Statement No. 84. See the caption “—City Financial Statements—Prior Period Adjustments.”

Source: Audited financial statements of the City for Fiscal Years 2015 through 2019.

General Fund Balance Sheets of the City

Set forth in the Table below are the City's audited General Fund balance sheets for Fiscal Years for Fiscal Years 2015 through 2019.

TABLE 3
CITY OF SALINAS
GENERAL FUND BALANCE SHEET SUMMARY
(FISCAL YEARS 2015 THROUGH 2019)

	<i>Fiscal Year Ended June 30,</i>				
	<i>2015</i>	<i>2016</i>	<i>2017</i>	<i>2018</i>	<i>2019</i>
Assets					
Cash and Investments	\$ 19,825,905	\$ 32,887,811	\$ 45,021,445	\$ 29,515,119	\$ 49,780,327
Receivables, Net:					
Taxes	14,097,504	18,343,479	14,800,748	14,251,235	15,139,155
Accounts	119,781	146,606	184,810	117,063	235,946
Accrued Interest	47,852	76,112	136,050	280,943	483,678
Due from Outside Agencies	75,000	75,000	126,867	1,475,000	75,000
Due from Successor Agency	-	-	-	-	-
Due from Other Funds	5,059,134	3,681,038	2,572,668	8,557,042	3,193,187
Advances to Successor Agency	-	-	-	-	-
Inventory	16,133	16,413	13,443	13,604	11,019
Advances to Other Funds	<u>3,585,000</u>	<u>4,210,000</u>	<u>4,835,000</u>	<u>5,460,000</u>	<u>6,085,000</u>
Total Assets	<u>\$ 42,826,309</u>	<u>\$ 59,436,459</u>	<u>\$ 67,691,031</u>	<u>\$ 59,670,006</u>	<u>\$ 75,003,312</u>
Liabilities					
Accounts Payable	\$ 6,156,381	\$ 6,358,165	\$ 6,399,157	\$ 7,014,344	\$ 6,860,890
Deposits	-	8,915	156	24,096	127,039
Due to Other Funds	<u>18,569,969</u>	<u>19,813,674</u>	<u>18,398,043</u>	<u>18,718,225</u>	<u>15,743,142</u>
Total Liabilities	<u>\$ 24,726,350</u>	<u>\$ 26,180,754</u>	<u>\$ 24,797,356</u>	<u>\$ 25,756,665</u>	<u>\$ 22,731,071</u>
Deferred Inflows of Resources	-	-	-	-	-
Fund Balances					
Nonspendable	\$ 3,676,133	\$ 4,226,413	\$ 4,975,310	\$ 6,948,604	\$ 6,171,019
Restricted	-	-	-	-	-
Committed ⁽¹⁾	1,213,900	12,819,700	15,177,339	5,038,675	5,038,675
Assigned ⁽²⁾	4,089,713	13,169,516	6,439,802	12,161,256	30,739,004
Unassigned ⁽²⁾	<u>9,120,213</u>	<u>3,040,076</u>	<u>16,301,224</u>	<u>9,764,806</u>	<u>10,323,543</u>
Total Fund Balances	<u>\$ 18,099,959</u>	<u>\$ 33,255,705</u>	<u>\$ 42,893,675</u>	<u>\$ 33,913,341</u>	<u>\$ 52,272,241</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 42,826,309</u>	<u>\$ 59,436,459</u>	<u>\$ 67,691,031</u>	<u>\$ 59,670,006</u>	<u>\$ 75,003,312</u>

(1) Changes reflect reclassification of certain funds as Committed or Unassigned on the advice of the City's auditors.

(2) Changes reflect classification of certain funds as Assigned or Unassigned on the advice of the City's auditors.

Source: Audited financial statements of the City for Fiscal Years 2015 through 2019.

Tax Revenues of the City

A summary of taxes received by the City in the last five Fiscal Years is set forth below. Certain general taxes currently imposed by the City are affected by various State Constitutional provisions. See the caption "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS."

CITY OF SALINAS
GENERAL GOVERNMENT MAJOR TAX REVENUES BY SOURCE

	<i>Fiscal Year Ended June 30,</i>					<i>% of Total General Fund Revenues⁽⁴⁾</i>
	<i>2016</i>	<i>2017</i>	<i>2018</i>	<i>2019</i>	<i>2020⁽³⁾</i>	
Sales Tax	\$ 27,305,758	\$ 28,054,681	\$ 27,896,297	\$ 31,724,440	\$ 27,972,865	19%
Property Tax ⁽¹⁾	26,048,198	27,115,352	28,664,547	30,133,585	30,993,814	22
Measure G Tax ⁽²⁾	23,082,954	24,356,989	24,718,260	27,453,643	26,023,834	18
Measure E Tax	11,569,533	12,167,850	12,310,312	13,688,397	13,006,182	9
Utility Users Tax	12,060,151	11,669,515	12,562,782	11,663,551	11,737,457	8
Franchise Fees	8,432,048	8,822,611	8,773,716	8,912,059	9,049,178	6
Business License Tax	4,826,100	5,031,411	5,632,119	6,494,499	6,703,250	5
Transient Occupancy Tax	<u>2,687,214</u>	<u>2,730,456</u>	<u>2,917,997</u>	<u>3,610,295</u>	<u>3,338,442</u>	<u>2</u>
TOTAL	\$116,011,956	\$119,948,865	\$123,476,030	\$133,680,469	\$128,825,022	90%

(1) Includes property taxes in lieu of vehicle license fees. See the captions “—Property Taxes” and “—State of California Motor Vehicle In-Lieu Payments.”

(2) The Measure G tax went into effect on April 1, 2015.

(3) Based on preliminary unaudited results to date. Subject to change.

(4) Reflects percentage of total unaudited Fiscal Year 2020 General Fund revenues of \$143,626,425.

Source: Audited financial statements of the City for Fiscal Years 2016 through 2019; City for Fiscal Year 2020.

Sales Taxes

Receipts of sales taxes other than those imposed pursuant to Measures G and E (as discussed under the captions “—Measure G” and “—Measure E” below) totaled \$31,724,440 in Fiscal Year 2019. Such sales taxes provided the largest tax revenue source for the City in Fiscal Year 2019, contributing approximately 24% of General Fund tax revenues and approximately 24% of total General Fund revenues. Automobile sales along Auto Center Circle in the northern part of the City and retail sales at the nearby Northridge Mall contribute significantly to such receipts.

A sales tax is imposed on retail sales or consumption of personal property and collected and distributed by the State Board of Equalization (the “**SBE**”). The basic sales tax rate is established by the State Legislature, and local overrides may be approved by voters. The current sales tax rate in the City is 9.25% (including the one cent tax imposed under Measure G and the one-half cent tax imposed under Measure E.

The table below presents taxable sales information for the last ten Fiscal Years for the City.

**CITY OF SALINAS
TAXABLE TRANSACTIONS HISTORICAL SUMMARY⁽¹⁾**

<i>Fiscal Year</i>	<i>Permits</i>	<i>Taxable Transactions</i>
2010	3,060	\$1,754,277,500
2011	3,092	1,822,757,500
2012	3,142	2,029,431,400
2013	3,157	2,153,268,800
2014	3,172	2,207,374,900
2015	3,182	2,270,913,100
2016	3,313	2,407,253,000
2017	3,314	2,488,162,500
2018	3,393	2,602,381,300
2019	3,488	2,689,656,700

⁽¹⁾ The values listed above do not reflect transactions reported in the State- and County-wide pools. Taxable transaction values are not adjusted for administrative fees charged by the California Department of Tax and Fee Administration.

Source: HdL Companies.

As discussed under the caption “THE CITY—COVID-19 Outbreak,” the Governor extended the deadline to file and pay first quarter sales and use tax returns by 90 days for all but the very largest taxpayers, and up to 361,000 California businesses with less than \$5 million in taxable annual sales will be allowed to defer up to \$50,000 in sales tax and enter into 12-month payment plans at zero interest. The extension will result in a delay in the receipt by the City of its portion of sales tax payments.

As a result of such extension, as well as an anticipated general economic slowdown and the closure of business in the wake of the COVID-19 outbreak, the City’s Fiscal Year 2021 budget reflects the receipt of approximately \$24.3 million in sales tax revenues in Fiscal Year 2021, a decrease of approximately \$5.6 million (18.9%) from the Fiscal Year 2020 budgeted amount.

Measure G Taxes

On November 4, 2014, the voters of the City approved Measure G, an ordinance imposing a one cent general transactions and use tax, with proceeds devoted to general City services. Measure G came into effect on April 1, 2015 and expires in 2030. The City is currently engaged in a process of community outreach with the goal of placing a measure on the November 2024 ballot to make the Measure G tax permanent, although there can be no assurance that such efforts will be successful or that City residents will approve any such ballot measure. The City Council has established a Citizens Oversight Committee to oversee expenditures of Measure G tax proceeds.

Historical information with respect to Measure G tax collections is set forth below.

**CITY OF SALINAS
MEASURE G TAX COLLECTIONS**

<i>Fiscal Year</i>	<i>Amount Collected</i>	<i>Percentage Change</i>
2016	\$23,082,954	N/A
2017	24,356,989	5.5%
2018	24,718,260	1.5
2019	27,453,643	11.1
2020 ⁽¹⁾	26,023,834	(5.2)

⁽¹⁾ Based preliminary unaudited results to date. Subject to change.

Source: Audited financial statements of the City for Fiscal Years 2016 through 2019; City for Fiscal Year 2020.

As a result of as an anticipated general economic slowdown and the closure of business in the wake of the COVID-19 outbreak, the City’s Fiscal Year 2021 budget reflects the receipt of approximately \$21.0 million in Measure G tax revenues in Fiscal Year 2021, a decrease of approximately \$4.9 million (19.1%) from the Fiscal Year 2020 budgeted amount.

Measure E Taxes

On November 8, 2005, the voters of the City approved Measure V, an ordinance imposing a one-half cent general transactions and use tax, with proceeds devoted to general City services. Measure V came into effect on April 1, 2006. In 2012, voters of the City approved Measure E, pursuant to which the tax imposed under Measure V does not have an expiration date. The City Council has established a Citizens Oversight Committee to oversee expenditures of Measure E tax proceeds.

Historical information with respect to Measure E tax collections for the last ten Fiscal Years is set forth below.

**CITY OF SALINAS
MEASURE E TAX COLLECTIONS**

<i>Fiscal Year</i>	<i>Amount Collected</i>	<i>Percentage Increase/(Decrease)</i>
2011	\$ 9,288,073	N/A
2012	9,918,717	6.8%
2013	10,507,630	5.9
2014	10,793,705	2.7
2015	11,167,324	3.5
2016	11,569,533	3.6
2017	12,167,850	5.2
2018	12,310,312	1.2
2019	13,688,397	11.2
2020 ⁽¹⁾	13,006,182	(5.0)

⁽¹⁾ Based preliminary unaudited results to date. Subject to change.

Source: Audited financial statements of the City for Fiscal Years 2011 through 2019; City for Fiscal Year 2020.

As a result of an anticipated general economic slowdown and the closure of business in the wake of the COVID-19 outbreak, the City’s Fiscal Year 2021 budget reflects the receipt of approximately \$10.6 million in Measure E tax revenues in Fiscal Year 2021, a decrease of approximately \$2.5 million (19.1%) from the Fiscal Year 2020 budgeted amount.

Property Taxes

Property tax receipts of \$30,133,585 (excluding property taxes in lieu of vehicle license fees) provided the second largest tax revenue source of the City in Fiscal Year 2019, contributing approximately 22% of General Fund tax revenues and approximately 20% of total General Fund revenues during Fiscal Year 2019. Property in the State which is subject to *ad valorem* taxes is classified as “secured” or “unsecured.” The secured classification includes property on which any property tax levied by a county becomes a lien on that property. A tax levied on unsecured property may become a lien on certain other property owned by the taxpayer. Every tax which becomes a lien on secured property has priority over all other liens, arising pursuant to State law, on the secured property, regardless of the time of the creation of other liens.

The exclusive means of forcing the payment of delinquent taxes with respect to secured property is the sale of the property securing the taxes of the State for the amount of taxes that are delinquent. The taxing authority has three methods of collecting unsecured personal property taxes: (1) filing a civil action against the taxpayer; (2) obtaining a judgment lien on certain property of the taxpayer from the county clerk or county recorder; and (3) seizing and selling personal property, improvements or possessory interests belonging or taxable to the assessee.

A 10% penalty is added to delinquent taxes which have been levied with respect to property on the secured roll. In addition, beginning on the July 1 following a delinquency, interest begins accruing at the rate of 1.5% per month on the amount delinquent. If taxes are unpaid for a period of five years or more, the property is deeded to the State and then is subject to sale by the county tax collector. A 10% penalty also applies to the delinquent taxes or property on the unsecured roll, and further, an additional penalty of 1.5% per month accrues with respect to such taxes beginning on the varying dates related to the tax billing date.

In an attempt to mitigate the effects of the COVID-19 pandemic on State property taxpayers, on May 6, 2020, the Governor signed Executive Order N-61-20 (“**Order N-61-20**”). Under Order N-61-20, certain provisions of the State Revenue and Taxation Code are suspended until May 6, 2021 to the extent that they require a tax collector to impose penalties, costs or interest for the failure to pay secured or unsecured property taxes, or to pay a supplemental bill, before the date that such taxes become delinquent. Such penalties, costs and interest will be cancelled under the conditions provided for in Order N-61-20, including if the property is residential real property occupied by the taxpayer or the real property qualifies as a small business under certain State laws, the taxes were not delinquent prior to March 4, 2020, the taxpayer files a claim for relief with the tax collector and the taxpayer demonstrates economic hardship or other circumstances that have arisen due to the COVID-19 pandemic or due to a local, state, or federal governmental response thereto. See the caption “THE CITY—COVID-19 Outbreak.”

As discussed in detail in the paragraph below Table 4, the City does not participate in the “Teeter Plan” and is therefore exposed to the risk of delinquencies in the payment of property taxes.

State law also provides for the supplemental assignment and taxation of property as of the occurrence of a change in ownership or completion of new construction. Collection of taxes based on supplemental assessments occurs throughout the year. Taxes due are prorated according to the amount of time remaining in the tax year.

See the caption “RISK FACTORS—Split Roll Initiative” for a discussion of an initiative that will appear on the November 2020 Statewide ballot which will amend provisions of State law relating to property taxes, including the provisions that are discussed above.

For a number of years, the State Legislature shifted property taxes from cities, counties and special districts to the Educational Revenue Augmentation Fund (“**ERAF**”). In Fiscal Years 1993 and 1994, in response to serious budgetary shortfalls, the State Legislature and administration permanently redirected over \$3 billion of property taxes from cities, counties, and special districts to schools and community college districts pursuant to ERAF shifts. The Fiscal Year 2005 State Budget included an additional \$1.3 billion shift of property taxes from certain local agencies, including the City, in Fiscal Years 2005 and 2006.

On July 27, 2009, the Governor signed a revised Fiscal Year 2010 State budget that included an ERAF shift of approximately 8% of 1% *ad valorem* property tax revenues from certain local agencies, including the City. The City participated in the State of California Proposition 1A Receivables Program to securitize its receivable from the State, and, as a result, received the shifted funds, without interest, in two installments in 2010 from the California Statewide Communities Development Authority.

On November 2, 2010, State voters approved Proposition 22, which: (i) prohibits the State from shifting or delaying the distribution of funds from special districts to schools and community colleges; (ii)

eliminates the authority to shift property taxes temporarily during a severe financial hardship of the State; and (iii) restricts the State’s authority to use fuel tax revenues to pay debt service on transportation bonds, to borrow or change the distribution of fuel tax revenues or to use vehicle license fee revenues to reimburse local governments for state-mandated costs.

Despite the passage of Proposition 22, there can be no assurance that 1% *ad valorem* property tax revenues which the City currently expects to receive will not be temporarily shifted from the City or reduced pursuant to State legislation enacted in the future, including in response to State budget deficits in the wake of the COVID-19 pandemic. See the caption “STATE OF CALIFORNIA BUDGET INFORMATION.” If the property tax formula is permanently changed in the future, it could have a material adverse effect on the receipt of its share of 1% property tax revenues by the City.

Set forth in the table below are the secured and unsecured assessed valuations for property in the City for the Fiscal Years 2016 through 2020.

**TABLE 4
CITY OF SALINAS
ASSESSED VALUATION HISTORY⁽¹⁾**

<i>Fiscal Year</i>	<i>Secured Value</i>	<i>Unsecured Value</i>	<i>Total Assessed Value</i>	<i>Less Exemptions</i>	<i>Total Taxable Assessed Value</i>	<i>% Increase</i>
2016	\$ 9,323,485,040	\$640,297,582	\$9,963,782,622	\$441,395,570	\$ 9,522,387,052	N/A
2017	9,771,186,226	651,335,351	10,422,521,577	463,164,356	9,959,357,221	4.39%
2018	10,242,306,049	669,809,400	10,912,115,449	489,138,624	10,422,976,825	4.45
2019	10,760,844,513	699,327,803	11,460,172,316	516,853,771	10,943,318,545	4.75
2020	11,279,748,474	800,945,719	12,080,694,193	547,255,447	11,533,438,746	5.12

Sources: California Municipal Statistics; Monterey County Assessor’s Office; Monterey County Auditor-Controller.

Set forth in the table below are property tax collections (including amounts that do not constitute General Fund money) and delinquencies in the City as of June 30 for Fiscal Years 2015 through 2019. The City does not participate in the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (known as the Teeter Plan), as provided for in Section 4701 *et seq.* of the Revenue and Taxation Code of the State, and is therefore exposed to the risk of delinquencies in the payment of property taxes. However, the City also receives penalties and interest when property taxes are paid late. The City also receives supplemental taxes throughout the year. As discussed above, under Order N-61-20, the City expects to receive certain property tax payments for Fiscal Year 2020 later than usual, and without penalties or late payments, as a result of the COVID-19 pandemic.

**TABLE 5
CITY OF SALINAS
PROPERTY TAX LEVIES AND COLLECTIONS**

<i>Fiscal Year</i>	<i>Total Tax Levy</i>	<i>Collections within the Fiscal Year of Levy⁽¹⁾</i>	<i>Percent of Levy Collected within the Fiscal Year of Levy</i>	<i>Collections in Subsequent Years</i>	<i>Percent of Levy Collected to Date</i>
2015	\$12,754,461	\$12,610,665	98.87%	\$220,889	100.60%
2016	13,587,862	13,433,448	98.86	232,676	100.58
2017	14,323,708	14,171,312	98.94	237,429	100.59
2018	14,396,244	14,271,501	99.13	218,482	100.65
2019	15,100,208	14,901,285	98.68	288,731	100.59

⁽¹⁾ The amounts shown in this column reflect all property tax collections of the City, including non-General Fund money. See Table 2 under the caption “—Change in Fund Balance of the City General Fund” for historic General Fund property tax revenues alone.

Sources: California Municipal Statistics; Monterey County Assessor’s Office; compiled by Willdan Financial Services.

The ten largest secured and unsecured taxpayers in the City as shown on the Fiscal Year 2020 tax roll, the assessed valuation and the percentage of the City’s total property tax revenues attributable to each are set forth in the table below.

**TABLE 6
CITY OF SALINAS
TEN LARGEST SECURED AND UNSECURED TAXPAYERS**

<i>Rank</i>	<i>Property Owner</i>	<i>Type of Business</i>	<i>Fiscal Year 2020 Assessed Valuation</i>	<i>% of Total⁽¹⁾</i>
1.	Taylor Farms Retail Inc.	Industrial/Commercial	\$181,202,594	1.50%
2.	Northridge Owner LP	Commercial	133,705,896	1.11
3.	CMP-1 LLC	Residential	83,459,852	0.69
4.	Harden Ranch Plaza Associates LLC et al.	Commercial	82,516,608	0.68
5.	Mann Packing Company Inc.	Industrial	74,940,180	0.62
6.	California Water Service Company	Miscellaneous/Utility	47,937,200	0.40
7.	Chiquita Brands International Inc.	Industrial	45,834,460	0.38
8.	Fresh Express Inc.	No Secured Property	44,779,713	0.37
9.	Casentini Street Apartments LLC	Residential	44,329,255	0.37
10.	Growers Ice Company	Industrial	<u>40,119,099</u>	<u>0.33</u>
TOTAL			\$778,824,857	6.45%

⁽¹⁾ Fiscal Year 2020 Taxable Assessed Value: \$12,080,694,193.

Sources: Monterey County Assessor’s Office; MuniServices, LLC; Avenu Insights and Analytics, as compiled by Willdan Financial Services.

Based on current trends and County Assessor estimates, the City’s Fiscal Year 2021 budget reflects the receipt of \$31,596,000 in property tax revenues, an increase of \$558,000 (1.8%) over the Fiscal Year 2020 budgeted amount.

Utility Users Taxes

Utility users taxes of \$11,663,551 contributed approximately 9% of General Fund tax revenues and approximately 8% of total General Fund revenues during Fiscal Year 2019. The utility users tax is imposed upon utility users in the City, including users of telecommunications, gas, water and certain television services, at the rate of between 5% and 6%. Exemptions are available for residents over age 65. Proceeds of the utility

users tax are used to fund activities funded by the General Fund. The utility users tax does not have a sunset provision.

Historical information with respect to utility users tax collections is set forth below.

**CITY OF SALINAS
UTILITY USERS TAX COLLECTIONS**

<i>Fiscal Year</i>	<i>Amount Collected</i>	<i>Percentage Change</i>
2016	\$12,060,151	N/A
2017	11,669,515	(3.2)%
2018	12,562,782	7.7
2019	11,663,551	(7.2)
2020 ⁽¹⁾	11,737,457	(0.6)

⁽¹⁾ Based preliminary unaudited results to date. Subject to change.
Source: City.

As a result of an anticipated general economic slowdown and the closure of business in the wake of the COVID-19 outbreak, the City’s Fiscal Year 2021 budget reflects the receipt of approximately \$12,000,000 million in utility users tax revenues in Fiscal Year 2021, a decrease of approximately \$240,000 (2.0%) from the Fiscal Year 2020 budgeted amount.

Cannabis Taxes

In November 2016, City residents approved a cannabis business license tax in the amount of \$25 per square foot and 10% of annual gross receipts on marijuana dispensaries, manufacturers and delivery operations. As of May 2020, permits have been issued to 20 businesses, 10 of which have opened. Collections totaled approximately \$1.1 million in Fiscal Year 2019 and are budgeted to total \$1.4 million in Fiscal Year 2021. No collections were budgeted in Fiscal Year 2020, although the City expects actual collections to total approximately \$1.5 million.

The City believes that the tax has the potential to generate up to approximately \$3 million per year in the future. However, marijuana remains an illegal substance under federal law and there can be no assurance that future federal regulatory or enforcement actions will not cause the businesses that pay the tax to shut down.

Cannabis businesses also pay a small amount of fees for monitoring and work permits, which are budgeted at approximately \$100,000 for Fiscal Year 2021.

Although proceeds of cannabis taxes and related fees constitute General Fund moneys which are available to pay Base Rental Payments, the City’s practice has been to apply such moneys to one-time uses.

Other Taxes

Transient occupancy taxes, business license taxes and franchise fees provided approximately 14% of General Fund tax revenues and 12% of total General Fund revenues during Fiscal Year 2019. Transient occupancy taxes, which are levied on users of hotels in the City, are currently imposed at the rate of 10%.

As a result of an anticipated general economic slowdown and the closure of business in the wake of the COVID-19 outbreak, the City’s Fiscal Year 2021 budget reflects the receipt of approximately \$2,550,000 million in transient occupancy tax revenues, a decrease of approximately \$450,000 (15%) from the Fiscal Year 2020 budgeted amount, and \$4,800,000 in business license taxes, a decrease of approximately \$500,000

(9.4%) from the Fiscal Year 2020 budgeted amount. Franchise fees are budgeted at \$9,355,000 in Fiscal Year 2021, an increase of approximately \$555,000 (6.3%) from the Fiscal Year 2020 budgeted amount.

State of California Motor Vehicle In-Lieu Payments

The State imposes a Vehicle License Fee (the “VLF”), which is the portion of the fees paid in lieu of personal property taxes on a vehicle. The VLF is based on vehicle value and declines as the vehicle ages. Prior to the adoption of the Fiscal Year 2005 State Budget, the VLF was 2% of the value of a vehicle. Through legislation in prior Fiscal Years, the State enacted VLF reductions under which the State was required to “backfill” local governments for their revenue losses resulting from the lowered fee. The Fiscal Year 2005 State Budget permanently reduced the VLF from 2% to 0.65% of the value of a vehicle and deleted the requirement for backfill payments, providing instead that the amount of the backfill requirement will be met by an increase in the property tax allocation to cities and counties. See the caption “STATE OF CALIFORNIA BUDGET INFORMATION.”

As set forth in the Table below, for Fiscal Year 2020, the City received \$13,715,865 (based on unaudited actual results) in total VLF revenues, all of which was distributed from property tax receipts.

**TABLE 7
CITY OF SALINAS
STATE OF CALIFORNIA MOTOR VEHICLE IN-LIEU PAYMENTS**

<i>Fiscal Year</i>	<i>Amount Collected</i>	<i>Percentage Change</i>
2016	\$11,324,565	N/A
2017	11,850,635	4.6%
2018	12,407,314	4.7
2019	13,030,467	5.0
2020 ⁽¹⁾	13,715,865	5.3

⁽¹⁾ Based preliminary unaudited results to date. Subject to change.
Source: City.

Other Indebtedness

General Fund-Supported Obligations. Below is a list of obligations, including the Lease Agreement, that are payable from general revenues of the City. The City may issue other obligations payable from its general revenues at any time. See the caption “RISK FACTORS— General Considerations – Security for the 2020 Bonds.”

CITY OF SALINAS
SUMMARY OF GENERAL FUND-SUPPORTED OBLIGATIONS

<i>Obligation</i>	<i>Outstanding Amount⁽¹⁾</i>	<i>Year of Maturity</i>
<i>Bond and Similar Obligations</i>		
2018 Police Lease Revenue Bonds	\$ 48,825,000	2034
2018 Library Lease Revenue Bonds	14,340,000	2048
2015 Lease ⁽²⁾	7,785,000	2027
2014 Lease ⁽²⁾	18,539,341	2032
2014 Private Placement Obligation – Animal Shelter	1,958,000	2032
2008 Certificates ⁽²⁾	4,280,000	2038
<i>Other Obligations</i>		
2014 Fire Safety Vehicle Purchase	111,578	2021
2014 Fire Safety Vehicle Purchase	468,546	2024
2015 Fire Safety Vehicle Purchase	743,395	2025
2017 Fire Safety Vehicle Purchase	383,425	2023
2016 Street Sweeper Purchase	57,895	2021
2017 Street Sweeper Purchase	167,633	2027
2018 Aerial Lift Purchase	108,131	2023
2018 Equipment Purchase	<u>3,044,884</u>	2025
TOTAL	\$100,812,828	

⁽¹⁾ As of June 30, 2020.

⁽²⁾ These obligations are expected to be prepaid from proceeds of the 2020 Bonds. See the caption “PREPAYMENT PLAN.”
Source: City.

Each of the obligations that are summarized in the above table is described in further detail below.

2018 Police Lease Revenue Bonds. In 2018, the City and Salinas Public Facilities Inc., a California nonprofit public benefit corporation (“SPF”), entered into a lease arrangement pursuant to which the City leased certain real property to SPF in exchange for SPF’s agreement to construct a new City police department headquarters thereon; and (ii) SPF subleased such property back to the City in exchange for lease payments payable through December 2034. SPF issued bonds (the “**2018 Police Lease Revenue Bonds**”) which are secured by the City’s lease payments under the lease arrangement in order to finance the construction of the new police department headquarters. The City’s lease payments bear interest at rates of between 3.125% and 5% per annum. As of June 30, 2020, the 2018 Police Lease Revenue Bonds were outstanding in the aggregate principal amount of \$48,825,000.

The City has covenanted in the 2018 Police Lease Revenue Bond documents to budget and appropriate money annually for the lease payments payable thereunder from legally available funds, including the General Fund, on a basis that is substantially similar to the Lease Agreements. See the caption “SECURITY AND SOURCES OF PAYMENT FOR THE 2020 BONDS.”

2018 Library Lease Revenue Bonds. In 2018, the City and SPF entered into a lease arrangement pursuant to which the City leased certain real property to SPF in exchange for SPF’s agreement to construct a new City library thereon; and (ii) SPF subleased such property back to the City in exchange for lease payments payable through December 2048. SPF issued bonds (the “**2018 Library Lease Revenue Bonds**”) which are secured by the City’s lease payments under the lease arrangement in order to finance the construction of the new police department headquarters. The City’s lease payments bear interest at rates of between 3.25% and 5% per annum. As of June 30, 2020, the 2018 Library Lease Revenue Bonds were outstanding in the aggregate principal amount of \$14,340,000.

The City has covenanted in the 2018 Library Lease Revenue Bond documents to budget and appropriate money annually for the lease payments payable thereunder from legally available funds, including the General Fund, on a basis that is substantially similar to the Lease Agreements. See the caption “SECURITY AND SOURCES OF PAYMENT FOR THE 2020 BONDS.”

2015 Lease. In 2015, the City and Authority entered into the 2015 Lease, pursuant to which: (i) the City leased certain real property to the Authority in exchange for a lump sum payment; and (ii) the Authority subleased such property back to the City in exchange for lease payments payable through September 2027. Proceeds of the 2015 Lease were applied to refund certain prior obligations of the City. The lease payments bear interest at an average rate of 2.53%. As of June 30, 2020, the 2015 Lease was outstanding in the principal amount of \$7,785,000.

The City has covenanted in the 2015 Lease documents to budget and appropriate money annually for the lease payments payable thereunder from legally available funds, including the General Fund, on a basis that is substantially similar to the Lease Agreements. See the caption “SECURITY AND SOURCES OF PAYMENT FOR THE 2020 BONDS.”

See the caption “PREPAYMENT PLAN—2015 Lease” for a discussion of the anticipated prepayment of the 2015 Lease Refunding from proceeds of the 2020 Bonds.

2014 Lease. In 2014, the City and Authority entered into the 2014 Lease, pursuant to which: (i) the City leased certain real property to the Authority in exchange for a lump sum payment; and (ii) the Authority subleased such property back to the City in exchange for lease payments payable through November 2032. Proceeds of the 2014 Lease were applied to finance certain capital improvements of the City. The lease payments bear interest at an average rate of 3.03%. As of June 30, 2020, the 2014 Lease was outstanding in the principal amount of \$18,539,341.

The City has covenanted in the 2014 Lease documents to budget and appropriate money annually for the lease payments payable thereunder from legally available funds, including the General Fund, on a basis that is substantially similar to the Lease Agreements. See the caption “SECURITY AND SOURCES OF PAYMENT FOR THE 2020 BONDS.”

See the caption “PREPAYMENT PLAN—2014 Lease” for a discussion of the anticipated prepayment of the 2014 Lease from proceeds of the 2020 Bonds.

2014 Private Placement Obligation – Animal Shelter. In 2014, the City and the Authority entered into a lease arrangement (the “**2014 Private Placement Obligation – Animal Shelter**”) pursuant to which: (i) the City leased certain real property to the Authority in exchange for a lump sum payment; and (ii) the Authority subleased such property back to the City in exchange for lease payments payable through September 2032. Proceeds of the 2014 Private Placement Obligation – Animal Shelter were applied to refund certain prior obligations of the City and to finance certain capital improvements of the City. The lease payments bear interest at an average rate of 4.02%. As of June 30, 2020, the 2014 Private Placement Obligation – Animal Shelter was outstanding in the principal amount of \$1,958,000.

The City has covenanted in the 2014 Private Placement Obligation – Animal Shelter documents to budget and appropriate money annually for the lease payments payable thereunder from legally available funds, including the General Fund, on a basis that is substantially similar to the Lease Agreements. See the caption “SECURITY AND SOURCES OF PAYMENT FOR THE 2020 BONDS.”

Fire Safety Vehicle Financings. In 2014, the City purchased two fire engines pursuant to a lease/purchase arrangement. Under this arrangement, the City is obligated to make annual payments of \$113,832 through March 2021 at an interest rate of 2.02% from legally available funds, including the General

Fund. The City expects that 50% of the payments with respect to one of the fire engines will be made from money in its Airport Fund.

Also in 2014, the City purchased a ladder truck pursuant to a lease/purchase arrangement. Under this arrangement, the City is obligated to make annual payments of \$124,848 through March 2024 at an interest rate of 2.60% from legally available funds, including the General Fund.

In 2015, the City purchased a fire pumper and ladder truck pursuant to a lease/purchase arrangement. Under this arrangement, the City is obligated to make annual payments of \$209,261 through 2025 at an interest rate of 2.51% from legally available funds, including the General Fund.

In 2017, the City purchased a fire engine pursuant to a lease/purchase arrangement. Under this arrangement, the City is obligated to make annual payments of \$101,822 through 2023 at an interest rate of 2.40% from legally available funds, including the General Fund.

Street Sweeper Financings. In 2016, the City purchased a street sweeper pursuant to a lease/purchase arrangement. Under this arrangement, the City is obligated to make annual payments of \$59,557 through 2021 at an interest rate of 2.87% from legally available funds, including the General Fund.

In 2017, the City purchased another street sweeper pursuant to a lease/purchase arrangement. Under this arrangement, the City is obligated to make annual payments of \$58,774 through 2027 at an interest rate of 2.57% from legally available funds, including the General Fund.

In 2018, the City purchased another street sweeper pursuant to a lease/purchase arrangement. Under this arrangement, the City is obligated to make annual payments of \$93,601 through 2023 from legally available funds, including the General Fund.

The City expects to make all payments with respect to the street sweeper purchases from money in its Storm Sewer Enterprise Fund.

Aerial Lift Truck Financing. In 2018, the City purchased an aerial lift truck pursuant to a lease/purchase arrangement. Under this arrangement, the City is obligated to make annual payments of \$28,903 through 2023 from legally available funds, including the General Fund.

Equipment Purchase. In 2018, the City purchased radios and related public works equipment for use by the City's police and fire departments under a lease/purchase arrangement. Under this arrangement, the City is obligated to make monthly payments of \$47,026 through 2025 from legally available funds, including the General Fund.

Other Long Term Debt. As of June 30, 2019, the following outstanding obligations were payable from sources other than the City's general fund:

2012 Sewer Revenue Bonds. In 2012, the City issued bonds (the "**2012 Sewer Revenue Bonds**") that are payable semiannually through August 2042. Proceeds of the 2012 Sewer Revenue Bonds were applied to refund certain prior obligations of the City and to finance certain capital improvements of the City's sewer system. The 2012 Sewer Revenue Bonds bear interest at rates between 3% and 5%. As of June 30, 2019, the 2012 Sewer Revenue Bonds were outstanding in the principal amount of \$15,470,000. The City has pledged revenues of its sewer system to the repayment of the 2012 Sewer Revenue Bonds. The General Fund of the City is not pledged to or available for the repayment of the 2012 Sewer Revenue Bonds.

2015 HUD Loan. In 2015, the City entered into a loan contract (the "**HUD Loan**") with the United States Department of Housing and Urban Development ("**HUD**") in the maximum principal amount of \$9,390,000. Proceeds of loan amounts will be applied to finance affordable housing within the City. The

HUD Loan bears interest at a rate of 20 basis points above an applicable London Interbank Offered Rate. As of June 30, 2019, the HUD Loan was outstanding in the principal amount of \$2,820,000. The City has pledged Community Development Block Grant money (funds granted to the City pursuant to certain HUD programs) to the repayment of the HUD Loan. The General Fund of the City is not pledged to or available for the repayment of the HUD Loan.

2016 Assessment District Bonds. In 2016, the City issued bonds (the “**2016 Assessment District Bonds**”) that are payable semiannually through September 2025. Proceeds of the 2016 Assessment District Bonds were applied to refund certain prior obligations of the City. The 2016 Assessment District Bonds bear interest at rates between 2.3% and 2.7%. As of June 30, 2019, the 2016 Assessment District Bonds were outstanding in the principal amount of \$2,970,000. The 2016 Assessment District Bonds are payable solely from special assessments that are imposed on certain landowners in the City and constitute a lien against such landowners’ real property. No funds of the City are pledged to or available for the repayment of the 2016 Assessment District Bonds.

2018 Road Improvement Certificates. In 2018, the City and the California Statewide Communities Development Authority (“**CSCDA**”) entered into an installment purchase arrangement pursuant to which CSCDA sold certificates of participation (the “**2018 Road Improvement Certificates**”) and delivered the proceeds thereof to the City, which applied such proceeds to construct certain roadway and street improvements within the City and agreed to repay the proceeds to CSCDA on an installment basis through December 2046. The City’s installment payments bear interest at rates of between 3.5% and 5% per annum. As of June 30, 2019, the 2018 Road Improvement Certificates were outstanding in the aggregate principal amount of \$37,500,000. The 2018 Road Improvement Certificates are payable solely from proceeds of a sales and use tax imposed by the County for the specific purpose of funding roadway and street improvements. The General Fund of the City is not pledged to or available for the repayment of the 2018 Road Improvement Certificates.

Short-Term Debt. The City currently has no short-term debt outstanding.

Estimated Direct and Overlapping Bonded Debt. The estimated direct and overlapping bonded debt of the City as of June 30, 2020, is set forth in the table below. The information in the table below has been derived from data assembled and reported to the City by California Municipal Statistics, Inc. Neither the City nor the Authority have independently verified the information in the table below and the City and the Authority do not guarantee its accuracy.

**TABLE 8
CITY OF SALINAS
ESTIMATED DIRECT AND OVERLAPPING BONDED DEBT AS OF JUNE 30, 2020**

Fiscal Year 2019-20 Assessed Valuation: \$12,080,694,193

<u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 6/30/20</u>
Hartnell Joint Community College District	40.270%	\$ 79,250,018
Salinas Union High School District	67.838	84,628,006
Salinas Union High School District School Facilities Improvement District	95.433	4,250,517
Alisal Union School District	89.999	51,228,115
Salinas City School District	97.790	39,718,851
Santa Rita Union School District	71.524	14,011,518
Spreckels Union School District	2.280	190,769
Monterey County Water Resources Agency, Zone No. 2C	16.952	3,581,958
California Statewide Communities Development Authority		
Community Facilities District No. 97-1	100.000	807,542
City of Salinas Community Facilities District No. 2016-1	100.000	4,765,000

City of Salinas 1915 Act Bonds	100.000	<u>2,140,000</u>
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT		\$284,572,294
<u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u>		
Monterey County General Fund Obligations	16.952%	\$ 25,126,698
Monterey County Board of Education Certificates of Participation	16.952	226,309
Salinas Union High School District General Fund Obligations	67.838	12,173,135
Alisal Union School District Qualified Zone Academy Bonds	89.999	13,707,748
Salinas Union School District Certificates of Participation	97.790	15,725,743
City of Salinas General Fund Obligations	100.000	<u>111,358,340</u>
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT		<u>\$178,317,973</u>
Less: Monterey County obligations supported by medical center revenues		<u>593,444</u>
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT		\$177,724,529
<u>OVERLAPPING TAX INCREMENT DEBT:</u>		
Successor Agency Salinas Redevelopment Agency Central City Project Area	100.000%	\$ 2,267,881
TOTAL OVERLAPPING TAX INCREMENT DEBT		\$ 2,267,881
GROSS COMBINED TOTAL DEBT		\$465,158,148 ⁽¹⁾
NET COMBINED TOTAL DEBT		\$464,564,704

Ratios to Fiscal Year 2019-20 Assessed Valuation:

Total Overlapping Tax and Assessment Debt	2.36%
Combined Direct Debt (\$11,358,340)	0.92%
Gross Combined Total Debt	3.85%
Net Combined Total Debt	3.85%

Ratios to Successor Agency Redevelopment Incremental Valuation (\$806,678,443):

Total Overlapping Tax Increment Debt	0.28%
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⁽¹⁾ Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations. Source: California Municipal Statistics, Inc.

City Investment Policy

The City invests its funds in accordance with the City’s investment policy (the “**Investment Policy**”), which was most recently amended in June 2017. In accordance with Section 53600 *et seq.* of the California Government Code, idle cash management and investment transactions are the responsibility of the City Treasurer. The City’s Investment Policy sets forth the policies and procedures applicable to the investment of City funds and designates eligible investments. The Investment Policy sets forth a stated objective, among others, of insuring the safety of invested funds by limiting credit and market risks. Eligible investments are generally limited to the Local Agency Investment Fund which is operated by the California State Treasurer, local agency bonds, United States Treasury bills and notes, obligations issued by United States Government agencies, FDIC-insured or negotiable certificates of deposit, repurchase agreements, banker’s acceptances, guaranteed investment contract and commercial paper. Funds are invested in the following order of priority:

- Safety of Principal;
- Liquidity; and
- Return on Investment.

The City Treasurer is required to provide a quarterly report to the City Manager and the City Council showing the type of investment, date of maturity, amount invested, current market value, rate of interest and other such information as may be required by the City Council.

A summary of the City’s cash and investments as of June 30, 2019 is set forth in the below table. Approximately \$49.8 million (27%) of the total investment portfolio as of June 30, 2019, was attributed to the General Fund.

CITY OF SALINAS
SUMMARY OF CASH AND INVESTMENTS AS OF JUNE 30, 2019⁽¹⁾

Cash

Demand accounts at banks	\$ 5,751,961
Money market	1,964,531
Deposits held in trust by fiscal agent	211,813
Money market held in trust by fiscal agent	38,323,134
Petty cash and revolving fund	15,000
State local agency investment fund (LAIF)	114,633,346
Deferred compensation	
State local agency investment fund (LAIF)	<u>2,291,331</u>

Subtotal \$ 163,191,116

Investments

Investments held in trust by fiscal agent	\$ 13,585,725
Deferred compensation	
Trust deeds and properties	<u>6,577,225</u>

Subtotal \$ 20,162,950

Total cash and investments \$ 183,354,066

Investment Maturities

	<i>0-12 months</i>	<i>1-5 years</i>	<i>over 5 years</i>	<i>Total</i>
Investment Agreements	\$ 5,347,045	\$ 8,238,680	\$ -	\$ 13,585,725
Trust Deeds-Deferred Compensation	<u>-</u>	<u>6,577,225</u>	-	<u>6,577,225</u>
Total	<u>\$ 5,347,045</u>	<u>\$ 14,815,905</u>	<u>\$ -</u>	<u>\$ 20,162,950</u>

⁽¹⁾ Totals may not add due to rounding.
Source: City.

See Note 4 in Appendix C for further information with respect to City investments.

City Reserve Policies

The City’s financial policies provide that the City strive to maintain an 8% General Fund Operating Reserve pursuant to which the amount held in reserve is equal to at least 8% of budgeted General Fund operating expenditures. Five percent of the Operating Reserve is required primarily for cash flow purposes. Reserves above the 5% level are characterized as “rainy day” funds to guard against economic uncertainties. In certain years, the City has utilized funds in excess of the amounts required to maintain its reserve policy levels to prepay portions of its CalPERS pension liabilities (as discussed under the caption “—Retirement Contributions—CalPERS”).

The City’s Fiscal Year 2010 budget was balanced using \$9.4 million of money from the General Fund (including Measure E) Operating Reserve. The use of Operating Reserve money in Fiscal Years 2009 and 2010 was required to maintain City services during the economic recession at such time. As a result of the use of such money, the Operating Reserve was depleted to zero. Since Fiscal Year 2010, using carryover funds (as discussed under the caption “—Budget Procedure, Current Budget and Historical Budget Information—Budget Timeline”) and at the mid-year budget review, the City Council has replenished the Operating Reserve.

As a result of such deposits, the Operating Reserve contained approximately \$9.6 million as of June 30, 2019, which was slightly above the target of 8% of budgeted General Fund expenditures (\$117,972,113 for Fiscal Year 2020). The amount of the Operating Reserve that was allocated to Measure E (\$1.0 million) in Fiscal Year 2020 was approximately 8% of the Fiscal Year 2020 Measure E operating budget of \$12.1 million and will function both as an operating reserve and a capital reserve.

A summary of budgeted Operating Reserves for Fiscal Year 2021 is set forth below. The City does not plan to draw upon such reserves in Fiscal Year 2021 or later Fiscal Years.

**CITY OF SALINAS
FISCAL YEAR 2021 BUDGETED GENERAL FUND RESERVES**

<i>Fund Balance Reserves</i>	<i>General Fund</i>	<i>Measure E</i>	<i>Measure G</i>	<i>Total</i>
Operating Reserve ⁽¹⁾	\$ 6,830,000	\$ 962,000	\$ 1,760,000	\$ 9,552,000

⁽¹⁾ Amount held as of June 30, 2020.
Source: City.

In addition to the above-described reserves, the City holds \$2,500,000 in a reserve fund for the New York Life Plan, as discussed under the caption “—Retirement Contributions—New York Life Plan.”

Retirement Contributions

General. The City’s funding of pensions for safety (police and fire department) and non-safety employees constitutes a significant portion of its General Fund expenses. The City participates in several plans to fund pension benefits for its employees through CalPERS and New York Life Insurance Company (“**New York Life**”). The City makes required annual contributions to such plans. The City’s total pension assets include funds held by both CalPERS and New York Life, and its net pension asset or liability is based on the amount of such funds. Assumptions used by both funds to calculate the net pension asset or liability are consistent.

This caption contains certain information relating to CalPERS. The information is primarily derived from information produced by CalPERS, its independent accountants and its actuaries. The City has not independently verified the information provided by CalPERS and makes no representations and expresses no opinions as to the accuracy of the information provided by CalPERS.

The comprehensive annual financial reports of CalPERS are available on its Internet website at www.calpers.ca.gov. The CalPERS website also contains CalPERS’ most recent actuarial valuation reports and other information concerning benefits and other matters. Such information is not 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. Actuarial assessments will change with the future experience of the pension plans.

In 2012, GASB adopted standards (GASB Statement No. 68, or “**GASB 68**”) with respect to accounting and financial reporting by state and local government employers for defined benefit pension plans. The standards govern how expenses and liabilities are calculated and how state and local government employers report those expenses and liabilities in their financial statements. GASB 68 includes the following requirements: (i) unfunded pension liabilities are shown on the government’s balance sheet; (ii) pension expense incorporates a 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 five-year smoothing period. The reporting requirements took effect in Fiscal Year 2015.

Based on the adoption of the accounting standards, beginning with the Fiscal Year 2015 actuarial valuation, the annual required contribution for pensions and the annual pension expense are different. GASB 68 governs accounting reporting and disclosure requirements, but it does not change the City’s pension plan

funding obligations. See the caption “—City Financial Statements—Prior Period Adjustment” for a discussion of a prior period adjustment to the City’s audited financial statements relating to the implementation of GASB 68.

Under GASB 68, which was implemented beginning in Fiscal Year 2015, the City’s pension plans had an aggregate net pension liability of \$132,828,943 as of June 30, 2015. The City had an aggregate net pension liability in the amount of approximately \$187,676,442 as of June 30, 2019. The net pension liability is the difference between total pension liability and the fair market value of pension assets.

CalPERS. The City contributes to CalPERS, an agent multiple-employer public employee defined benefit pension plan, on behalf of permanent and probationary City employees. CalPERS provides retirement, disability and death benefits and annual cost of living adjustments to plan members and beneficiaries. CalPERS 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. Participants in the City’s CalPERS plans contribute the full amount of the required employee contribution, which is up to 9.027% of their annual covered salary, depending on benefit level. Participants in City’s police and fire Safety plans also contribute an additional 3%.

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. The total plan contributions are determined through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount, expressed as a percentage of payroll, that is necessary to finance the costs of benefits that are earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

The City’s contribution rates for Fiscal Year 2019 and 2020 and projected normal cost rates for Fiscal Year 2021 are set forth in the below table. The total projected unfunded accrued liability for all of the City’s CalPERS plans for Fiscal Year 2021 is approximately \$197 million.

**CITY OF SALINAS
CALPERS PLANS EMPLOYER CONTRIBUTION RATES**

<i>Fiscal Year</i>	<i>Miscellaneous Plan</i>	<i>Police Safety Plan</i>	<i>Fire Safety Plan – Tier 1</i>	<i>Fire Safety Plan – Tier 2</i>
2019	17.4%	52.5%	83.4%	12.8%
2020	18.8	54.9	94.9	12.8
2021 ⁽¹⁾	20.4	58.8	77.5	13.5

⁽¹⁾ Projected. Subject to change.
Source: City.

For Fiscal Years 2019 and 2020, the City made total contributions to CalPERS (for all of its Miscellaneous and Safety plans) of \$17,199,139 and \$22,951,957, respectively. Included in the Fiscal Year 2020 amount was a one-time prefunding of \$4.5 million targeting an amortization basis that will save the City approximately \$551,000 per year for the next ten years and \$1.8 million in interest savings in its CalPERS account. The City has utilized this approach in prior years, making an \$11.3 million prefunding payment to CalPERS in Fiscal Year 2018. The City plans to make a pension contribution of \$21,924,165 for Fiscal Year 2021 and is expecting to make significantly higher pension contributions in future years. See the caption “—General Economic Condition and Outlook of the City—Salinas Plan and Fiscal Sustainability” for a discussion

of a projected structural deficit partly as a result of such expected increases in pension contributions, as well as the City’s plan to address such deficit in the coming years. The City also notes that contributions in future years may increase as a result of losses in CalPERS’ portfolio resulting from stock market declines in the wake of the COVID-19 outbreak, although the City is currently unable to quantify the magnitude of any such increases, which will be effected commencing in Fiscal Year 2023. See the caption “THE CITY—COVID-19 Outbreak.”

A summary of principal assumptions and methods used to determine the total pension liability for the City’s CalPERS plans for Fiscal Year 2019 is shown below.

**CITY OF SALINAS
CALPERS PLANS ACTUARIAL ASSUMPTIONS**

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 ⁽¹⁾	7.15%
Inflation	2.75%
Salary Increases	Varies by Entry age and service
Payroll Growth	3.00%
Investment Rate of Return	7.50% net of pension plan investment and administrative expenses; includes projected inflation rate of 2.75%
Mortality Rate Table ⁽²⁾	Derived using CalPERS’ experience study

⁽¹⁾ On December 21, 2016, the CalPERS Board voted to reduce the discount rate to 7.00% over the next three years beginning July 1, 2018. The discount rate for Fiscal Year 2018 is 7.15%.

⁽²⁾ The mortality table used was developed based on CalPERS-specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB (for the Miscellaneous and Policy Safety plans) and 15 years of mortality improvements using Society of Actuaries 90% of Scale MP 2016.

Source: City.

**CITY OF SALINAS
CALPERS PLANS BENEFITS SUMMARY**

Miscellaneous

	Prior to January 1, 2013	On or after January 1, 2013
Hire Date		
Benefit formula	2.0% @ 55	2.0% @ 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit Payments	monthly for life	monthly for life
Retirement age	50-55	52-67
Monthly benefits, as a % of eligible compensation	2.0% to 2.418%	1.0% to 2.5%
Required employee contribution rates	7.00%	6.25%
Required employer contribution rates	7.85%	7.84%

Police

	Prior to January 1, 2013	On or after January 1, 2013
Hire Date		
Benefit formula	3.0% @ 50	2.7% @ 57
Benefit vesting schedule	5 years of service	5 years of service
Benefit Payments	monthly for life	monthly for life
Retirement age	50	52-57
Monthly benefits, as a % of eligible compensation	3.00%	2.0% to 2.7%
Required employee contribution rates	9.00%	12.00%
Required employer contribution rates	20.96%	20.96%

Fire Tier 1

	Prior to January 1, 2013	On or after January 1, 2013
Hire Date		
Benefit formula	3.0% @ 50	2.7% @ 57
Benefit vesting schedule	5 years of service	5 years of service
Benefit Payments	monthly for life	monthly for life
Retirement age	50	52-57
Monthly benefits, as a % of eligible compensation	3.00%	2.0% to 2.7%
Required employee contribution rates	9.00%	9.00%
Required employer contribution rates	22.35%	12.78%

Fire Tier 2

	Prior to January 1, 2013	On or after January 1, 2013
Hire Date		
Benefit formula	3.0% @ 55	2.5% @ 57
Benefit vesting schedule	5 years of service	5 years of service
Benefit Payments	monthly for life	monthly for life
Retirement age	55	52-57
Monthly benefits, as a % of eligible compensation	3.00%	2.0% to 2.7%
Required employee contribution rates	9.00%	9.00%
Required employer contribution rates	19.35%	12.78%

Source: City.

City employees who were hired on and after January 1, 2013 and who were not previously CalPERS members receive benefits based on the following formulas: (i) 2.0% at age 62 formula for Miscellaneous employees; and (ii) 2.7% at age 57 for Safety employees. 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 SALINAS
PENSIONABLE INCOME CAPS FOR CALENDAR YEAR 2019
(AB 340 AND NON-AB 340 EMPLOYEES)**

	<i>Employees Hired Before January 1, 2013 (Non-AB 340 Employees)</i>	<i>Employees Hired After January 1, 2013 (AB 340 Employees)</i>
Maximum Pensionable Income	\$280,000	\$149,016
Maximum Pensionable Income if also Participating in Social Security	N/A	\$124,180

Source: City.

The changes in the net pension liability for the City’s CalPERS plans were as follows:

**CITY OF SALINAS
CALPERS PLANS CHANGES IN NET PENSION LIABILITY**

	<i>Increase (Decrease)</i>		
	<i>Total Pension Liability</i>	<i>Plan Fiduciary Net Position</i>	<i>Net Pension Liability / (Asset)</i>
	<i>Miscellaneous Plan</i>		
Balance at June 30, 2017	\$108,666,898	\$78,486,898	\$30,180,000
Changes ⁽¹⁾	<u>12,197,176</u>	<u>7,174,844</u>	<u>5,022,332</u>
Balance at June 30, 2018	\$120,864,074	\$85,661,742	\$35,202,332
	<i>Police Safety Plan</i>		
Balance at June 30, 2017	\$277,890,624	\$180,667,238	\$ 97,223,386
Changes ⁽¹⁾	<u>26,726,825</u>	<u>11,412,896</u>	<u>15,313,929</u>
Balance at June 30, 2018	\$304,617,449	\$192,080,134	\$112,537,315
	<i>Fire Safety Plan – Tier 1</i>		
Balance at June 30, 2017	\$161,243,902	\$106,167,035	\$55,076,867
Changes ⁽¹⁾	<u>9,691,379</u>	<u>15,571,684</u>	<u>(5,880,305)</u>
Balance at June 30, 2018	170,935,281	121,738,719	\$49,196,562
	<i>Fire Safety Plan – Tier 2</i>		
Balance at June 30, 2017	\$3,388,874	\$3,206,920	\$181,954
Changes ⁽¹⁾	<u>1,448,673</u>	<u>1,227,550</u>	<u>221,123</u>
Balance at June 30, 2018	\$4,837,547	\$4,434,470	\$403,077

⁽¹⁾ Changes reflect service costs, administrative expenses, employee and employer contributions, interest on liability, investment income, differences between expected and actual experience and other factors.
Source: CalPERS actuarial reports.

The following table presents the net pension liability of the City’s CalPERS plans, calculated using the discount rate of 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 current rate.

CITY OF SALINAS
SENSITIVITY OF THE CALPERS PLANS NET PENSION LIABILITY TO CHANGES IN THE DISCOUNT RATE

	<i>Discount Rate – 1% (6.15%)</i>	<i>Current Discount Rate (7.15%)</i>	<i>Discount Rate + 1% (8.15%)</i>
<i>Miscellaneous Plan</i>			
Plan’s Net Pension Liability/(Asset)	\$ 47,494,057	\$30,961,714	\$17,326,642
<i>Police Safety Plan</i>			
Plan’s Net Pension Liability/(Asset)	141,323,258	100,313,844	66,832,653
<i>Fire Safety Plan – Tiers 1 and 2</i>			
Plan’s Net Pension Liability/(Asset)	69,131,639	45,259,034	25,699,709

Source: City.

On December 21, 2016, the CalPERS Board of Administration voted to lower its discount rate from the then-current rate of 7.50% to 7.00%. Effective with its June 2017 Comprehensive Annual Financial Report, CalPERS reduced its discount rate to 7.15% and its investment rate of return to 7.15%. The discount rate for Fiscal Year 2021 is 7.00%.

For public agencies such as the City, the new discount rate took effect July 1, 2017. Lowering the discount rate means that employers that 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.

CalPERS earnings reports for Fiscal Years 2010 through 2019 report investment gains of approximately 13.3%, 21.7%, 0.1%, 13.2%, 18.4%, 2.4%, 0.6%, 11.2%, 8.6% and 6.7%, respectively, and news outlets have reported that CalPERS’ portfolio lost approximately 10% of its value between March and May 2020 as a result of stock market declines in the wake of the COVID-19 outbreak. The City notes that contributions in future years may increase as a result of such losses in CalPERS’ portfolio, although the City is currently unable to quantify the magnitude of any such increases, which will be effected commencing in Fiscal Year 2023. See the caption “THE CITY—COVID-19 Outbreak.” Future earnings performance may increase or decrease future contribution rates for plan participants, including the City. No assurance can be provided that the City’s CalPERS plan expenses will not increase significantly in the future.

New York Life. In addition to the City’s CalPERS plans, certain non-safety employees hired prior to June 19, 1995 participate in a closed single-employer defined benefit pension plan offered by New York Life (the “**New York Life Plan**”). The New York Life Plan benefit offers a formula of 2% at age 60 for vested employees. The New York Life Plan was established on September 1, 1954 and has been amended and restated from time to time since that date. As of the most recent valuation date of September 1, 2017, there

were 78 participants in the New York Life Plan. The total covered payroll for employees participating in the New York Life Plan for Fiscal Year 2020 was \$1,212,711.

Benefits vest after five years of service with the City. Pension payments upon a participant’s attaining age 60 consist of an annual retirement benefit payable monthly, as a straight line annuity, as a ten year certain and life annuity, or as a lump sum. Benefits are in an amount equal to 2% of the average earnings paid to the employee during the twelve consecutive months of service with the City in which the employee’s earnings were highest, multiplied by the number of years and completed months of plan participation. The New York Life Plan allows early retirement after reaching age 55 and completing five years of participation and also provides death and survivor benefits.

Prior to January 1, 1979, participants were required to make specified levels of contributions to the plan in order to accrue benefits under the New York Life Plan. For the period commencing January 1, 1979, through December 31, 1993, there were no participant contributions under the New York Life Plan. Since January 1, 1994, participants have been required to contribute 4.5% of their compensation to the New York Life Plan. Since September 1, 1996, participant contributions have been made by the City under the employee pretax pick-up provision for government-sponsored plans allowed under the Internal Revenue Code. As established in the Memorandum of Understanding for personnel of the SEIU Blue Collar bargaining group, the City contributes 4.5% of the employee retirement contribution.

The annual pension cost of the New York Life Plan is actuarially determined on an annual basis. For the period ending on August 31, 2018, the total pension liability under the New York Life Plan was \$20,559,745 and the fiduciary net position was \$4,464,019, for a net pension liability of \$16,095,726 and a funded ratio of 21.7%. In Fiscal Year 2020, the City made an employer contribution of \$545,720 to the New York Life Plan. The City made an additional contribution of \$2,000,000. Employees contributed 4.5% of the employee retirement contribution, as described in the prior paragraph.

For the year ended June 30, 2019, the City recognized a pension expense of \$1,058,278 with respect to the New York Life Plan.

A summary of principal assumptions and methods used to determine the total pension liability for the New York Life Plan for Fiscal Year 2019 is shown below.

**CITY OF SALINAS
NEW YORK LIFE PLAN ACTUARIAL ASSUMPTIONS**

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	3.40%
Inflation	2.25%
Salary Increases	2.00%
Investment Rate of Return	3.40%
Mortality Rate Table	Derived using Society of Actuaries Scale MP-2017

Source: City.

The changes in the net pension liability for the New York Life Plan were as follows:

**CITY OF SALINAS
NEW YORK LIFE PLAN CHANGES IN NET PENSION LIABILITY**

	<i>Increase (Decrease)</i>		
	<i>Total Pension Liability</i>	<i>Plan Fiduciary Net Position</i>	<i>Net Pension Liability / (Asset)</i>
Balance at August 31, 2017	\$ 19,778,000	\$ 2,660,000	\$ 17,118,000
Changes ⁽¹⁾	<u>781,745</u>	<u>1,804,019</u>	<u>(1,022,274)</u>
Balance at August 31, 2018	\$ 20,559,745	\$ 4,464,019	\$ 16,095,726

⁽¹⁾ Changes reflect service costs, administrative expenses, employee and employer contributions, interest on liability, investment income, changes in assumptions and other factors.

Source: City.

The following table presents the net pension liability of the New York Life Plan, calculated using the discount rate of 3.40%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.40%) or 1 percentage point higher (4.40%) than the current rate:

**CITY OF SALINAS
SENSITIVITY OF THE NEW YORK LIFE PLAN NET PENSION LIABILITY TO CHANGES IN
THE DISCOUNT RATE**

	<i>Discount Rate – 1% (2.40%)</i>	<i>Current Discount Rate (3.40%)</i>	<i>Discount Rate + 1% (4.40%)</i>
	<i>Miscellaneous Plan</i>		
Plan’s Net Pension Liability/(Asset)	\$17,058,347	\$16,095,726	\$15,267,054

Source: City.

ICMA Retirement Corporation Defined Contribution Plan. On June 19, 1995, the City established a qualified retirement program in accordance with Internal Revenue Code Section 401(a). This defined contribution 401(a) Money Purchase Retirement Plan was established with International City Managers Association Retirement Corporation (the “**ICMA Plan**”). The City’s annual contribution to this plan is determined by the employer required contribution to the New York Life Plan.

In Fiscal Year 2019, the City’s contribution to the ICMA Plan was \$15,714 and participant contributions totaled \$15,714, or 4.5% of the participants’ salaries, as required by the ICMA Plan. Participants direct their investments, without restriction, among various investments options available under the ICMA Plan.

For additional information relating to the City’s pension plans, see Note 14 in Appendix C.

Other Post-Employment Benefits

In addition to the pension benefits that are described under the caption “—Retirement Contributions,” the City provides other post-employment health care benefits (“**OPEB**”) to qualified retired employees pursuant to a Public Employees Medical and Hospital Care Act (“**PEMHCA**”) plan that is administered by CalPERS. The PEMHCA plan is a multi-employer healthcare plan that provides medical insurance benefits to active and eligible retirees who retire from the City, and their families, in accordance with the City’s MOUs. See the caption “—Government and Administration.”

Under the PEMHCA plan, the City pays 25% of retiree and spouse health insurance premiums up to a 2019 amount of \$129.20 per month. Certain safety employees received no more than \$100 per month in 2019, with benefits paid only until Medicare eligibility. There were 550 active plan members as of the most recent actuarial valuation date of June 30, 2017, including 400 retirees with an average age of 67.1.

GASB has issued two related pronouncements, known as GASB 43 and GASB 45, related to funding and accounting for OPEB liabilities. Under GASB 45, costs of OPEB must be matched to the current period in which employees are performing services for the City. In effect, there is an exchange between the employee and the City in which the employee renders services to the City and in consideration therefor receives certain salaries and benefits, part of which are OPEB, which the employee will not actually use until some point in the future. GASB 45 also requires the City to provide information about the accrued actuarial liabilities for the promised benefits for past services, extent to which such liabilities have been funded and the extent to which there will be demands from OPEB on the City’s future cash flows.

The City has been required to comply with the accounting and reporting requirements of GASB 45 since Fiscal Year 2008. In 2017, the City engaged an actuarial consultant to calculate the City’s OPEB current funding status. The actuarial report concluded that the City’s accrued actuarial liability for OPEB based upon a 4.95% discount rate was \$17,359,000 as of June 30, 2017. The consultant’s report also concluded that the City’s annual required contribution is \$2,322,000 as of June 30, 2017, representing the sum of the normal cost (\$781,000) and the unfunded accrued actuarial liability (\$1,541,000). The annual required contribution is calculated assuming that: (i) the unfunded accrued actuarial liability will be amortized over the next 30 years; (ii) benefits will remain constant; and (iii) funding in excess of actual benefit costs will be invested at a 7.3% annual return, and making certain other assumptions regarding medical cost inflation.

The actuarial report was developed in accordance with accounting standards established by GASB Statement No. 75, which requires that the valuation include the value of the “implied subsidy” of older retired participants by a younger active workforce in a pooled rate medical plan. The Fiscal Year 2019 implied subsidy represents \$685,000 of the total \$2,322,000 annual required contribution. The City intends to continue to pay the full annual required contribution without consideration of the impact of the implied subsidy.

The City is not required to fund the amortization of the unfunded actuarial liability. Prior to 2008, the City’s policy was to pay for OPEB plan costs as they were incurred. In 2008, the City entered into a contract with the California Employer’s Benefit Retirement Trust (“**CERBT**”) pursuant to which the City irrevocably deposits funds toward the City’s accrued actuarial liability in addition to current year normal costs. In each of Fiscal Years 2018, 2019 and 2020, the City deposited \$250,000 into the CERBT trust fund. As of June 30, 2020, the City’s CERBT trust fund held \$3,059,469 in assets. The City believes that the establishment of the CERBT trust fund and pre-funding of the City’s OPEB liability will significantly reduce the City’s unfunded OPEB obligation.

Changes in the net liability for the City’s OPEB plan for Fiscal Year 2019, were as follows.

**CITY OF SALINAS
CHANGES IN OPEB PLAN LIABILITY**

	<i>Increase / (Decrease)</i>		
<i>Total OPEB Plan Liability</i>	<i>OPEB Plan Fiduciary Net Position</i>	<i>Net OPEB Plan Liability / (Asset)</i>	
Balance at June 30, 2018	\$22,499,995	\$2,304,596	\$20,195,399
Changes	<u>622,847</u>	<u>403,544</u>	<u>219,399</u>
Balance at June 30, 2019	\$23,122,842	\$2,708,140	\$20,414,702

Source: City.

The following table presents the net liability of the City’s OPEB Benefit plan, calculated using the discount rate applicable to Fiscal Year 2019 (4.95%), as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (3.95%) or 1 percentage point higher (5.95%) than the current rate:

CITY OF SALINAS
SENSITIVITY OF THE OPEB PLAN NET LIABILITY TO CHANGES IN THE DISCOUNT RATE

	<i>Discount Rate – 1% (3.95%)</i>	<i>Current Discount Rate (4.95%)</i>	<i>Discount Rate + 1% (5.95%)</i>
Plan’s Net Liability/(Asset)	\$23,186,625	\$20,195,399	\$17,718,987

Source: City.

Future changes in funding policies and assumptions, including those related to assumed rates of investment return and healthcare cost inflation, could trigger increases in the City’s annual required OPEB plan contributions, and such increases could be material to the finances of the City. No assurance can be provided that such expenses will not increase significantly in the future. The City does not expect that any increased funding of OPEB benefits will have a material adverse effect on the ability of the City to pay the Base Rental Payments.

For additional information relating to the City’s OPEB obligations, see Note 15 in Appendix C.

City Financial Statements

General. A copy of the most recent audited financial statements of the City (the “**Financial Statements**”) for the Fiscal Year ended June 30, 2019, prepared by McGilloway, Ray, Brown & Kaufman, Salinas, California (the “**Auditor**”), are included as Appendix C to this Official Statement. The Auditor’s letter dated December 12, 2019 is set forth therein. The Financial Statements are public documents and are included within this Official Statement without the prior approval of the Auditor. Accordingly, the Auditor has not performed any post-audit analysis of the financial condition of the City, nor has the Auditor reviewed or audited this Official Statement.

Certain financial information that is set forth in this Official Statement is derived from the Financial Statements and the City’s audited financial statements for prior 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 Auditor has not reviewed or audited such financial information or any other portion of this Official Statement.

In the Financial Statements, data relating to governmental funds such as the General Fund focus on current financial resources, which emphasize near-term inflows and outflows of expendable resources as well as balances of expendable resources at the end of each Fiscal Year.

The City’s accounting and budgeting records for general governmental operations are maintained on a modified accrual basis, with the revenues being recorded when available and measurable and the expenditures being recorded when the services or goods are received or the liabilities incurred, in each case regardless of the timing of related cash flows. As examples, property taxes, franchise fees, investment income and charges for services are considered to be susceptible to accruals and recognized as revenues in the year for which they are levied. For these purposes, the City considers revenues as available if they are collected within 60 days of the end of the current fiscal period. Expenditures such as principal and interest on long-term debt and certain estimated liabilities such as compensated absences, OPEB and self-insurance claims are recorded only when payment is due.

Prior Period Adjustments. For Fiscal Year 2015, the City implemented the provisions of GASB 68, as discussed under the caption “—Retirement Contributions.” After the implementation of GASB 68, management evaluated the allocation of the net pension liability and the related deferred outflows of resources and deferred inflows of resources to the City’s internal service funds, and determined that an allocation to the internal service funds was necessary. A prior period adjustment in the amount of \$756,738 was recorded to correct the beginning net pension liability and related deferred outflows of resources and deferred inflows of resources and unrestricted net position.

In Fiscal Year 2019, the City implemented the provisions of GASB Statement No. 84 relating to fiduciary activities. As part of this process, prior period adjustments totaling \$1,745,506 were made to increase the City’s beginning net position as of July 1, 2018 for amounts that had been previously reported as fiduciary activities. The adjustment included transfers of \$1,399,735 to the General Fund. In addition, the OPEB and New York Life pension trusts (which are discussed under the captions “—Other Post-Employment Benefits” and “—Retirement Contributions—New York Life,” respectively) were added to the City’s pension trust fund accounting as of July 1, 2018 in the amounts of \$2,306,078 and \$3,168,639, respectively.

In addition, in 2019, the City evaluated unearned revenues of certain non-major funds and determined that \$1,351,773 of such amount had met all revenue recognition criteria. As a result, the City increased its net position by \$1,351,773. As part of this process, the City also discovered that two fire vehicles and a police tactical vehicle had been inadvertently expensed in the prior year. A correction was made in the amount of \$1,654,542 to increase the City’s beginning net position as of July 1, 2018 and add the vehicles to the City’s capital assets.

THE AUTHORITY

The Salinas Facilities Financing Authority was organized pursuant to the provisions of Articles 1 through 4 of Chapter 5 of Division 7 of Title 1 of the State Government Code and a Joint Exercise of Powers Agreement, dated as of January 1, 2014, by and between the City and the Parking Authority. The Authority has no financial liability to the Owners of the 2020 Bonds with respect to the payment of Base Rental Payments by the City or with respect to the performance by the City of the other agreements and covenants that the City is required to perform.

STATE OF CALIFORNIA BUDGET INFORMATION

General

Information about the State budget is regularly available at various State-maintained websites. Text of proposed and adopted budgets may be found at the website of the State Department of Finance (the “**DOF**”), <http://www.dof.ca.gov>, under the heading “California Budget.” An impartial analysis of the budget is posted by the Legislative Analyst’s Office (the “**LAO**”) at <http://www.lao.ca.gov>. In addition, various State Official Statements, many of which contain a summary of the current and past State budgets and the impact of those budgets on cities in the State, may be found at the website of the State Treasurer, <http://www.treasurer.ca.gov>. The information referred to is prepared by the respective State agency maintaining each website and not by the City or the Authority, and the City and the Authority take no responsibility for the continued accuracy of these Internet addresses or for the accuracy, completeness or timeliness of information posted there, and such information is not incorporated herein by these references.

Budget for State Fiscal Year 2019-20

On June 27, 2019, the Governor signed into law the State budget for State fiscal year 2019-20 (the “**2019-20 Budget**”). The following information is drawn from summaries of the 2019-20 Budget prepared by the DOF and the LAO.

For State fiscal year 2018-19, the 2019-20 Budget projected total general fund revenues and transfers of approximately \$138 billion and total expenditures of \$142.7 billion. The State was projected to end the State fiscal year 2018-19 with total available general fund reserves of approximately \$20.7 billion, including approximately \$5.4 billion in the traditional general fund reserve, \$14.4 billion in the Budget Stabilization Account (the “**BSA**”), the State’s primary reserve fund, and \$900 million in the Safety Net Reserve Fund for the CalWORKs and Medi-Cal programs. For State fiscal year 2019-20, the 2019-20 Budget projected total general fund revenues and transfers of approximately \$143.8 billion and authorized expenditures of approximately \$147.8 billion. The State was projected to end fiscal year 2019-20 with total available general fund reserves of approximately \$18.8 billion, including \$1.4 billion in the traditional general fund reserve, \$16.5 billion in the BSA and \$900 million in the Safety Net Reserve Fund.

For State fiscal year 2019-20, the 2019-20 Budget set the minimum school funding guarantee at \$81.1 billion. Other significant features of the 2019-20 Budget include a \$3.15 billion payment to the California State Teachers Retirement System and CalPERS to reduce long-term liabilities for K-14 school districts. Of this amount, the remaining \$2.3 billion would be paid towards employers’ long-term unfunded liability.

For additional information regarding the 2019-20 Budget, see the DOF and LAO websites. The information presented on such websites is not incorporated herein by reference.

Budget for State Fiscal Year 2020-21

On January 10, 2020, prior to the COVID-19 outbreak, the Governor released his proposed State budget for State fiscal year 2020-21. On May 14, 2020, the Governor released the May Revision to the Proposed 2020-21 State Budget (the “**May Revision**”). The May Revision noted that the COVID-19 pandemic and resulting recession has changed the State’s fiscal landscape dramatically. Unemployment claims have surged, with increased unemployment claims of 4.4 million from mid-March to May 9, 2020. Job losses have occurred in nearly every sector of the economy and personal income is projected to decline by 9% in 2020.

Following record economic expansion, the United States economy entered into a recession in March 2020, causing an immediate negative impact on State revenues, with all three of the State’s major revenue sources showing significant declines relative to the Governor’s original budget forecast. From fiscal years 2018-19 through 2020-21, the May Revision baseline revenue estimate decreased by over \$43 billion, before accounting for transfers. The changes in the three largest State tax sources are:

- Personal income tax revenues, which were revised downward by \$32.6 billion (including \$6.9 billion less in State fiscal year 2019-20 and \$26.3 billion less in State fiscal year 2020-21) due to a decline in all income sources, but particularly wages, proprietorship income and capital gains;
- Sales and use tax receipts, which were revised downward by almost \$10 billion (\$2.2 billion less in State fiscal year 2019-20 and \$7.7 billion less in State fiscal year 2020-21) due mainly to lower consumption and investment by business; and
- Corporate tax revenues, which were revised downward by over \$5 billion based on a significant drop in corporate profits.

On June 29, 2020, the Governor signed into law the State budget for State fiscal year 2020-21 (the “**2020-21 Budget**”). The following information is drawn from summaries of the 2020-21 Budget prepared by the DOF and the LAO.

The 2020-21 Budget acknowledges that the rapid onset of COVID-19 has had an immediate and severe impact on the State’s economy. The ensuing recession has caused significant job losses, precipitous drops in family and business income and has exacerbated income inequality. The May Revision forecast

included a peak unemployment rate of 24.5% in the second quarter of 2020 and a decline in personal income of nearly 9%. The 2020-21 Budget reports that the official unemployment rate exceeded 16% in both April and May 2020.

The 2020-21 Budget includes a number of measures intended to address a projected deficit of \$54.3 billion and occasioned principally by declines in the State's three main tax revenues (personal income, sales and use and corporate, as discussed above). The measures included in the 2020-21 Budget, and described below, are intended to close this deficit and set aside \$2.6 billion in the State's traditional general fund reserve, including \$716 million for the State to respond to the changing conditions of the COVID-19 pandemic:

- *Drawdown of Reserves* – The 2020-21 Budget draws down \$8.8 billion in total State reserves, including \$7.8 billion from the BSA, \$450 million from the Safety Net Reserve and all money in the Public School System Stabilization Account.
- *Triggers* – The 2020-21 Budget includes \$11.1 billion in reductions and deferrals that would be restored if at least \$14 billion in federal funds are received by October 15, 2020. If the State receives less than this amount, reductions and deferrals would be partially restored. The triggers include \$6.6 billion in deferred spending on education, \$970 million in funding for the California State University and University of California systems, \$2.8 billion in State employee compensation and \$150 million for courts, as well as funding for various other State programs. The triggers would also fund an additional \$250 million for county programs to backfill revenue losses.
- *Federal Funds* – The 2020-21 Budget relies on \$10.1 billion in federal funds, \$8.1 billion of which has already been received. This relief includes recent Congressional approval for a temporary increase in the federal government's share of Medicaid costs, a portion of the State's Coronavirus Relief Fund allocation pursuant to the CARES Act and federal funds provided for childcare programs.
- *Borrowing/Transfers/Deferrals* – The 2020-21 Budget relies on \$9.3 billion in special fund borrowing and transfers, as well as deferrals to K-14 education spending. Approximately \$900 million of special fund borrowing is associated with reductions to State employee compensation and is subject to the triggers discussed above.
- *Increased Revenues* – The 2020-21 Budget temporarily suspends for three years net operating loss tax deductions for medium and large businesses and limits business tax credits, with an estimated increase in tax revenues of \$4.3 billion in State fiscal year 2020-21.
- *Cancelled Expansions, Updated Assumptions and Other Measures* – The 2020-21 Budget includes an additional \$10.6 billion of measures, including cancelling multiple programmatic expansions, anticipated governmental efficiencies, higher ongoing revenues above the forecast included in the May Revision and lower health and human services caseload costs than assumed by the May Revision.

For State fiscal year 2019-20, the 2020-21 Budget projects total State general fund revenues and transfers of \$137.6 billion and authorizes expenditures of \$146.9 billion. The State is projected to end State fiscal year 2019-20 with total available general fund reserves of \$17 billion, including \$16.1 billion in the BSA and \$900 million in the Safety Net Reserve Fund.

For State fiscal year 2020-21, the 2020-21 Budget projects total State general fund revenues and transfers of \$137.7 billion and authorizes expenditures of \$133.9 billion. The State is projected to end State fiscal year 2020-21 with total available general fund reserves of \$11.4 billion, including \$2.6 billion in the

traditional State general fund reserve (of which \$716 million is earmarked for COVID-19-related responses), \$8.3 billion in the BSA and \$450 million in the Safety Net Reserve Fund.

As a result of the projected reduction of State revenues occasioned by the COVID-19 pandemic, the 2020-21 Budget estimates that the Proposition 98 minimum funding guarantee for fiscal year 2020-21 is \$70.1 billion, approximately \$10 billion below the revised prior-year funding level. For K-12 school districts, this results in per-pupil spending in fiscal year 2020-21 of \$10,654, a reduction of \$1,339 from the prior year.

The 2020-21 Budget proposes several measures intended to ameliorate the immediate impact of State revenue declines, and avoid a permanent decline in education funding:

- *Local Control Funding Formula* – The 2020-21 Budget provides for \$1.9 billion in Local Control Funding Formula apportionment deferrals for State fiscal year 2019-20. The deferrals increase to \$11 billion in State fiscal year 2020-21, which results in Local Control Funding Formula funding remaining at 2019-20 levels in both years. The 2020-21 Budget also suspends the statutory cost of living adjustment in State fiscal year 2020-21. Of the total deferrals, \$5.8 billion will be cancelled in State fiscal year 2020-21 if sufficient federal funding for this purpose is received.
- *CalSTRS/CalPERS* – The 2020-21 Budget redirects \$2.3 billion in funds that were previously appropriated for prefunding California State Teachers Retirement System (“CalSTRS”) and CalPERS liabilities, instead applying them to further reduce local educational agency contribution rates for such programs in State fiscal years 2020-21 and 2021-22. This reduces CalSTRS employer rates to 16.15% in fiscal year 2020-21 and 16.02% in fiscal year 2021-22. CalPERS employer rates are reduced to 20.7% in fiscal year 2020-21 and 22.84% in fiscal year 2021-22.
- *Federal Funds* – In addition to the CARES Act funding previously discussed, the 2020-21 Budget appropriates \$1.6 billion in federal Elementary and Secondary School Emergency Relief funds recently awarded to the State. Of this amount, approximately \$1.5 billion will be allocated to local educational agencies in proportion to the amount of federal Title I-A funding such agencies receive, to be used for COVID-19 related costs. The remaining amount will be allocated to state-level activities.
- *Temporary Revenue Increases* – As discussed above, as part of closing the State’s projected deficit, the 2020-21 Budget provides for a temporary revenue increase of approximately \$4.3 billion in fiscal year 2020-21, of which approximately \$1.6 billion counts towards the Proposition 98 funding guarantee.

For additional information regarding the 2020-21 Budget, see the DOF and LAO websites. The information presented on such websites is not incorporated herein by reference.

None of the websites or webpages that are referenced above is in any way incorporated into this Official Statement. They are cited for informational purposes only. The City and the Authority make no representation whatsoever as to the accuracy or completeness of any of the information on such websites.

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

Potential Impact of State Financial Condition on the City

The State has experienced significant financial stress in recent years, with budget shortfalls in the several billions of dollars. Currently, the COVID-19 outbreak is materially adversely impacting the financial condition of the State and the waning of the infection crisis is expected to be followed by a prolonged

recession and significant increases in unfunded liabilities of the two main retirement systems managed by State entities, CalPERS and the California State Teachers' Retirement System. The State also has a significant unfunded liability with respect to other post-employment benefits.

Current and future State budgets will be significantly affected by the COVID-19 outbreak and other factors over which the City has no control. The City cannot determine what actions will be taken in the future by the State Legislature and the Governor to deal with the COVID-19 outbreak, the recession and resulting changing State revenues and expenditures. There can be no assurance that, as a result of the COVID-19 outbreak or otherwise, the State will not significantly reduce revenues to local governments (including the City) or shift financial responsibility for programs to local governments as part of its efforts to address State financial conditions. Although the State is not a significant source of City revenues, there can be no assurance that State actions to respond to the COVID-19 outbreak will not materially adversely affect the financial condition of the City.

Redevelopment Dissolution

General. On December 29, 2011, the State Supreme Court upheld Assembly Bill 1x26 (“**AB 1x26**”), which dissolved redevelopment agencies in the State. The effect of AB 1x26 upon the City is the termination of the redevelopment functions of the Salinas Redevelopment Agency (the “**Former Agency**”) and the transfer of such functions to a successor agency (the City, referred to in the capacity of a successor agency, and being referred to in this context as the “**Successor Agency**”) tasked with winding down the Former Agency’s redevelopment activities. Under AB 1x26, the Successor Agency cannot enter into new redevelopment projects or obligations and its assets can be used only to pay enforceable obligations, which enforceable obligations are generally limited to obligations in existence in mid-2011, when AB 1x26 was signed by the Governor. In addition, the Successor Agency will receive tax increment revenues in amounts that are sufficient to pay 100% (but no greater amount) of such enforceable obligations until such obligations (including accrued interest, as applicable) are paid in full, at which time the Successor Agency will be dissolved. Certain tax revenues that were formerly allocable to the Former Agency will continue to be available to the Successor Agency to pay certain obligations, and a portion of such revenues may be redirected to other taxing agencies, such as the County, school districts and the City. The Successor Agency’s activities are subject to review by an oversight board established under AB 1x26. Under AB 1x26, liabilities of the Successor Agency are not liabilities of the City.

On June 27, 2012, the Governor signed Assembly Bill 1484 (“**AB 1484**”), which made certain amendments to AB 1x26. Under AB 1484, the County Auditor-Controller, the DOF and the State Controller may require the return of funds improperly spent or transferred to a public entity in conflict with the provisions of the Community Redevelopment Law, as amended by AB 1x26 and AB 1484, and if such funds are not returned within 60 days, they may be recovered through an offset of sales and use tax or property tax allocations to the local agency, which, in the case of the Successor Agency, is the City.

On September 22, 2015, the following amendments to the redevelopment dissolution legislation were enacted as Senate Bill 107 (“**SB 107**”): (1) redevelopment successor agencies that enter into a written agreement with the DOF to remit unencumbered cash to the county auditor-controller will receive a finding of completion, which provides successor agencies with additional fiscal tools and reduced State oversight; (2) successor agencies that have a “Last and Final” ROPS (as discussed below) may expend a portion of proceeds of bonds issued in 2011, which proceeds are currently frozen; (3) pension or State Water Project override revenues that are not pledged to or not needed for redevelopment bond debt service will be returned to the entity that levies the override; (4) agreements relating to State highway improvements and money loaned to successor agencies to pay costs associated with redevelopment dissolution litigation will be considered enforceable obligations; and (5) reentered agreements entered into after the passage of AB 1484 are unenforceable unless entered into for the purpose of providing administrative support.

SB 107 also: (a) requires the preparation of a Recognized Obligation Payment Schedule with respect to enforceable obligations (a “**ROPS**”), which are required to be submitted to the oversight board and the DOF in accordance with AB 1x26, once a year; (b) establishes an optional “Last and Final” ROPS process beginning in September 2015; under this process, a successor agency that elected to submit a “Last and Final” ROPS would no longer submit a periodic ROPS and the enforceable obligations set forth in the “Last and Final” ROPS would be binding on all parties; and (c) clarifies that former tax increment caps and plan limits do not apply for the purposes of paying approved enforceable obligations.

Impact on the City. Significant provisions of AB 1x26, AB 1484, SB 107 and implementing actions of affected parties, including the Successor Agency, the oversight board, the County and the DOF, may be subject to legal challenge, statutory or administrative changes and other clarifications which could affect the impact of the dissolution of redevelopment on the City and its General Fund. The DOF has periodically proposed additional legislation which would modify statutes affecting redevelopment dissolution and the City can provide no assurance that additional legislation will not be enacted. The full extent of the impact of the implementation of AB 1x26, AB 1484 and SB 107 or potential future legislation on the City’s General Fund is unknown at this time. While certain administrative costs that were previously charged to the Former Agency by the General Fund will no longer be supported by the Successor Agency, certain property tax revenues that were formerly allocated to the Former Agency will now be received by the City’s General Fund.

The City does not believe that it has received material amounts from the Former Agency or the Successor Agency which may be asserted to be in violation of AB 1x26 or AB 1484.

Successor Agency Obligations to the General Fund. Although AB 1x26 generally invalidates agreements between host cities and their former redevelopment agencies, provision is made for the enforcement of agreements entered into with respect to obligations that meet certain specified criteria. The City does not believe that there exist any agreements between the City and the Successor Agency pursuant to which the Successor Agency is obligated to make payments to the City and the Successor Agency currently expects to seek approval of a “Last and Final” ROPS (as discussed under the caption “—General”). However, if the Successor Agency does not complete the “Last and Final” ROPS process, there can be no assurance that the City and the Successor Agency will not seek to enter into loan or other agreements in the future in order to enable the Successor Agency to meet its payment obligations in future years, subject to approval by the DOF, the State Controller and/or other State or County bodies implementing the dissolution of redevelopment.

To the extent that the Successor Agency’s assets are liquidated for distribution of proceeds to the affected taxing entities, the City currently expects that the City’s General Fund will receive approximately 18% of such assets.

Future State Budgets

No prediction can be made by the City as to whether the State will continue to encounter budgetary problems in future years, and if it were to do so, it is not clear what measures would be taken by the State to balance its budget, as required by law. In addition, the City cannot predict the final outcome of future State budget negotiations, the impact that such budgets will have on City finances and operations or what actions will be taken in the future by the State Legislature and the Governor to deal with changing State revenues and expenditures. There can be no assurance that actions taken by the State to address its financial condition will not materially adversely affect the financial condition of the City. Current and future State budgets will be affected by national and State economic conditions and other factors, including the current economic downturn, over which the City has no control.

CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS

There are a number of provisions of the State Constitution that limit the ability of the City to raise and expend tax revenues.

Article XIII A of the State Constitution

On June 6, 1978, State voters approved an amendment (commonly known as both Proposition 13 and the Jarvis-Gann Initiative) to the State Constitution. The amendment, which added Article XIII A to the State Constitution, among other things affects the valuation of real property for the purpose of taxation in that it defines the full cash property value to mean “the county assessor’s valuation of real property as shown on the 1975/76 tax bill under ‘full cash value’, or thereafter, the appraised value of real property newly constructed, or when a change in ownership has occurred after the 1975 assessment.” The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or a reduction in the consumer price index or comparable local data at a rate not to exceed 2% per year, or reduced in the event of declining property value caused by damage, destruction or other factors including a general economic downturn. The amendment further limits the amount of any *ad valorem* tax on real property to 1% of the full cash value, except that additional taxes may be levied to pay debt service on indebtedness approved by the voters prior to December 1, 1978, and bonded indebtedness for the acquisition or improvement of real property approved on or after December 1, 1978 by two-thirds of the votes cast by the voters voting on the proposition (55% in the case of certain school facilities). Property taxes that are subject to Proposition 13 are a significant source of the City’s General Fund revenues. See the caption “CITY FINANCIAL INFORMATION.”

Legislation enacted by the State Legislature to implement Article XIII A provides that all taxable property is shown at full assessed value as described above. Tax rates for voter approved bonded indebtedness are also applied to 100% of assessed value.

Future assessed valuation growth allowed under Article XIII A (for new construction, change of ownership or 2% annual value growth) is allocated on the basis of “situs” among the jurisdictions that serve the tax rate area within which the growth occurs. Local agencies and school districts share the growth of “base” revenue from the tax rate area. Each year’s growth allocation becomes part of each agency’s allocation the following year. Article XIII A effectively prohibits the levying of any other *ad valorem* property tax above the 1% limit except for taxes to support indebtedness approved by the voters as described above.

Article XIII A has subsequently been amended to permit reduction of the “full cash value” base in the event of declining property values caused by damage, destruction or other factors, and to provide that there would be no increase in the “full cash value” base in the event of reconstruction of property damaged or destroyed in a disaster and in certain other limited circumstances.

See the caption “RISK FACTORS—Split Roll Initiative” for a discussion of an initiative that has qualified for the November 2020 Statewide ballot. If adopted, the Split Roll Initiative would amend provisions of Article XIII A for large commercial properties.

Article XIII B of the State Constitution

At the Statewide special election on November 6, 1979, the voters approved an initiative entitled “Limitation on Government Appropriations,” which added Article XIII B to the State Constitution. Under Article XIII B, State and local government entities have an annual “appropriations limit” which limits the ability to spend certain money which are called “appropriations subject to limitation” (consisting of tax revenues and investment proceeds thereof, certain State subventions and regulatory license fees, user charges and user fees to the extent that the proceeds thereof exceed the costs of providing such services, together called “proceeds of taxes,” and certain other funds) in an amount higher than the “appropriations limit.” Article XIII B does not affect the appropriation of money which are excluded from the definition of “appropriations limit,” including debt service on indebtedness existing or authorized as of October 1, 1979, or bonded indebtedness subsequently approved by the voters. In general terms, the “appropriations limit” is to be based on certain 1978-79 expenditures and is to be adjusted annually to reflect changes in the consumer price index, population and services provided by these entities. Among other provisions of Article XIII B, if those

entities' revenues in any year exceed the amounts permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years.

The City's appropriations have never exceeded the limitation on appropriations under Article XIII B of the State Constitution.

Proposition 62

A statutory initiative ("**Proposition 62**") was adopted by the voters of the State at the November 4, 1986 general election which: (a) requires that any tax for general governmental purposes imposed by local governmental entities be approved by resolution or ordinance adopted by two-thirds vote of the governmental agency's legislative body and by a majority of the electorate of the governmental entity; (b) requires that any special tax (defined as taxes levied for other than general governmental purposes) imposed by a local governmental entity be approved by a two-thirds vote of the voters within the jurisdiction; (c) restricts the use of revenues from a special tax to the purposes or for the service for which the special tax is imposed; (d) prohibits the imposition of *ad valorem* taxes on real property by local governmental entities except as permitted by Article XIII A; (e) prohibits the imposition of transaction taxes and sales taxes on the sale of real property by local governmental entities; and (f) requires that any tax that is imposed by a local governmental entity on or after August 1, 1985 be ratified by a majority vote of the electorate within two years of the adoption of the initiative or be terminated by November 15, 1988. The requirements imposed by Proposition 62 were upheld by the State Supreme Court in *Santa Clara County Local Transportation Authority v. Guardino*, 11 Cal.4th 220 (1995).

Proposition 62 applies to the imposition of any taxes or the implementation of any tax increases after its enactment in 1986, but the requirements of Proposition 62 are largely subsumed by the requirements of Proposition 218 for the imposition of any taxes or the effecting of any tax increases after November 5, 1996. See the caption "—Proposition 218" below.

Proposition 218

On November 5, 1996, State voters approved Proposition 218, an initiative measure entitled the "Right to Vote on Taxes Act." Proposition 218 added Articles XIII C and XIII D to the State Constitution, imposing certain vote requirements and other limitations on the imposition of new or increased taxes, assessments and property-related fees and charges. Proposition 218 states that all taxes imposed by local governments are deemed to be either general taxes or special taxes. Special purpose districts, including school districts, have no power to levy general taxes. No local government may impose, extend or increase any general tax unless and until such tax is submitted to the electorate and approved by a majority vote. No local government may impose, extend or increase any special tax unless and until such tax is submitted to the electorate and approved by a two-thirds vote.

Proposition 218 also provides that no tax, assessment, fee or charge may be assessed by any agency upon any parcel of property or upon any person as an incident of property ownership except: (a) the *ad valorem* property tax imposed pursuant to Articles XIII and XIII A of the State Constitution; (b) any special tax receiving a two-thirds vote pursuant to the State Constitution; and (c) assessments, fees and charges for property-related services as provided in Proposition 218. Proposition 218 then goes on to add voter requirements for assessments and fees and charges imposed as an incident of property ownership, other than fees and charges for sewer, water, and refuse collection services. In addition, all assessments and fees and charges imposed as an incident of property ownership, including sewer, water and refuse collection services, are subjected to various additional procedures, such as hearings and stricter and more individualized benefit requirements and findings. The effect of such new provisions will presumably be to increase the difficulty a local agency will have in imposing, increasing or extending such assessments, fees and charges.

Proposition 218 also extended the initiative power to reducing or repealing any local taxes, assessments, fees and charges. This extension of the initiative power is not limited to taxes imposed on or after November 6, 1996, the effective date of Proposition 218, and could result in retroactive repeal or reduction in any existing taxes, assessments, fees and charges, subject to overriding federal constitutional principles relating to the impairments of contracts. Legislation implementing Proposition 218 provides that the initiative power provided for in Proposition 218 “shall not be construed to mean that any owner or beneficial owner of a municipal security, purchased before or after (the effective date of Proposition 218) assumes the risk of, or in any way consents to, any action by initiative measure that constitutes an impairment of contractual rights” protected by the United States Constitution. However, no assurance can be given that the voters of the City will not, in the future, approve an initiative which reduces or repeals local taxes, assessments, fees or charges that currently are deposited into the City’s General Fund.

Although a portion of the City’s General Fund revenues are derived from general taxes purported to be governed by Proposition 218, as discussed under the caption “CITY FINANCIAL INFORMATION — Other Taxes,” all of such taxes were imposed in accordance with the requirements of Proposition 218. No assurance can be given that the voters of the City will not, in the future, approve an initiative or initiatives which reduce or repeal local taxes, assessments, fees or charges which support the City’s General Fund.

Unitary Property

Some amount of property tax revenue of the City is derived from utility property which is considered part of a utility system with components located in many taxing jurisdictions (“**unitary property**”). Under the State Constitution, such property is assessed by the SBE as part of a “going concern” rather than as individual pieces of real or personal property. State-assessed unitary and certain other property is allocated to the counties by the SBE, taxed at special county-wide rates, and the tax revenues distributed to taxing jurisdictions (including the City) according to a statutory formula that is generally based on the distribution of taxes in the prior year.

Proposition 22

On November 2, 2010, State voters approved Proposition 22, which eliminates the State’s ability to borrow or shift local revenues and certain State revenues that fund transportation programs. It restricts the State’s authority over a broad range of tax revenues, including property taxes allocated to cities (including the City), counties and special districts, the VLF, State excise taxes on gasoline and diesel fuel, the State sales tax on diesel fuel, and the former State sales tax on gasoline. It also makes a number of significant other changes, including restricting the State’s ability to use motor vehicle fuel tax revenues to pay debt service on voter-approved transportation bonds.

Proposition 26

On November 2, 2010, State voters approved Proposition 26. Proposition 26 amends Article XIII C 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 of 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 XIID. Proposition 26 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 does not believe that Proposition 26 will adversely affect its General Fund revenues.

Future Initiatives

Articles XIII A and XIII B and Propositions 62, 218, 22 and 26 were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time other initiative measures could be adopted, further affecting the City's current revenues or its ability to raise and expend revenues.

RISK FACTORS

Prospective purchasers of the 2020 Bonds should consider carefully all possible factors that may affect the ability of the City to pay Base Rental Payments under the Lease Agreements. The 2020 Bonds may not be a suitable investment for all prospective purchasers.

The following factors, along with the other information in this Official Statement, should be considered by potential investors in evaluating the purchase of the 2020 Bonds. However, the following does not purport to be an exhaustive listing of risks and other considerations which may be relevant to an investment in the 2020 Bonds and there can be no assurance that other risk factors will not become material in the future. In addition, the order in which the following factors are presented is not intended to reflect the relative importance of any such risks.

General Considerations – Security for the 2020 Bonds

The 2020 Bonds are special obligations of the Authority, payable solely from Base Rental Payments. Neither the faith and credit nor the taxing power of the Authority, the City, the State or any political subdivision thereof is pledged to the payment of the 2020 Bonds. The Authority has no taxing power.

The obligation of the City to make the Base Rental Payments does not constitute a debt of the City, the County, the State or any political subdivision thereof within the meaning of any constitutional or statutory debt limit or restriction, and does not constitute an obligation for which the City, the County or the State is obligated to levy or pledge any form of taxation or for which the City, the County or the State has levied or pledged any form of taxation.

Although the Lease Agreements do not create a pledge, lien or encumbrance upon the funds of the City, the City is obligated under each Lease Agreement to pay the applicable Base Rental Payments and Additional Rental Payments from any source of legally available funds, and the City has covenanted in the Lease Agreements to take such action as may be necessary to include all such Base Rental Payments and Additional Rental Payments due thereunder in its annual budgets, and to make necessary annual appropriations for all such Base Rental Payments and Additional Rental Payments, subject to abatement. The City is currently liable and may become liable on other obligations payable from general revenues. See the caption "CITY FINANCIAL INFORMATION—Other Indebtedness—General Fund-Supported Debt."

The City has the capacity to enter into other obligations which may constitute additional charges against its revenues, including pension obligations and essential services. To the extent that additional obligations are incurred by the City, the funds available to make Base Rental Payments may be decreased. In the event that the City's revenue sources are less than its total obligations, the City could choose to fund other activities before making Base Rental Payments. The same result could occur if, because of State Constitutional limits on expenditures, the City is not permitted to appropriate and spend all of its available

revenues. However, the City's appropriations have never exceeded the limitation on appropriations under Article XIII B of the State Constitution. See the caption "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS—Article XIII B of the State Constitution."

Abatement

In the event of substantial interference with the City's right to use and occupy any portion of the Property by reason of damage to or destruction or condemnation of such Property, or any defects in title to such Property, the applicable Base Rental Payments will be subject to abatement. See the captions "SECURITY AND SOURCES OF PAYMENT FOR THE 2020 BONDS—Abatement." The amount of abatement will be such that the resulting payments of Base Rental Payments and Additional Rental Payments do not exceed the fair rental value for the use and possession of the remaining portions of the applicable Property as to which the City has beneficial use and occupancy and as to which such damage or destruction or defect in title do not substantially interfere.

In the event that such portion of the Property, if damaged or destroyed by an insured casualty, could not be replaced during the period of time in which proceeds of the City's rental interruption insurance will be available in lieu of the applicable Base Rental Payments, plus the period in which funds are available from the funds and accounts established under the applicable Indenture, or in the event that casualty insurance proceeds are insufficient to provide for complete repair or replacement of such portion of such Property or redemption of the applicable series of 2020 Bonds, there could be insufficient funds to make payments to Owners in full.

It is not always possible to predict the circumstances under which abatement of rental may occur. In addition, there is no statute, case or other law specifying how such an abatement of rental should be measured. For example, it is not clear whether fair rental value is established as of commencement of the lease or at the time of the abatement. If the latter, the value of the applicable Property could be substantially higher or lower than its value at the time of the issuance of the applicable series of 2020 Bonds. Abatement, therefore, could have an uncertain and material adverse effect on the security for and payment of such 2020 Bonds.

If damage, destruction, title defect or eminent domain proceedings with respect to the Property results in abatement of the Base Rental Payments related to such Property and if such abated Base Rental Payments, if any, together with moneys from rental interruption or use and occupancy insurance (in the event of any insured loss due to damage or destruction), and eminent domain proceeds, if any, are insufficient to make all payments of principal and interest with respect to the 2020 Bonds during the period that the Property is being replaced, repaired or reconstructed, then all or a portion of such payments of principal and interest may not be made. Under the Lease Agreements and the Indentures, no remedy is available to the 2020 Bond Owners for nonpayment under such circumstances.

Initiative and Referendum

The ability of the City to comply with its covenants under the Lease Agreements and to generate revenues that are sufficient to pay Base Rental Payments may be adversely affected by actions and events outside the control of the City, including without limitation actions taken (or not taken) by voters. Under the State Constitution, voters of the State have the ability to initiate legislation and require a public vote on legislation passed by the State Legislature through the powers of initiative and referendum, respectively. The Authority and the City are unable to predict whether any such initiatives might be submitted to or approved by the voters, the nature of such initiatives, or their potential impact on the City and its operations. See the caption "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS—Future Initiatives."

Insurance on the Property

Under the Lease Agreements, the City is required to maintain through the term of each Lease Agreement policies of insurance covering loss or damage to the applicable Property up to replacement costs and covering title defects. If the applicable Property is damaged or destroyed, there can be no assurance that the insurance proceeds will be sufficient to repair or restore such Property, or to prepay or defease all of the then-Outstanding 2020 Bonds of the applicable series. In addition, neither the Authority nor the City can provide any assurance as to whether the provider of an insurance policy will pay under such policy. See the caption “SECURITY AND SOURCES OF PAYMENT FOR THE 2020 BONDS—Insurance” for a description of the insurance coverages that are required by the Lease Agreements. See the caption “THE CITY—Risk Management” for a description of the City’s current insurance coverages. Certain risks, such as earthquakes and floods, are not required to be covered under the Lease Agreements.

Condemnation of the Property

If all or a portion of the Property were condemned, there can be no assurance that any such award or payment will be sufficient at the time to prepay or defease all of the then-Outstanding 2020 Bonds of the applicable series. If the award is less than the amounts remaining on such Outstanding 2020 Bonds, then the Owners will be paid less than the amounts remaining on such Outstanding 2020 Bonds.

Value of Property

In the event that the Trustee re-enters or re-lets the Property upon the occurrence of an Event of Default, there can be no assurance such actions will provide funds in an amount that is sufficient to pay the principal of and interest on the applicable 2020 Bonds. The security under the Lease Agreements extends only to the Authority’s leasehold interest in each Property granted under the applicable Ground Lease and is subject to the restrictions of such Ground Lease and all other use restrictions applicable to the site. The Property has not been appraised in connection with the issuance of the 2020 Bonds.

No Acceleration of Base Rental Payments

Nothing in the Lease Agreements permits the Authority or the Trustee to accelerate Base Rental Payments. Although the Trustee is entitled to pursue all available remedies under each Indenture, there can be no assurance that sufficient funds will be available at the time to redeem or defease all of the then-Outstanding 2020 Bonds of the applicable series.

Certain Risks Associated with Sales Tax and Other Local Tax Revenues

For the past several Fiscal Years, sales and use tax revenues (including Measure E and G taxes) have been the largest source of General Fund revenues to the City. See the caption “CITY FINANCIAL INFORMATION.”

Sales and use tax revenues are based upon the gross receipts of retail sales of tangible goods and products by retailers with taxable transactions in the City, which could be impacted by a variety of factors. For example, in times of economic recession, the gross receipts of retailers often decline, and such a decline would cause the sales tax revenues received by the City to decline. An economic recession would also be expected to affect hotel occupancy within the City, and consequently, the City’s receipt of transient occupancy taxes. See the captions “THE CITY—COVID-19 Outbreak” and “CITY FINANCIAL INFORMATION.”

In addition, changes or amendments in the laws applicable to the City’s receipt of sales tax revenues or other local taxes, whether implemented by State legislative action or voter initiative, including any initiative by City voters under Article XIIC of the California Constitution to repeal Measures E or G, or the expiration of Measure G in 2030 as currently scheduled without an extension or replacement of Measure G, could have an

adverse effect on sales tax revenues received by the City. See the caption “CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS.”

Many categories of transactions are exempt from the Statewide sales tax, and additional categories could be added in the future. Currently, most sales of food products for human consumption are exempt; this exemption, however, does not apply to liquor or to restaurant meals. The rate of sales tax levied on taxable transactions in the City or the fee charged by the State Board of Equalization for administering the City’s sales tax could also be changed.

As discussed under the caption “THE CITY—COVID-19 Outbreak,” the Governor extended the deadline to file and pay first quarter 2020 sales and use tax returns by 90 days for all but the very largest taxpayers, and up to 361,000 California businesses with less than \$5 million in taxable annual sales will be allowed to defer up to \$50,000 in sales tax and enter into 12-month payment plans at zero interest. The extension will result in a delay in the receipt by the City of its portion of sales tax payments. There can be no assurance that additional extensions of payment deadlines will not be ordered should the COVID-19 outbreak or economic recession continue.

Assessed Value of Taxable Property

Property taxes are currently the largest source of the City’s General Fund revenues. Natural and economic forces can affect the assessed value of taxable property within the City. The City is located in a seismically active region, and damage from an earthquake in or near the area could cause extensive damage to taxable property. Other natural or manmade disasters, such as flood, fire, wildfire, ongoing drought, toxic dumping, erosion or acts of terrorism, could cause a reduction in the assessed value of taxable property within the City. See the captions “—Natural Disasters” and “—Hazardous Substances.”

In addition, economic and market forces, such as a downturn in the regional economy, could affect assessed values, particularly as these forces might reverberate in the residential housing and commercial property markets as has been experienced in the past. In addition, the total assessed value can be reduced through the reclassification of taxable property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by State and local agencies and property used for qualified educational, hospital, charitable or religious purposes).

Reductions in the market values of taxable property may cause property owners to appeal assessed values and may also be associated with an increase in delinquency rates for property taxes. Section 2(b) of Article XIII A of the State Constitution and Section 51 of the State Revenue and Taxation Code, which were adopted pursuant to Proposition 8, which was adopted in 1978, require the County assessor to annually enroll either a property’s adjusted base year value (the “**Proposition 13 Value**”) or its current market value, whichever is less. When the current market value replaces the higher Proposition 13 Value on the assessor’s roll, such lower value is referred to as the “**Proposition 8 Value**.”

Although the annual increase for a Proposition 13 Value is limited to no more than 2%, the same restriction does not apply to a Proposition 8 Value. The Proposition 8 Value of a property is reviewed annually as of January 1; the current market value must be enrolled as long as the Proposition 8 Value falls below the Proposition 13 Value. Thus, any subsequent increase or decrease in market value is enrolled regardless of any percentage increase or decrease. Only when a current Proposition 8 Value exceeds the Proposition 13 Value attributable to a piece of property (adjusted for inflation) does a county assessor reinstate the Proposition 13 Value.

Decreases in the assessed value of taxable property within the City resulting from a natural disaster or other calamity, economic recession, reclassification by ownership or use or as a result of the implementation of Proposition 8 all may have an adverse impact on property tax collections by the City, and consequently, the General Fund revenues that are available to make Base Rental Payments.

Increasing Retirement-Related Costs

The City is required to make contributions to CalPERS and to its OPEB plan for City employees and retirees. Such obligations are a significant financial obligation of the City and could increase in the future. Actual contribution rates will depend on a variety of factors, including but not limited to actual investment returns and future changes to benefits or actuarial assumptions. The City notes that pension contributions in future years may increase as a result of losses in CalPERS' portfolio resulting from stock market declines in the wake of the COVID-19 outbreak. See the caption "THE CITY—COVID-19 Outbreak." There can be no assurances that actual increases in required contributions will not be higher than the amounts which are currently projected by the City. See the captions "CITY FINANCIAL INFORMATION—Retirement Contributions" and "CITY FINANCIAL INFORMATION—Other Post-Employment Benefits."

Dependence on State for Certain Revenues

A number of the City's revenues are collected and dispersed by the State (such as sales taxes and the VLF) or allocated in accordance with State law (most importantly, property taxes). Therefore, State budget decisions can have an impact on City finances. In the event of a material economic downturn in the State, including as a result of the COVID-19 outbreak that is discussed under the caption "THE CITY—COVID-19 Outbreak," there can be no assurance that any resulting revenue shortfalls to the State will not reduce revenues to local governments (including the City) or shift financial responsibility for programs to local governments as part of the State's efforts to address any such related State financial difficulties. See the caption "STATE OF CALIFORNIA BUDGET INFORMATION."

Litigation

The City may be or become a party to litigation that has an impact on the General Fund. Although the City maintains certain insurance policies that provide liability coverage under certain circumstances and with respect to certain types of incidents (as discussed under the caption "THE CITY—Risk Management"), the City cannot predict what types of liabilities may arise in the future. See the caption "LITIGATION."

Natural Disasters

The occurrence of any natural disaster in the City, including, without limitation, fire, windstorm, drought, earthquake, landslide, mudslide or flood, could have an adverse material impact on the economy within the City, its General Fund and the revenues available for the payment of Base Rental Payments. The City does not maintain earthquake insurance for the Property. The Property is not in a designated flood zone. See the caption "THE CITY—Risk Management."

Earthquakes are considered a threat to the City due to the highly active seismic region and the proximity of fault zones, which could influence the entire coastal portion of the State. According to the Safety Element of the City's General Plan, the City lies in a seismically active area. In addition, there are likely to be unmapped faults in or near the City. Seismically induced ground shaking has affected the City in the past and is expected to affect the City in the future.

An earthquake along one of the faults in the vicinity of the City, either known or unknown, could cause a number of casualties and extensive property damage. The effects of such a quake could be aggravated by aftershocks and secondary effects such as fires, landslides, dam failure, liquefaction, floods and other threats to public health, safety and welfare. Portions of the City are located within floodways as defined by the Federal Emergency Management Agency. The potential direct and indirect consequences of a major earthquake could easily exceed the resources of the City and would require a high level of self-help, coordination and cooperation.

The State, including the City, is periodically subject to wildfires. When wildfires scorch land, they destroy all vegetation on mountains and hillsides. As a result, when heavy rain falls in the winter, there is nothing to stop the rain from penetrating directly into the soil. In addition, waxy compounds in plants and soil that are released during fires create a natural barrier in the soil that prevents rain water from seeping deep into the ground. The result is erosion, mudslides, and excess water running off the hillsides often causing flash flooding.

The occurrence of natural disasters in the City could result in substantial damage to the City and the Property which, in turn, could substantially reduce General Fund revenues and affect the ability of the City to make Base Rental Payments or cause an abatement in Base Rental Payments if the City is unable to use and occupy the Property. The City maintains liability insurance, rental interruption insurance and property casualty insurance (for losses other than from seismic events) for the Property. See the caption “THE CITY—Risk Management.” 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.

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 General Fund by requiring greater expenditures to counteract the effects of climate change or by changing the operations and activities of City residents and business establishments.

Cybersecurity

Municipal agencies, like other business entities, face significant risks relating to the use and application of computer software and hardware. Recently, there have been significant cybersecurity 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 and an attack that resulted in the temporary closure of the Port of Los Angeles’ largest terminal.

The City employs a multi-level cyber protection scheme that includes firewalls, anti-virus software, anti-spam/malware software, intrusion protection and domain name system filtering software. In 2020, the City will undergo a full cybersecurity audit and expects thereafter to implement any resulting recommendations from the audit. In addition, the City contracts with third party vendors to monitor and augment external monitoring of the City’s computer systems through penetration testing. The City implements recommended strategies suggested by the vendor and makes internal computer system changes as needed. To date, the City has not experienced a significant attack on its computer operating systems. However, there is 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.

Hazardous Substances

A condition that may result in the reduction in the assessed value of property, and therefore property tax revenue available to pay Base Rental Payments, would be the discovery of a hazardous substance that would limit the beneficial use of taxable property within the City. In general, the owners and operators of a property may be required by law to remedy conditions of the property relating to releases or threatened releases of hazardous substances. The Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as “CERCLA” or the “Superfund Act,” is the most well-known and widely applicable of these laws, but State laws with regard to hazardous substances are also stringent and similar in effect. Under many of these laws, the owner or operator may be required to remedy a hazardous

substance condition of property whether or not the owner or operator has anything to do with creating or handling the hazardous substance. The effect, therefore, should any of the property within the City be affected by a hazardous substance, could be to reduce the marketability and value of such property by the costs of remedying the condition, because the purchaser, upon becoming owner, will become obligated to remedy the condition just as is the seller.

The City has not independently verified, but is not aware of, the presence of any hazardous substances on the Property or elsewhere in the City. Hazardous substance liabilities may arise in the future with respect to any of the property in the City resulting from the existence, currently, of a substance presently classified as hazardous but which has not been released or the release of which is not presently threatened, or may arise in the future resulting from the existence, currently, on the parcel of a substance not presently classified as hazardous but which may in the future be so classified. Additionally, such liabilities may arise from the method of handling such substance. These possibilities could significantly affect the value of a parcel.

Economy of City and State

A deterioration in the level of economic activity in the City, the County, the State or the United States, including as a result of the COVID-19 outbreak that is discussed under the caption “THE CITY—COVID-19 Outbreak,” could have a material adverse effect on the City’s general revenues and on the ability of the City to pay principal of and interest on the 2020 Bonds. In particular, the City expects significant reductions in sales tax revenues in the fourth quarter of Fiscal Year 2020 and Fiscal Year 2021, as discussed under the caption “CITY FINANCIAL INFORMATION—General Economic Condition and Outlook of the City.” See the caption “STATE OF CALIFORNIA BUDGET INFORMATION” for information about the State economy and State budget.

In addition, City expenses could also rise as a result of unforeseen events, including but not limited to a determination that the City is obligated to disgorge money or property that was previously received from the City’s redevelopment successor agency as part of the redevelopment dissolution process. See Note 26 to the audited financial statements in Appendix A and the caption “STATE OF CALIFORNIA BUDGET INFORMATION—Redevelopment Dissolution.”

Split Roll Initiative

An initiative measure (the “**Split Roll Initiative**”) to amend Article XIII A of the State Constitution has qualified for the State’s November 2020 ballot. See the caption “CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS—Article XIII A of the State Constitution.” If adopted, the Split Roll Initiative would base property taxes for commercial and industrial properties on periodic analyses of market values beginning in tax year 2020-21. Such market values would be reassessed by the applicable county assessor’s office at least once every three years. The Split Roll Initiative includes exceptions for businesses with a total market value of less than \$2 million (adjusted for inflation), which would continue to be subject to property taxes based on purchase price, and exempts from property tax assessments up to \$500,000 of the value of personal property, or all personal property for businesses with fewer than 50 employees. There can be no assurance that the Split Roll Initiative will be adopted. Moreover, if the Split Roll Initiative is adopted, the City is unable to predict how it would affect the level of commercial building activity within the City and the relationship between the assessed value of different land use types (i.e. residential versus commercial) in the City, or what other impacts the Split Roll Initiative might have on the local economy or the City’s financial condition, including the receipt of property tax revenues.

Additional City Obligations

The Base Rental Payments under the Lease Agreements are payable from funds that are lawfully available to the City. The City is currently liable for other obligations payable from general revenues of the City. The City has the authority to enter into other obligations that constitute additional claims on such general

revenues, including Additional Bonds of a series payable from a lease of the applicable Property. To the extent that the City incurs additional obligations, the funds available to make Base Rental Payments may be decreased. See the captions “CITY FINANCIAL INFORMATION—Other Indebtedness—General Fund-Supported Obligations” and “SECURITY AND SOURCES OF PAYMENT FOR THE 2020 BONDS—Additional Bonds.”

Tax-Related Issues

General. The Internal Revenue Code of 1986, as amended (the “Code”) imposes a number of requirements that must be satisfied in order for interest on state and local obligations, such as the 2020A Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of 2020A Bond proceeds, limitations on the investment earnings of 2020A Bond proceeds prior to expenditure, a requirement that certain investment earnings on 2020A Bond proceeds be paid periodically to the United States and a requirement that issuers file an information report with the Internal Revenue Service (the “IRS”). See the caption “TAX MATTERS.” The City and the Authority have covenanted in certain of the documents that are referred to in this Official Statement to comply with such requirements. Failure by any of the foregoing to comply with the requirements stated in the Code and related regulations, rulings and policies may result in the treatment of interest on the 2020A Bonds as taxable retroactively to the date of initial issuance of the 2020A Bonds. The 2020A Bonds would not be subject to higher rates of interest or acceleration if such an event were to occur.

Tax-Exempt Status of the Foundation and Effect on 2020A-2 Bonds. As discussed under the caption “PREPAYMENT PLAN—2015 Lease,” a portion of the proceeds 2020A-2 Bonds is being applied to refinance the 2015 501(c)(3) Project. The 2015 501(c)(3) Project, which consists of a golf course and related improvements, is operated by the Foundation pursuant to the Sublease.

The Foundation is currently exempt from federal income tax. The Foundation is a California nonprofit public benefit corporation and organization described in Section 501(c)(3) of the Code. Under present federal law, regulations and rulings, the income and revenue of nonprofit, 501(c)(3) qualified exempt organizations are exempt from federal income tax, except for any unrelated business income as defined in the Code, and their revenues are exempt from the State sales tax except for certain services. If the Foundation fails to continue to meet the requirements necessary to preserve its status as a nonprofit corporation and tax-exempt charitable organization under Section 501(c)(3) of the Code, the interest on the 2020A-2 Bonds may become taxable retroactive to the date of issuance of the 2020A-2 Bonds. The Foundation is not controlled by the City or the Authority and there can be no assurance as to the Foundation’s compliance with such provisions the Code in the future. The 2020A-2 Bonds would not be subject to higher rates of interest or acceleration if such an event were to occur. However, in connection with the refunding of the 2015 Lease and the issuance of the 2020A-2 Bonds, the Foundation has covenanted that it has not taken and will not take any actions or fail to take any actions, the result of which would adversely affect the Foundation’s status as a nonprofit public benefit corporation and tax-exempt charitable organization under Section 501(c)(3) of the Code.

See the caption “TAX MATTERS—2020A Bonds—Tax Concerns Related to 2020A-2 Bonds.”

Possible Consequence of Tax Compliance Audit

The IRS has established a general audit program to determine whether issuers of tax-exempt obligations, such as the 2020A Bonds, are in compliance with requirements of the Code that must be satisfied in order for the interest on those obligations to be, and continue to be, excluded from gross income for federal income tax purposes. As a result, organizations such as the City are subject to possible scrutiny. The primary penalty available to the IRS under the Code with respect to a tax-exempt entity engaged in improper use of tax-exempt proceeds is the revocation of tax-exempt status for the applicable obligations. Although the IRS has not frequently revoked the tax-exempt status of municipal bonds, it could do so in the future. See the caption “—Tax-Related Issues.”

The City and the Authority cannot predict whether the IRS will commence an audit of the 2020A Bonds. Depending on the facts and circumstances and the type of audit involved, it is possible that an audit of the 2020A Bonds or obligations similar to the 2020A Bonds, even if the tax exemption of the 2020A Bonds is not implicated, could adversely affect the market value and liquidity of the 2020A Bonds until the audit is concluded, regardless of its ultimate outcome.

Remedies

Upon an Event of Default under each Indenture, the Trustee may exercise certain remedies under the Indenture and the corresponding Lease Agreement. In the event of a monetary default under each Indenture, the Trustee has the right to enter and take possession of the applicable Property, and the Trustee may hold, operate and manage such Property and apply revenues therefrom toward payment of the applicable 2020 Bonds. There can be no assurance that the Trustee will be able to realize from such actions an amount that is sufficient to pay the principal of and interest on such 2020 Bonds. In addition, the Trustee may incur significant operating costs in connection with such Property.

Limitation on Trustee's Obligations under the Indentures

The Trustee has no obligation to advance its own funds to pursue any remedies. As a consequence, the Trustee's willingness and ability to pursue any of the remedies provided in the Indentures, Lease Agreements or Assignment Agreements may be dependent upon the availability of funds from an interested party. Additionally, the Trustee is not required to acquire possession of the applicable Property if doing so subjects it to potential liability. There can be no assurance that the Trustee will be willing and able to perform its duties under the Indentures.

Release of Property; Additional Bonds

The Authority and the City may amend each Lease Agreement to substitute or release a portion of the applicable Property upon compliance with all of the conditions set forth in such Lease Agreement. After a substitution or release, the portion of the Property for which the substitution or release has been effected will be released from the leasehold encumbrance of the applicable Lease Agreement. Moreover, the City may issue Additional Bonds secured by Base Rental Payments which are increased above current levels. See the captions "SECURITY AND SOURCES OF PAYMENT FOR THE 2020 BONDS—Substitution or Release of the Property" and "SECURITY AND SOURCES OF PAYMENT FOR THE 2020 BONDS—Additional Bonds."

Although each Lease Agreement requires, among other things, that the applicable Property, as constituted after such substitution or release, have an annual fair rental value at least equal to the maximum Base Rental Payments for such Property coming due in the then-current Fiscal Year or in any subsequent Fiscal Year, it does not require that such Property have an annual fair rental value equal to the annual fair rental value of the Property prior to the substitution release of any portion thereof. Thus, a portion of the Property could be replaced with less valuable real property, or could be released altogether. Such a substitution or release could have an adverse impact on the security for the 2020 Bonds, particularly if an event requiring abatement of the applicable Base Rental Payments were to occur subsequent to such substitution or release.

The Indenture requires, among other things, that upon the issuance of Additional Bonds, the applicable Lease Agreement will be amended, to the extent necessary, so as to increase the Base Rental Payments payable by the City thereunder by an aggregate amount that is sufficient to pay the principal of and interest on such Additional Bonds; provided, however, that no such amendment may be made such that the sum of such Base Rental Payments, including any increase in Base Rental Payments as a result of such amendment, plus Additional Rental Payments, in any Fiscal Year is in excess of the annual fair rental value of the applicable Property after taking into account the use of the proceeds of any Additional Bonds issued in connection therewith. See the caption "SECURITY AND SOURCES OF PAYMENT FOR THE 2020

BONDS—Additional Bonds” for a full description of the requirements that must be met in order for the City to deliver Additional Bonds.

Limitations on Enforceability

General. The enforcement of any remedies that are provided for in the Lease Agreements and the Indentures could prove both expensive and time consuming. The rights and remedies provided in the Lease Agreements and the Indentures may be limited by and are subject to: (i) the limitations on legal remedies against cities in the State, including State constitutional limits on expenditures and limitations on the enforcement of judgments against funds that are needed to serve the public welfare and interest; (ii) federal bankruptcy laws, as now or later enacted, as discussed in detail under the subcaption “—Bankruptcy” below; (iii) applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors’ rights generally, now or later in effect; (iv) equity principles which may limit the specific enforcement under State law of certain remedies; (v) the exercise by the United States of America of the powers delegated to it by the federal Constitution; and (vi) the reasonable and necessary exercise, in certain exceptional situations, of the police powers that are 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 2020 Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitation or modification of their rights.

The legal opinions that will be delivered concurrently with the issuance of the 2020 Bonds will be qualified, as to the enforceability of the 2020 Bonds, the Indentures, the Lease Agreements and other related documents, by bankruptcy, insolvency, reorganization, moratorium, arrangement, fraudulent conveyance and other laws relating to or affecting creditors’ rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against counties in the State.

Failure by the City to pay Base Rental Payments or failure to observe and perform any other terms, covenants or conditions of each Lease Agreement for a period of 30 days after written notice of such failure and request that it be remedied has been given to the City by the Trustee, constitute Events of Default under the corresponding Indenture and permit the Trustee or the Authority to pursue the remedies that are described in the applicable Lease Agreement and Indenture. Upon an Event of Default, there is no right under any circumstances to accelerate Base Rental Payments or otherwise declare any Base Rental Payment that is not then in default to be immediately due and payable, nor do the Authority or the Trustee have any right to re-enter or re-let the affected Property, except to the limited extent that is described in the applicable Lease Agreement, and only to the extent of the Authority’s leasehold interest under the corresponding Ground Lease. Rather, if the City defaults on its obligation to pay Base Rental Payments with respect to such Property, the Trustee must sue to recover Base Rental Payments on an annual basis.

Alternatively, the Authority or the Trustee may terminate the applicable Lease Agreement, retake possession of the applicable Property and proceed against the City to recover damages pursuant to such Lease Agreement. Due to the specialized and limited nature of the Property, existing encumbrances on the Property and restrictions on the use of the Property, it is unlikely that 2020 Bonds Owners would be able to generate rental income that is sufficient to make all payments of principal of and interest on the 2020 Bonds when due. Moreover, the Trustee is not empowered to sell the fee interest in the Property (which is owned by the City) for the benefit of the Owners of the 2020 Bonds. Any suit for money damages against the City would be subject to limitations on legal remedies against cities in the State, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest.

Bankruptcy. Enforceability of the rights and remedies of the Owners of the 2020 Bonds, and the obligations incurred by the City, may become subject to the provisions of Title 11 of the United States Code (the “**Bankruptcy Code**”) and applicable bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting the enforcement of creditors’ rights generally, now or later in effect, equity principles

which may limit the specific enforcement under State law of certain remedies, the exercise by the United States of America of the powers delegated to it by the federal Constitution, the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose and the limitations on remedies against cities in the State. Bankruptcy proceedings, or the exercise of powers by the federal or State government, if initiated, could subject the Owners of the 2020 Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitation or modification of their rights. Under Chapter 9 of the Bankruptcy Code, which governs the bankruptcy proceedings for public agencies such as the City, involuntary petitions are not permitted. If the City were to file a petition under Chapter 9 of the Bankruptcy Code, the Owners of the 2020 Bonds, the Trustee and the Authority could be prohibited from taking any steps to enforce their rights under the Lease Agreements or from taking any steps to collect amounts due from the City under the Lease Agreements.

In particular, if the City were to become a debtor under the Bankruptcy Code, the City would be entitled to all of the protective provisions of the Bankruptcy Code as applicable in a Chapter 9 case. Among the adverse effects of such a bankruptcy might be: (i) the application of the automatic stay provisions of the Bankruptcy Code, which, until relief is granted, would prevent collection of payments from the City or the commencement of any judicial or other action for the purpose of recovering or collecting a claim against the City, and which could prevent the Trustee from making payments from funds in its possession; (ii) the avoidance of preferential transfers occurring during the relevant period prior to the filing of a bankruptcy petition; (iii) the existence of unsecured or secured debt which may have a priority of payment that is superior to that of Owners of the 2020 Bonds; and (iv) the possibility of the adoption of a plan (an “**Adjustment Plan**”) for the adjustment of the City’s various obligations over the objections of the Trustee or all of the Owners of the 2020 Bonds and without their consent, which Adjustment Plan may restructure, delay, compromise or reduce the amount of any claim of the Owners if the Bankruptcy Court finds that such Adjustment Plan is “fair and equitable” and in the best interests of creditors. The Adjustment Plans approved by the Bankruptcy Courts in connection with the bankruptcies of the cities of Vallejo, San Bernardino and Stockton resulted in significant reductions in the amounts payable by the cities under lease revenue obligations that were substantially identical or similar to the 2020 Bonds. The City can provide no assurances about the outcome of the bankruptcy cases of other California municipalities or the nature of any Adjustment Plan if it were to file for bankruptcy.

In addition, the City could either reject one or both of the Ground Leases or the Lease Agreements or assume one or both of the Ground Leases or the Lease Agreements despite any provision of such documents that makes the bankruptcy or insolvency of the City an event of default thereunder. If the City rejects a Lease Agreement, the Trustee, on behalf of the Owners of the 2020 Bonds, would have a pre-petition unsecured claim that may be substantially limited in amount, and this claim would be treated in a manner under an Adjustment Plan over the objections of the Trustee or Owners of the 2020 Bonds of the applicable series. Moreover, such rejection would terminate such Lease Agreement and the City’s obligations to make payments thereunder. The City may also be permitted to assign the corresponding Ground Lease or the Lease Agreement to a third party, regardless of the terms of the transaction documents.

Secondary Market

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

In addition, the City has entered into a continuing disclosure undertaking in connection with the 2020 Bonds. Any material failure to comply with such undertaking in the future may adversely affect the liquidity of the affected 2020 Bonds and their market price in the secondary market.

Risks Associated with Bond Insurance

In the event that the City defaults in the payment of principal or interest on a series of the 2020 Bonds when due, the Owners of such series of 2020 Bonds will have a claim under the applicable Policy for such payments. See the caption “BOND INSURANCE.” In the event that the Insurer becomes obligated to make payments with respect to a series of 2020 Bonds, no assurance can be given that such event will not adversely affect the market for such 2020 Bonds. In the event that the Insurer is unable to make payments of principal or interest on a series of 2020 Bonds when due under the applicable Policy, such 2020 Bonds will be payable solely from available revenues of the City and amounts held in certain funds and accounts established under the applicable Indenture, as described under the caption “SECURITY AND SOURCES OF PAYMENT FOR THE 2020 BONDS.”

The insured long-term ratings on the 2020 Bonds are dependent in part on the financial strength of the Insurer and its claims-paying ability. The Insurer’s financial strength and claims-paying ability are predicated upon a number of factors which could change over time. If the long-term ratings of the Insurer are lowered, such event could adversely affect the market for the 2020 Bonds. See the caption “RATINGS.”

Neither the City nor the Underwriter has made an independent investigation of the claims-paying ability of the Insurer, and no assurance or representation regarding the financial strength or projected financial strength of the Insurer is being made by the City or the Underwriter in this Official Statement. Therefore, when making an investment decision with respect to the 2020 Bonds, potential investors should carefully consider the ability of the City to pay principal of and interest on the 2020 Bonds, assuming that the applicable Policy is not available to pay principal of and interest on the 2020 Bonds, and the claims-paying ability of the Insurer through final maturity of the applicable series of 2020 Bonds.

So long as a Policy remains in effect and the Insurer is not in default of its obligations thereunder, the Insurer has certain notice, consent and other rights under the applicable Indenture and will have the right to control all remedies in the event of a default under such Indenture. The Insurer is not required to obtain the consent of the Owners of the applicable series of 2020 Bonds with respect to the exercise of remedies. See Appendix B.

TAX MATTERS

2020A Bonds

General. 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 (and original issue discount) on the 2020A Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals. In the further opinion of Bond Counsel, interest (and original issue discount) on the 2020A 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 (and original issue discount) on the 2020A Bonds is based upon certain representations of fact and certifications made by the City, the Authority and others and is subject to the condition that the City and the Authority comply with all requirements of the Code that must be satisfied subsequent to the issuance of the 2020A Bonds to assure that interest (and original issue discount) on the 2020A 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 (and original issue discount) on the 2020A Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 2020A Bonds. The City and the Authority have covenanted to comply with all such requirements.

In the opinion of Bond Counsel, the difference between the issue price of a 2020A Bond (the first price at which a substantial amount of the 2020A Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity of such 2020A Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Beneficial Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Beneficial Owner will increase the Beneficial Owner's basis in the applicable 2020A Bond. The amount of original issue discount that accrues to the Beneficial Owner of a 2020A Bond is excluded from the gross income of such Beneficial Owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals, and is exempt from State of California personal income tax.

The amount by which a 2020A Bond Owner's original basis for determining loss on sale or exchange in the applicable 2020A 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 2020A Bond Owner's basis in the applicable 2020A Bond (and the amount of tax-exempt interest received with respect to the 2020A 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 2020A Bond Owner realizing a taxable gain when a 2020A Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the 2020A Bond to the Owner. Purchasers of the 2020A Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.

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 2020A Bonds will be selected for audit by the IRS. It is also possible that the market value of the 2020A Bonds might be affected as a result of such an audit of the 2020A 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 2020A Bonds to the extent that it adversely affects the exclusion from gross income of interest (and original issue discount) on the 2020A Bonds or their market value.

SUBSEQUENT TO THE ISSUANCE OF THE 2020A 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 2020A BONDS INCLUDING THE IMPOSITION OF ADDITIONAL FEDERAL INCOME OR STATE TAXES ON OWNERS OF TAX-EXEMPT STATE OR LOCAL OBLIGATIONS, SUCH AS THE 2020A BONDS. THESE CHANGES COULD ADVERSELY AFFECT THE MARKET VALUE OR LIQUIDITY OF THE 2020A BONDS. NO ASSURANCE CAN BE GIVEN THAT SUBSEQUENT TO THE ISSUANCE OF THE 2020A 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 2020A 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 2020A 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 2020A 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 (and original issue discount) for federal income tax purposes with respect to any 2020A 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 (and original issue discount) on the 2020A Bonds is excluded from gross income for federal income tax purposes provided that the City continue to comply with certain requirements of the Code, the ownership of the 2020A Bonds and the accrual or receipt of interest (and original issue discount) on the 2020A 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 2020A Bonds, all potential purchasers should consult their tax advisors with respect to collateral tax consequences relating to the 2020A Bonds.

Should interest (and original issue discount) on the 2020A Bonds become includable in gross income for federal income tax purposes, the 2020A Bonds are not subject to early redemption and will remain outstanding until maturity or until redeemed in accordance with the Indenture.

Tax Concerns Related to 2020A-2 Bonds. As discussed under the caption “PREPAYMENT PLAN—2015 Lease,” a portion of the proceeds 2020A-2 Bonds is being applied to refinance the 2015 501(c)(3) Project. The 2015 501(c)(3) Project, which consists of a golf course and related improvements, is operated by the Foundation pursuant to the Sublease.

Bond Counsel has relied on a certificate of the Foundation, dated the date of issuance of the 2020A-2 Bonds, that the Foundation is an organization described in Section 501(c)(3) of the Code and regarding the use of the facilities refinanced from proceeds of the 2020A-2 Bonds in activities that are not considered unrelated trade or business activities of the Foundation within the meaning of Section 513 of the Code. Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Foundation or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the resulting changes in enforcement thereof by the IRS. Failure of the Foundation to be organized and operated in accordance with IRS’s requirements for the maintenance of its status as an organization described in Section 501(c)(3) of the Code may result in interest on the 2020A-2 Bonds being included in federal gross income, possibly from the date of the original issuance of the 2020A-2 Bonds. See the caption “RISK FACTORS—Tax-Related Issues—Tax-Exempt Status of the Foundation and Effect on 2020A-2 Bonds.”

The form of Bond Counsel’s proposed opinion with respect to the 2020A Bonds is set forth in Appendix D.

2020B Bonds

In the opinion of Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest (and original issue discount) on the 2020B Bonds is *not* excluded from gross income for federal income tax purposes under Section 103 of the Code, but is exempt from State of California personal income tax.

The amount by which a Beneficial Owner’s original basis for determining loss on sale or exchange in the applicable 2020B Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable premium, which the Beneficial Owner of a 2020B Bond may elect to amortize under Section 171 of the Code; such amortizable premium reduces the Beneficial Owner’s basis in the applicable 2020B Bond (and the amount of taxable interest received on the 2020B Bonds), and is deductible for federal income tax purposes. The basis reduction as a result of the amortization of premium may result in a Beneficial Owner realizing a taxable gain when a 2020B Bond is sold by the Beneficial Owner for an amount equal to or less (under certain circumstances) than the original cost of the 2020B Bond to the

Beneficial Owner. The Beneficial Owners of the 2020B Bonds that have a basis in the 2020B Bonds that is greater than the principal amount of the 2020B Bonds should consult their own tax advisors with respect to whether or not they should elect such premium under Section 171 of the Code.

In the event of a legal defeasance of the 2020B Bonds, such 2020B Bonds might be treated as retired and “reissued” for federal tax purposes as of the date of the defeasance, potentially resulting in recognition of taxable gain or loss to the applicable 2020B Bond Owner generally equal to the difference between the amount deemed realized from the deemed prepayment and reissuance and the 2020B Bond Owner’s adjusted tax basis in such 2020B Bond.

The tax discussion set forth above is included for general information only and may not be applicable depending upon a 2020B Bond Owner’s particular situation. The ownership and disposal of the 2020B Bonds and the accrual or receipt of interest (and original issue discount) on the 2020B Bonds may otherwise affect the tax liability of certain persons. Bond Counsel expresses no opinion regarding any such tax consequences. **BEFORE PURCHASING ANY OF THE 2020B BONDS, ALL POTENTIAL PURCHASERS SHOULD CONSULT THEIR INDEPENDENT TAX ADVISORS WITH RESPECT TO THE TAX CONSEQUENCES RELATING TO THE 2020B BONDS AND THE TAXPAYER’S PARTICULAR CIRCUMSTANCES.**

The form of Bond Counsel’s proposed opinion with respect to the 2020B Bonds is set forth in Appendix D.

CERTAIN LEGAL MATTERS

The validity of the 2020 Bonds and certain other legal matters are subject to the approving opinions of Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel and Disclosure Counsel. Complete copies of the proposed forms of Bond Counsel opinions are contained in Appendix D. *Bond Counsel and Disclosure Counsel will receive compensation from the City contingent upon the sale and delivery of the 2020 Bonds.*

Certain legal matters will be passed upon for the City and the Authority by the City Attorney, for the Underwriter by Kutak Rock LLP, Irvine, California, for the Insurer by its counsel and for the Trustee by its counsel.

Furthermore, from time to time Bond Counsel serves as counsel to the Underwriter with respect to transactions other than the issuance of the 2020 Bonds.

LITIGATION

At the time of issuance of the 2020 Bonds, the Authority and the City will deliver certificates stating that there is no litigation then pending or threatened to restrain or enjoin the issuance of the 2020 Bonds or in any way contesting or affecting the validity of the 2020 Bonds, the Ground Leases or the Lease Agreements, any proceedings of the Authority or the City taken with respect to the delivery or sale of the 2020 Bonds, the pledge or application of any money or security provided for the payment of the 2020 Bonds, the existence or powers of the Authority or the City or the title of any officers of the Authority or the City to their respective positions.

UNDERWRITING

Stifel, Nicolaus & Company, Incorporated (the “**Underwriter**”), will purchase: (i) the 2020A-1 Bonds from the Authority at an aggregate purchase price of \$_____ (representing the principal amount of the 2020A-1 Bonds (\$_____), plus/less a net original issue premium/discount of \$_____, and less an underwriter’s discount of \$_____); (ii) the 2020A-2 Bonds from the Authority at an aggregate purchase price of \$_____ (representing the principal amount of the 2020A-2 Bonds (\$_____), plus/less a net original issue

premium/discount of \$_____, and less an underwriter's discount of \$_____); and (iii) the 2020B Bonds from the Authority at an aggregate purchase price of \$_____ (representing the principal amount of the 2020B Bonds (\$_____), less an underwriter's discount of \$_____).

The 2020 Bonds are offered for sale at the initial prices stated on the inside cover page of this Official Statement, which may be changed from time to time by the Underwriter. The 2020 Bonds may be offered and sold to certain dealers at prices lower than the public offering prices.

RATINGS

S&P Global Ratings, a Standard & Poor's Financial Services LLC business ("**S&P**"), is expected to assign the rating of "[__]" to the 2020 Bonds based upon the delivery of the Policies by the Insurer at the time of issuance of the 2020 Bonds. S&P has assigned the 2020 Bonds the underlying rating of "[__]" notwithstanding the delivery of the Policies.

A rating is not a recommendation to buy, sell or hold securities. 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 2020 Bonds, and there is no assurance that any credit rating that is given to the 2020 Bonds will be maintained for any period of time or that a rating may not be qualified, downgraded, lowered or withdrawn entirely by S&P if, in the judgment of S&P, circumstances so warrant, nor can there be any assurance that the criteria required to achieve the rating on the 2020 Bonds will not change during the period that the 2020 Bonds remain outstanding.

Any qualification, downward revision, lowering or withdrawal of the ratings on the 2020 Bonds may have an adverse effect on the market price of the 2020 Bonds. Such ratings reflect only the current views of S&P (which could change at any time), and an explanation of the significance of such ratings may be obtained from S&P. Generally, rating agencies base their ratings on information and materials furnished to them (which may include information and material from the City that is not included in this Official Statement) and on investigations, studies and assumptions by the rating agencies.

The City has covenanted in its continuing disclosure undertakings to file notices of any rating changes on the 2020 Bonds with EMMA. See the caption "CONTINUING DISCLOSURE" and Appendix E. Notwithstanding such covenant, information relating to rating changes on the 2020 Bonds may be publicly available from S&P prior to such information being 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 2020 Bonds are directed to S&P and its websites and official media outlets for the most current ratings with respect to the 2020 Bonds after the issuance of the 2020 Bonds.

Neither the City nor the Underwriter makes any representation as to the Insurer's creditworthiness or any representation that the Insurer's credit rating will be maintained in the future. The rating agencies have published various releases outlining the processes that they intend to follow in evaluating the ratings of financial guarantors. For some financial guarantors, the result of such evaluations could be a rating affirmation, a change in rating outlook, a review for downgrade or a downgrade. Potential investors are directed to the rating agencies for additional information on the applicable rating agencies' evaluations of the financial guaranty industry and individual financial guarantors, including the Insurer. See the caption "BOND INSURANCE" for further information relating to the Insurer.

CONTINUING DISCLOSURE

The City has agreed in a continuing disclosure undertaking for each series of the 2020 Bonds: (1) to provide certain financial information and operating data (each, an "**Annual Report**") relating to the City by not later than April 1 after the end of the City's Fiscal Year; and (2) to provide notices of the occurrence of certain enumerated events. The Annual Reports will be filed by the City with the Municipal Securities

Rulemaking Board's Electronic Municipal Market Access System for municipal securities disclosures, which is maintained on the Internet at <http://emma.msrb.org/> ("EMMA"). The notices of enumerated events will also be filed by the City with EMMA. The specific nature of the information to be contained in the Annual Reports and the notices of enumerated events is set forth in the continuing disclosure undertakings of the City. The form of such continuing disclosure undertakings is set forth in Appendix E.

In the past five years, the City filed notice of a rating change with respect to the 2008 Certificates after the time by which such notice was required to be filed. In addition, the City filed its audited financial statements for Fiscal Years 2015 and 2016 with respect to three of the City bond issuances after the time by which such financial statements were required to be filed, and the City neither filed unaudited financial statements prior to the filing of the audited financial statements nor notified investors that the audited financial statements would be filed late. Except as disclosed in this paragraph, the City has not failed to comply in all material respects with its continuing disclosure obligations in the past five years. In order to ensure compliance with its continuing disclosure obligations in the future, the City has engaged Willdan Financial Services to assist the City with its continuing disclosure filings.

MISCELLANEOUS

The City has approved and authorized the preparation, execution and distribution of this Official Statement. Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such, and are not representations of fact. This Official Statement is not to be construed as an agreement or contract among any of the City, the Authority and the purchasers or holders of any 2020 Bonds.

SALINAS FACILITIES FINANCING AUTHORITY

By: _____
Executive Director

CITY OF SALINAS

By: _____
City Manager

APPENDIX A

DEMOGRAPHIC AND ECONOMIC INFORMATION

The following information is presented as general background data. The 2020 Bonds are payable solely from moneys of the City as described in the Official Statement. The taxing power of the City, the County, the State of California or any political subdivision thereof is not pledged to the payment of the Certificates.

The City also notes that the below information is the latest available but does not in any instance reflect the impact of the COVID-19 pandemic. See the Official Statement under the caption “THE CITY—COVID-19 Outbreak.” Accordingly, the historical information below does not necessarily reflect present economic conditions and future information could be significantly different from the historical information below.

General

The City of Salinas (the “City”) is located in the County of Monterey (the “County”) in the Central Coast region of California, 17 miles inland from the Monterey Bay, 325 miles north of Los Angeles and 105 miles south of San Francisco. The City was incorporated as a charter city in 1874. The City has an area of approximately 24 square miles.

The City provides a wide range of municipal services, including public safety (police and fire), public works-maintenance services (streets, lighting, signals, facilities, parks and trees), development and permit services, current and advanced planning and traffic and facilities engineering, library, recreation and general administrative services. Business-type services include a municipal airport, industrial waste system, two municipal golf courses, sanitary sewer and storm drain systems, water utility and a parking district.

Government

The City operates under a Council/Manager form of government. Councilmembers are elected by districts for four year alternating terms and a mayor is elected at large for a two year term. The City Council appoints the City Attorney and the City Manager who is responsible for day-to-day administration of the City under the policy direction of the City Council. The population of the City is estimated to be approximately 162,222.

The City Council members and the expiration dates of their respective terms are as follows:

<i>Name</i>	<i>Office</i>	<i>Term Expires</i>
Christie Cromeenes	Mayor Pro Tem, Council Member, District 5	December 2022
Scott Davis	Council Member, District 1	November 2020
Tony Barrera	Council Member, District 2	December 2022
Steve McShane	Council Member, District 3	December 2022
Gloria De La Rosa	Council Member, District 4	November 2020
John “Tony” Villegas	Council Member, District 6	November 2020

Retail Sales

The table below present taxable sales for the years 2010 through 2019, the latest date for which such information is available, for the County.

COUNTY OF MONTEREY TAXABLE SALES (DOLLARS IN THOUSANDS)

<i>Year</i>	<i>Permits</i>	<i>Taxable Transactions</i>	<i>Percentage Change</i>
2010	10,204	\$4,955,562	N/A
2011	10,268	5,312,732	7.2%
2012	10,184	5,637,445	6.1
2013	10,389	5,910,531	4.8
2014	10,535	6,200,747	4.9
2015	11,534	6,406,116	3.3
2016	11,725	6,665,936	3.9
2017	11,959	6,939,333	4.1
2018	12,490	7,339,237	5.7
2019	12,816	7,405,524	0.9

Source: California State Board of Equalization, Research and Statistics Division.

The table below present taxable sales for the years 2010 through 2019, the latest date for which such information is available, for the City.

CITY OF SALINAS TAXABLE SALES (DOLLARS IN THOUSANDS)

<i>Year</i>	<i>Permits</i>	<i>Taxable Transactions</i>	<i>Percentage Change</i>
2010	2,641	\$1,791,469	N/A
2011	2,665	1,984,048	10.7%
2012	2,661	2,089,040	5.2
2013	2,703	2,174,732	4.1
2014	2,759	2,265,218	4.1
2015	3,030	2,340,849	3.3
2016	3,053	2,458,354	4.8
2017	3,099	2,543,924	3.4
2018	3,284	2,635,379	3.6
2019	3,380	2,665,914	1.1

Source: California State Board of Equalization, Research and Statistics Division.

Population

Historic population information for the City, the County and the State of California is set forth below.

SALINAS, COUNTY OF MONTEREY, STATE OF CALIFORNIA POPULATION

<i>Area</i>	<i>1990</i>	<i>2000</i>	<i>2010</i>	<i>2018</i>	<i>2019</i>	<i>2020</i>
City of Salinas	108,777	142,685	150,441	161,446	162,353	162,222
County of Monterey	355,660	401,762	415,057	439,193	441,304	441,143
State of California	29,758,213	33,873,086	37,253,956	39,586,646	39,695,379	39,782,870

Source: State of California, Department of Finance *E-4 Historical Population Estimates for City, County and the State, 1991-2000, with 1990 and 2000 Census Counts*, Sacramento, California, August 2007, *E-4 Historical Population Estimates for City, County and the State, 2001-2010, with 2000 and 2010 Census Counts*, Sacramento, California, August 2007 and *E-4 Population Estimates for Cities, Counties and State, 2011-2020, with 2010 Benchmark*, Sacramento, California, May 2020.

Employment

Residents of the City find employment throughout the Salinas Metropolitan Division (the “**Metropolitan Division**”). The following tables set forth certain employment data for the Metropolitan Division.

The following table represents the Annual Average Labor Force and Industry Employment for the Metropolitan Division for the years 2015 through 2019.

**SALINAS MSA
(MONTEREY COUNTY)
ANNUAL AVERAGE INDUSTRY EMPLOYMENT 2015-2019**

	<i>2015</i>	<i>2016</i>	<i>2017</i>	<i>2018</i>	<i>2019</i>
Total Farm	53,000	53,300	53,200	55,000	54,700
Total Nonfarm	133,100	136,200	139,200	143,000	145,300
Goods Producing	11,100	11,400	11,800	12,000	12,100
Natural Resources and Mining	300	200	200	200	300
Construction	5,200	5,800	6,000	6,400	6,500
Manufacturing	5,500	5,400	5,600	5,400	5,300
Service Providing	122,100	124,800	127,400	131,000	133,200
Trade, Transportation and Utilities	26,000	26,100	26,200	26,700	26,700
Wholesale Trade	5,300	5,300	5,600	5,900	5,800
Retail Trade	16,400	16,500	16,400	16,800	16,800
Transportation, Warehousing and Utilities	4,300	4,200	4,100	4,000	4,200
Information	1,300	1,100	1,100	1,000	1,000
Financial Activities	4,100	4,200	4,300	4,500	4,400
Professional and Business Services	12,800	13,400	13,200	14,000	14,800
Educational and Health Services	18,400	18,800	19,700	19,900	20,400
Leisure and Hospitality	23,400	24,300	24,500	25,300	26,200
Other Services	5,000	5,100	5,200	5,100	5,100
Government	31,100	31,900	33,300	34,500	34,600
Total, All Industries	186,100	189,500	192,400	198,000	200,000

Note: The "Total, All Industries" data is not directly comparable to the employment data found herein.

Source: State of California, Employment Development Department, Labor Market Information Division, Salinas Metropolitan Division, Industry Employment & Labor Force - by Annual Average, March 2019 Benchmark.

The following table summarizes the labor force, employment and unemployment figures for the years 2014 through 2019 for the City, the County, the State and the nation as a whole.

**SALINAS, COUNTY OF MONTEREY, STATE OF CALIFORNIA AND UNITED STATES
AVERAGE ANNUAL CIVILIAN LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT**

<i>Year and Area</i>	<i>Labor Force⁽¹⁾</i>	<i>Employment⁽²⁾</i>	<i>Unemployment⁽³⁾</i>	<i>Unemployment Rate</i>
2014				
Salinas	79,000	71,400	7,500	9.5%
Monterey County	219,000	199,200	19,800	9.0
California	18,755,000	17,348,600	1,406,400	7.5
United States	155,922,000	146,305,000	9,617,000	6.2
2015				
Salinas	79,100	72,400	6,700	8.5%
Monterey County	221,400	203,500	17,900	8.1
California	18,893,200	17,723,300	1,169,900	6.2
United States	157,130,000	148,834,000	8,296,000	5.3
2016				
Salinas	79,700	73,400	6,400	8.0%
Monterey County	220,400	203,800	16,700	7.6
California	19,102,700	18,065,000	1,037,700	5.4
United States	159,187,000	151,436,000	7,751,000	4.9
2017				
Salinas	80,500	74,300	6,200	7.6%
Monterey County	223,200	212,900	10,300	4.6
California	19,205,300	18,285,500	919,800	4.8
United States	160,381,000	153,861,000	6,520,000	4.1
2018				
Salinas	80,900	74,000	6,900	8.5%
Monterey County	222,200	207,900	14,200	6.4
California	19,398,200	18,582,800	815,400	4.2
United States	162,075,000	155,761,000	6,314,000	3.9
2019⁽⁴⁾				
Salinas	81,000	74,300	6,700	8.3%
Monterey County	222,500	208,700	13,800	6.2
California	19,411,600	18,627,400	784,200	4.0
United States	163,539,000	157,538,000	6,001,000	3.7

(1) Includes persons involved in labor-management trade disputes.

(2) Includes all persons without jobs who are actively seeking work.

(3) The unemployment rate is computed from unrounded data; therefore, it may differ from rates computed from rounded figures in this table.

(4) Not strictly comparable with data for prior years.

Source: California Employment Development Department, March 2019 Benchmark and U.S. Department of Labor, Bureau of Labor Statistics.

Largest Employers

The table below sets forth the largest employers within the City as of February 27, 2018, the latest date for which such information is available. Employers are presented in alphabetical order.

CITY OF SALINAS LARGEST EMPLOYERS

<i>Rank</i>	<i>Name of Business</i>	<i>Number of Employees</i>	<i>Type of Business</i>
1.	Cardiology Clinic	500-999	Nurse Practitioners
2.	Hilltown Packing Co.	500-999	Harvesting-Contract
3.	Mann Packing Co.	500-999	Fruits and Vegetables-Growers/Shippers
4.	Monterey County Social Services Community Benefits Division	500-999	Government
5.	Monterey County Social Services Department	500-999	Government
6.	Monterey County Office of Education	500-999	Education
7.	Natividad Medical Center	500-999	Hospital
8.	Salinas Valley Memorial Healthcare	1,000-4,999	Hospital
9.	Salinas Valley Memorial Hospital	1,000-4,999	Hospital
10.	Taylor Farms	1,000-4,999	Fruits and Vegetables-Growers/Shippers

Source: State of California Employment Development Department.

The following table show the largest industries located in the County as of June 30, 2019.

COUNTY OF MONTEREY LARGEST INDUSTRIES⁽¹⁾

<i>Rank</i>	<i>Industry</i>	<i>Employees</i>
1.	Agriculture	69,481
2.	Other Services	64,714
3.	Retail Trade	16,684
4.	Construction & Mining	6,790
5.	Wholesale Trade	5,923
6.	Manufacturing	5,538
7.	Transportation & Warehousing	3,352
8.	Finance & Insurance	2,514
9.	Real Estate, Rental & Leasing	2,032
10.	Information	1,028
11.	Utilities	788

⁽¹⁾ Employment by industry presented because County has been unable to obtain employment numbers for individual employers.

Source: County of Monterey Comprehensive Annual Financial Report for the year ending June 30, 2019.

Personal Income

Personal income is the income that is received by all persons from all sources. It is calculated as the sum of wage and salary disbursements, supplements to wages and salaries, proprietors' income with inventory valuation and capital consumption adjustments, rental income of persons with capital consumption adjustment, personal dividend income, personal interest income, and personal current transfer receipts, less contributions for government social insurance.

The personal income of an area is the income that is received by, or on behalf of, all the individuals who live in the area; therefore, the estimates of personal income are presented by the place of residence of the income recipients.

Total personal income in the County increased by approximately 71% between 2004 and 2018. The following tables summarize personal income for the County for the years 2004 through 2018, the latest period for which such information is available.

**MONTEREY COUNTY
PERSONAL INCOME
(DOLLARS IN THOUSANDS)**

<i>Year</i>	<i>Personal Income</i>	<i>Annual Percent Change</i>
2004	\$14,287,740	--
2005	14,856,269	4.0
2006	16,082,793	8.3
2007	16,613,668	3.3
2008	16,836,670	1.3
2009	16,801,573	(0.2)
2010	17,246,851	2.7
2011	17,866,246	3.6
2012	18,651,438	4.4
2013	19,184,163	2.9
2014	20,251,502	5.6
2015	22,142,878	9.3
2016	22,906,277	2.8
2017	23,511,124	2.6
2018	24,477,179	4.1

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

The following tables summarizes per capita personal income for the County, the State of California and the United States for the years 2003 through 2018, the latest period for which such information is available. This measure of income is calculated as the personal income of the residents of the area divided by the resident population of the area.

**MONTEREY COUNTY, STATE OF CALIFORNIA AND THE UNITED STATES
PER CAPITA PERSONAL INCOME**

<i>Year</i>	<i>Monterey County</i>	<i>California</i>	<i>United States</i>
2003	\$33,543	\$35,234	\$32,692
2004	34,956	37,551	34,316
2005	36,670	39,521	35,904
2006	40,024	42,334	38,144
2007	41,289	43,692	39,821
2008	41,467	44,162	41,082
2009	40,953	42,224	39,376
2010	41,417	43,315	40,277
2011	42,422	45,820	42,453
2012	43,803	48,312	44,267
2013	44,816	48,471	44,462
2014	47,107	50,988	46,414
2015	51,256	53,741	48,112
2016	52,686	57,801	49,890
2017	53,989	60,219	51,910
2018	56,193	63,711	54,526

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

APPENDIX B

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

The following is a summary of certain definitions and provisions of the Lease Agreements and the Indentures which are not described elsewhere in the Official Statement. This summary does not purport to be comprehensive and reference should be made to the Lease Agreements and the Indentures for a full and complete statement of their provisions. Each Lease Agreement and Indenture is substantially identical, with the exception of certain of certain tax covenants of the City and the Authority in the 2020A Indenture which have not been made in the 2020B Indenture.

[TO COME]

APPENDIX C
AUDITED FINANCIAL STATEMENTS

APPENDIX D

PROPOSED FORMS OF BOND COUNSEL OPINIONS

Upon issuance of the 2020A Bonds, Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, proposes to render its final approving opinion in substantially the following form:

August ____, 2020

Salinas Facilities Financing Authority
c/o City of Salinas
200 Lincoln Avenue
Salinas, California 93901

Re: \$_____ *Salinas Facilities Financing Authority Lease Revenue Refunding Bonds, Series 2020A-1*

\$_____ *Salinas Facilities Financing Authority Lease Revenue Refunding Bonds, Series 2020A-2 (Qualified 501(c)(3) Bonds)*

Members of the Board of Directors:

We have acted as Bond Counsel to the Salinas Facilities Financing Authority (the “Authority”) in connection with the issuance by the Authority of its Lease Revenue Refunding Bonds, Series 2020A-1 in the aggregate principal amount of \$_____ (the “2020A-1 Bonds”) and Lease Revenue Refunding Bonds, Series 2020A-2 (Qualified 501(c)(3) Bonds) in the aggregate principal amount of \$_____ (the “2020A-2 Bonds” and, together with the 2020A-1 Bonds, the “2020 Bonds”). In connection therewith, we have reviewed: (i) the Indenture, dated as of August 1, 2020 (the “Indenture”), by and among The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”), the Authority and the City of Salinas (the “City”); (ii) the “Lease Agreement, dated as of August 1, 2020 (the “Lease Agreement”), by and between the City and the Authority; (iii) the Ground Lease, dated as of August 1, 2020 (the “Ground Lease”), by and between the City and the Authority; (iv) the Assignment Agreement, dated as of August 1, 2020 (the “Assignment Agreement”), by and between the Authority and the Trustee; (v) the Tax Certificate of the Authority and the City, dated as of the date hereof (the “Tax Certificate”); and (vi) opinions of counsel to the Authority, the City and the Trustee, certificates of the Authority, the City and the Trustee and others and such other documents, opinions and matters to the extent that we deemed necessary to render the opinions set forth herein. Capitalized terms that are not otherwise defined herein have the meanings ascribed thereto in the Indenture.

Based upon our examination of the foregoing, and in reliance thereon and on all matters of fact as we deem relevant under the circumstances, and upon consideration of applicable laws, we are of the opinion that:

1. The obligation of the City to pay Base Rental Payments in accordance with the terms of the Lease Agreement is a valid and binding obligation payable from the funds of the City lawfully available therefor. The obligation of the City to make Base Rental Payments under the Lease Agreement does not constitute a debt of the City, the State of California (the “State”) or any political subdivision thereof within the meaning of any statutory or constitutional debt limitation or restriction and does not constitute a pledge of the faith and credit or taxing power of the City, the State or any political subdivision thereof.

2. The Lease Agreement and the Indenture have been duly authorized, executed and delivered by the City and the Authority and constitute valid and legally binding agreements of the City and the Authority enforceable against the City and the Authority in accordance with their terms, except that we express no

opinion as to any provisions in the Lease Agreement or the Indenture with respect to indemnification, penalty, contribution, choice of law, choice of forum or waiver.

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 (and original issue discount) on the 2020A-1 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. Under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein and compliance by Future Citizen's Foundation, a California non-profit public benefit corporation (the "Foundation"), with certain representations and covenants made in a certificate dated the date hereof pertaining to the 2020A-2 Bonds and certain requirements of the Internal Revenue Code of 1986, as amended (the "Code") regarding the organization and operation of the Foundation and other matters, interest on the 2020A-2 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. We can give no opinion or assurance about the future activities of the Foundation, or about the effect of future changes in the Code, the applicable regulations, the interpretations thereof or the resulting changes in enforcement thereof by the Internal Revenue Service. Failure to comply with the covenants and requirements described above or failure of the Foundation to be organized and operated in accordance with the Internal Revenue Service's requirements for the maintenance of status as an organization described in Section 501(c)(3) of the Code may cause interest on the 2020A-2 Bonds to be includable in gross income for federal income tax purposes retroactively to the date of issuance of the 2020A-2 Bonds.

5. Interest (and original issue discount) on the 2020 Bonds is exempt from personal income taxes imposed in the State.

6. The difference between the issue price of a 2020 Bond (the first price at which a substantial amount of the 2020 Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity with respect to such 2020 Bonds constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a 2020 Bond Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a 2020 Bond Owner will increase the 2020 Bond Owner's basis in the applicable 2020 Bond. In the opinion of Bond Counsel, the amount of original issue discount that accrues to the Owner of the 2020 Bond is excluded from the gross income of such Owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and is exempt from State personal income tax.

7. The amount by which a 2020 Bond Owner's original basis for determining loss on sale or exchange in a 2020 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 2020 Bond Owner's basis in the applicable 2020 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 2020 Bond Owner realizing a taxable gain when a 2020 Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the 2020 Bond to the Owner. Purchasers of the 2020 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 2020 Bonds are based upon certain representations of fact and certifications made by the City and the Authority and are subject to the condition that the City and the Authority comply with all requirements of the Code that must be satisfied subsequent to the issuance of the 2020 Bonds to assure that such interest (and original issue

discount) on the 2020 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 (and original issue discount) on the 2020 Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 2020 Bonds. The City and the Authority have 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 2020 Bonds terminates on the date of their issuance. The Indenture, the Lease Agreement and the Tax Certificate 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 (and original issue discount) on the 2020 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 as expressly stated herein, we express no other opinion regarding tax consequences with respect to the 2020 Bonds.

We have not made or undertaken to make an investigation of the state of title to any of the real property described in the Lease Agreement, the Ground Lease and the Assignment Agreement or of the accuracy or sufficiency of the description of such property contained therein, and we express no opinion with respect to such matters.

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, the Lease Agreement and the 2020 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 2020 Bonds and expressly disclaim any duty to advise the Owners of the 2020 Bonds with respect to matters contained in the Official Statement.

Respectfully submitted,

Upon issuance of the 2020B Bonds, Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, proposes to render its final approving opinion in substantially the following form:

August ____, 2020

Salinas Facilities Financing Authority
c/o City of Salinas
200 Lincoln Avenue
Salinas, California 93901

Re: \$_____ *Salinas Facilities Financing Authority Lease Revenue Refunding Bonds, Series 2020B (Federally Taxable)*

Members of the Board of Directors:

We have acted as Bond Counsel to the Salinas Facilities Financing Authority (the "Authority") in connection with the issuance by the Authority of its Lease Revenue Refunding Bonds, Series 2020B (Federally Taxable) (the "2020 Bonds") in the aggregate principal amount of \$_____. In connection therewith, we have reviewed: (i) the Indenture, dated as of August 1, 2020 (the "Indenture"), by and among The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"), the Authority and the City of Salinas (the "City"); (ii) the Lease Agreement, dated as of August 1, 2020 (the "Lease Agreement"), by and between the City and the Authority; (iii) the Ground Lease, dated as of August 1, 2020 (the "Ground Lease"), by and between the City and the Authority; (iv) the Assignment Agreement, dated as of August 1, 2020 (the "Assignment Agreement"), by and between the Authority and the Trustee; and (v) opinions of counsel to the Authority, the City and the Trustee, certificates of the Authority, the City and the Trustee and others and such other documents, opinions and matters to the extent that we deemed necessary to render the opinions set forth herein. Capitalized terms that are not otherwise defined herein have the meanings ascribed thereto in the Indenture.

Based upon our examination of the foregoing, and in reliance thereon and on all matters of fact as we deem relevant under the circumstances, and upon consideration of applicable laws, we are of the opinion that:

1. The obligation of the City to pay Base Rental Payments in accordance with the terms of the Lease Agreement is a valid and binding obligation payable from the funds of the City lawfully available therefor. The obligation of the City to make Base Rental Payments under the Lease Agreement does not constitute a debt of the City, the State of California (the "State") or any political subdivision thereof within the meaning of any statutory or constitutional debt limitation or restriction and does not constitute a pledge of the faith and credit or taxing power of the City, the State or any political subdivision thereof.

2. The Lease Agreement and the Indenture have been duly authorized, executed and delivered by the City and the Authority and constitute valid and legally binding agreements of the City and the Authority enforceable against the City and the Authority in accordance with their terms, except that we express no opinion as to any provisions in the Lease Agreement or the Indenture with respect to indemnification, penalty, contribution, choice of law, choice of forum or waiver.

3. Interest (and original issue discount) on the 2020 Bonds is exempt from personal income taxes imposed in the State.

4. The amount by which a 2020 Bond Owner's original basis for determining loss on sale or exchange in the applicable 2020 Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable premium, which the Owner of a 2020 Bond may elect to amortize under Section 171 of the Code; such amortizable premium reduces the 2020 Bond Owner's basis in

the applicable 2020 Bond (and the amount of taxable interest received on the 2020 Bonds), and is deductible for federal income tax purposes. The basis reduction as a result of the amortization of premium may result in a 2020 Bond Owner realizing a taxable gain when a 2020 Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the 2020 Bond to the Owner. The Owners of the 2020 Bonds that have a basis in the 2020 Bond that is greater than the principal amount of the 2020 Bonds should consult their own tax advisors with respect to whether or not they should elect such premium under Section 171 of the Code.

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 2020 Bonds terminates on the date of their issuance. The Indenture, the Lease Agreement and the Tax Certificate permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. Other than as expressly stated herein, we express no other opinion regarding tax consequences with respect to the 2020 Bonds.

We have not made or undertaken to make an investigation of the state of title to any of the real property described in the Lease Agreement, the Ground Lease and the Assignment Agreement or of the accuracy or sufficiency of the description of such property contained therein, and we express no opinion with respect to such matters.

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, the Lease Agreement and the 2020 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 2020 Bonds and expressly disclaim any duty to advise the Owners of the 2020 Bonds with respect to matters contained in the Official Statement.

Respectfully submitted,

APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATES

Upon issuance of each series of the 2020 Bonds, the City proposes to enter into a Continuing Disclosure Certificate in substantially the following form. Each Continuing Disclosure Certificate is substantially identical.

This Continuing Disclosure Certificate (the “**Disclosure Certificate**”) is executed and delivered by the City of Salinas (the “**City**”) in connection with the issuance by the Salinas Facilities Financing Authority (the “**Authority**”) of its \$_____ Lease Revenue Refunding Bonds, Series 2020__ (the “**Bonds**”). The Bonds are being issued pursuant to an Indenture, dated as of August 1, 2020 (the “**Indenture**”), by and among the City, the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee (the “**Trustee**”). 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 that are set forth in the Indenture, which apply to any capitalized term that is 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.

Insurer. The term “Insurer” means _____.

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 August __, 2020 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, 2021 with the Fiscal Year 2020 Annual Report) 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 shall send in a timely manner 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) 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 the City’s audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they come available.

(b) To the extent not included in the audited financial statements provided pursuant to the foregoing Section 4(a), the Annual Report shall contain the following information as of the end of the prior Fiscal Year:

(i) The principal amount of the Bonds outstanding;

(ii) General Fund Budgets and Results, which may be substantially in the form set forth in Table 1 in the Official Statement;

(iii) Tax Revenues by Source, which may be substantially in the form set forth in the table under the caption “CITY FINANCIAL INFORMATION—Tax Revenues of the City” in the Official Statement;

(iv) Total property assessed values within the City, which may be substantially in the form of Table 4 in the Official Statement; and

(v) Vehicle license fees, which may be substantially in the form of Table 7 in the Official Statement.

The items described 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. 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 occurrence:

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. optional, unscheduled or contingent 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 with respect to the Bonds shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If any 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 comply with any provision of this Disclosure Certificate, the Insurer or any Holders or Beneficial Owner 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 comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture or the Lease Agreement, 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, the Insurer and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Dated: ____, 2020

CITY OF SALINAS

By: _____

APPENDIX F

BOOK-ENTRY ONLY SYSTEM

The information in this section concerning DTC and DTC's book-entry only system has been obtained from sources that the Authority believes to be reliable, but the Authority 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 2020 Bonds, payment of principal, premium, if any, accreted value and interest on the 2020 Bonds to DTC Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the 2020 Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC.

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the 2020 Bonds (the "Securities"). The Securities 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 Security certificate will be issued for each maturity of the Securities in the aggregate principal amount of such maturity, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

2. 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.

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("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 Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities 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 Securities 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 Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities 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.

5. 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 Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities 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.

6. Redemption notices will be sent to DTC. If less than all of the Securities 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.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Principal, redemption price and interest payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Paying Agent, 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 Paying Agent, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, redemption price and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Paying Agent, 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.

9. If applicable, a Beneficial Owner will give notice to elect to have its Securities purchased or tendered, through its Participant, to tender/remarketing agent, and will effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to tender/remarketing agent. The requirement for physical delivery of Securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Securities to tender/remarketing agent's DTC account.

10. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to the Authority or the Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

11. The Authority may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.

APPENDIX G

SPECIMEN MUNICIPAL BOND INSURANCE POLICY