

PRELIMINARY OFFICIAL STATEMENT DATED DECEMBER __, 2020

NEW ISSUE – BOOK-ENTRY ONLY

RATING: See the caption “RATING”

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest on the 2020 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 on the 2020 Bonds is exempt from State of California personal income tax. See the caption “TAX MATTERS.”

\$ _____*

**CITY OF SALINAS
WASTEWATER REVENUE REFUNDING BONDS,
SERIES 2020A (FEDERALLY TAXABLE)**

Dated: Date of Issuance

Due: August 1, as set forth on the inside front cover page

The 2020 Bonds are being issued in fully registered form and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York. Purchasers of the 2020 Bonds will not receive securities representing their beneficial ownership in the 2020 Bonds purchased. Interest on the 2020 Bonds is payable on August 1, 2021 and each February 1 and August thereafter, until their maturity or earlier redemption. The principal of and interest on the 2020 Bonds are payable by the Trustee to Cede & Co. and such interest and principal payments are to be disbursed to the Beneficial Owners of the 2020 Bonds through their nominees.

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

The 2020 Bonds are being issued to provide moneys: (i) to refund all of the outstanding City of Salinas Sanitary Sewer System Revenue Bonds, Series 2012; and (ii) to pay costs of issuance of the 2020 Bonds, all as more fully described in this Official Statement.

The 2020 Bonds are being issued pursuant to the Indenture of Trust, dated as of December 1, 2020, by and between the City and The Bank of New York Mellon Trust Company, N.A., as trustee. The 2020 Bonds are limited obligations of the City payable solely from Net Revenues, which consist of Revenues of the City’s Wastewater System remaining after the payment of Operation and Maintenance Costs, and from amounts on deposit in certain funds and accounts created under the Indenture.

No reserve fund has been established in connection with the issuance of the 2020 Bonds.

The City may incur additional obligations payable from Net Revenues on a parity with the obligation to pay principal of and interest on the 2020 Bonds, subject to the terms and conditions of the Indenture, as more fully described in this Official Statement.

THE OBLIGATION OF THE CITY TO PAY PRINCIPAL OF AND INTEREST ON THE 2020 BONDS PURSUANT TO THE INDENTURE DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE GENERAL CREDIT OR TAXING POWER OF THE CITY IS PLEDGED. THE OBLIGATION OF THE CITY TO PAY PRINCIPAL OF AND INTEREST ON THE 2020 BONDS IS A SPECIAL OBLIGATION OF THE CITY PAYABLE SOLELY FROM NET REVENUES, AND DOES NOT CONSTITUTE A DEBT OF THE CITY OR OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF IN CONTRAVENTION OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

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

MATURITY SCHEDULE – See Inside Front Cover Page

The 2020 Bonds are offered when, as and if issued and received by the Underwriter, subject to the approval of the valid, legal and binding nature of the 2020 Bonds by Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the City by Stradling Yocca Carlson & Rauth, a Professional Corporation, as Disclosure Counsel, and by the City Attorney, for the Underwriter by its counsel, Kutak Rock LLP, and for the Trustee by its counsel. It is anticipated that the 2020 Bonds will be available for delivery through the facilities of The Depository Trust Company on or about December 23, 2020.

STIFEL

Dated: December __, 2020

* Preliminary; subject to change.

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

\$ _____*

CITY OF SALINAS
WASTEWATER REVENUE REFUNDING BONDS,
SERIES 2020A (FEDERALLY TAXABLE)

MATURITY SCHEDULE

BASE CUSIP^{®†} _____

<i>Maturity Date (August 1)</i>	<i>Principal Amount</i>	<i>Interest Rate</i>	<i>Yield</i>	<i>Price</i>	<i>CUSIP^{®†} Suffix</i>
2021	\$	%	%		
2022					
2023					
2024					
2025					
2026					
2027					
2028					
2029					
2030					
2031					
2032					
2033					
2034					
2035					
2036					
2037					
2038					
2039					
2040					

\$ _____ % Term Bonds due August 1, 20 __, Yield: __%, Price: __, CUSIP^{®†} Suffix __

* Preliminary; subject to change.

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CITY OF SALINAS, CALIFORNIA

CITY COUNCIL

Kimbley Craig, *Mayor*
____, *Council Member, District 1*
Tony Barrera, *Council Member, District 2*
Steve McShane, *Council Member, District 3*
Orlando R. Osornio, *Council Member, District 4*
Christie Cromeenes, *Council Member, District 5*
Anthony Rocha, *Council Member, District 6*

STAFF

Jim Pia, *Interim 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/Escrow Agent

The Bank of New York Mellon Trust Company, N.A.
San Francisco, California

Verification Agent

Causey Demgen & Moore P.C.
Denver, Colorado

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

The Underwriter has provided the following sentence for inclusion in this Official Statement:

The Underwriter has reviewed the information in this Official Statement in accordance with, and as a part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

The information set forth herein has been obtained from official sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Underwriter. The information and expression of opinions herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 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 PRICES STATED ON THE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

CERTAIN STATEMENTS CONTAINED IN THIS OFFICIAL STATEMENT REFLECT NOT HISTORICAL FACTS BUT FORECASTS AND "FORWARD-LOOKING STATEMENTS." NO ASSURANCE CAN BE GIVEN THAT THE FUTURE RESULTS DISCUSSED HEREIN WILL BE ACHIEVED, AND ACTUAL RESULTS MAY DIFFER MATERIALLY FROM THE FORECASTS DESCRIBED HEREIN. IN THIS RESPECT, THE WORDS "ESTIMATE," "PROJECT," "ANTICIPATE," "EXPECT," "INTEND," "BELIEVE" AND SIMILAR EXPRESSIONS ARE INTENDED TO IDENTIFY FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995, SECTION 21E OF THE UNITED STATES SECURITIES EXCHANGE ACT OF 1934, AS AMENDED, AND SECTION 27A OF THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED. ALL PROJECTIONS, FORECASTS, ASSUMPTIONS, EXPRESSIONS OF OPINIONS, ESTIMATES AND OTHER FORWARD-LOOKING STATEMENTS ARE EXPRESSLY QUALIFIED IN THEIR ENTIRETY BY THE CAUTIONARY STATEMENTS SET FORTH IN THIS OFFICIAL STATEMENT.

The 2020 Bonds have not been registered under the Securities Act of 1933, as amended, in reliance upon an exemption contained in such act. The 2020 Bonds have not been registered or qualified under the securities laws of any state. The Indenture has not been qualified under the Trust Indenture Act of 1939, as amended, in reliance upon an exemption contained in such act.

The City maintains a website. However, the information presented there is for informational purposes only, is not part of this Official Statement and must not be relied upon in making an investment decision with respect to the 2020 Bonds.

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SUMMARY STATEMENT

This Summary Statement is subject in all respects to the more complete information contained in this Official Statement, and the offering of the 2020 Bonds to potential investors is made only by means of the entire Official Statement. Capitalized terms that are used and not otherwise defined in this Summary Statement have the meanings ascribed to them in this Official Statement.

Purpose. The 2020 Bonds are being issued to provide moneys: (i) to refund all of the outstanding City of Salinas Sanitary Sewer System Revenue Bonds, Series 2012; and (ii) to pay costs of issuance of the 2020 Bonds, all as more fully described herein. See the caption “PLAN OF FINANCE.”

Security for the 2020 Bonds. The 2020 Bonds are limited obligations of the City payable solely from Net Revenues, which consist of Revenues of the City’s Wastewater System remaining after the payment of Operation and Maintenance Costs, and from amounts on deposit in certain funds and accounts created under the Indenture.

THE OBLIGATION OF THE CITY TO PAY PRINCIPAL OF AND INTEREST ON THE 2020 BONDS PURSUANT TO THE INDENTURE DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE GENERAL CREDIT OR TAXING POWER OF THE CITY IS PLEDGED. THE OBLIGATION OF THE CITY TO PAY PRINCIPAL OF AND INTEREST ON THE 2020 BONDS IS A SPECIAL OBLIGATION OF THE CITY PAYABLE SOLELY FROM NET REVENUES, AND DOES NOT CONSTITUTE A DEBT OF THE CITY OR OF THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF IN CONTRAVENTION OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

See the caption “SECURITY FOR THE 2020 BONDS.”

Rate Covenant. To the fullest extent permitted by law, the City will fix and prescribe rates, fees and charges for the Wastewater Service which are reasonably expected, at the commencement of each Fiscal Year, to be at least sufficient to yield during such Fiscal Year Net Revenues equal to 120% of the Debt Service for such Fiscal Year. The City may make adjustments from time to time in such rates and charges and may make such classification thereof as it deems necessary, but may not reduce the rates and charges then in effect unless the Net Revenues from such reduced rates and charges will at all times be sufficient to meet the foregoing requirements.

No Senior or Parity Obligations. There are currently no obligations of the City which are payable from Wastewater System Revenues on a senior or parity basis to the 2020 Bonds.

Additional Contracts and Bonds. The Indenture permits the City to execute additional Contracts or to issue additional Bonds on a parity with the obligation to pay principal of and interest on the 2020 Bonds, provided that certain conditions are satisfied as described herein. See the caption “SECURITY FOR THE 2020 BONDS—Additional Indebtedness.” The Indenture also permits the City to execute or issue obligations payable on a subordinate basis to the 2020 Bonds.

No Reserve Fund. No debt service reserve fund has been established in connection with the 2020 Bonds.

Redemption. The 2020 Bonds are subject to optional and mandatory sinking fund redemption prior to maturity as described herein. See the caption “THE 2020 BONDS—Redemption of the 2020 Bonds.”

The City and the Wastewater System. The City serves as the County seat of the County of Monterey 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. See the caption “THE CITY.”

In Fiscal Year 2020, the City provided wastewater collection service to approximately 26,215 single family residential connections, 17,138 multi-family residential connections and 5,980 commercial, governmental, industrial and other connections. The City is the sole provider of sanitary sewer collection service within its service area. Wastewater collected by the City is transported through the collection system to four large sanitary sewer pipes and received at the Salinas pump station for conveyance to Monterey One Water for treatment. The pump station is owned and operated by Monterey One Water and the City is not responsible for the treatment of wastewater. See the caption “THE WASTEWATER SYSTEM.”

\$ _____*

CITY OF SALINAS
WASTEWATER REVENUE REFUNDING BONDS,
SERIES 2020A (FEDERALLY TAXABLE)

INTRODUCTION

This Official Statement, including the front cover page, the inside front cover page and all appendices, provides certain information concerning the sale and delivery of the City of Salinas Wastewater Revenue Refunding Bonds, Series 2020A (Federally Taxable) (the “**2020 Bonds**”). The 2020 Bonds are being issued pursuant to Division 2 of Chapter 10 of the Municipal Code of the City of Salinas (the “**City**”) and an Indenture of Trust, dated as of December 1, 2020 (the “**Indenture**”), by and between the City and The Bank of New York Mellon Trust Company, N.A., San Francisco, California, as trustee (the “**Trustee**”).

The 2020 Bonds are being issued to provide moneys: (i) to refund all of the outstanding City of Salinas Sanitary Sewer System Revenue Bonds, Series 2012 (the “**2012 Bonds**”); and (ii) to pay costs of issuance of the 2020 Bonds. See the caption “PLAN OF FINANCE.”

The 2020 Bonds are limited obligations of the City payable solely from Net Revenues, which consist of Revenues of the City’s municipal wastewater system (the “**Wastewater System**”) remaining after the payment of Operation and Maintenance Costs of the Wastewater System, as such terms are defined in Appendix B, and from amounts on deposit in certain funds and accounts created under the Indenture.

The City may incur additional obligations payable on a parity with the obligation to pay principal of and interest on the 2020 Bonds in the future as described under the caption “SECURITY FOR THE 2020 BONDS—Additional Indebtedness.”

The 2020 Bonds are subject to optional and mandatory sinking fund redemption prior to maturity as described herein. See the caption “THE 2020 BONDS—Redemption of the 2020 Bonds.”

The summaries and references to the Indenture and all documents, statutes, reports and other instruments that are referred to herein do not purport to be complete, comprehensive or definitive, and each such summary or reference is qualified in its entirety by reference to the full Indenture or the respective document, statute, report or instrument, copies of which are available for inspection at the offices of the City in Salinas, California or from the Trustee upon request and payment of duplication cost. The capitalization of any word that is not conventionally capitalized or otherwise defined herein indicates that such word is defined in the Indenture and, as used herein, has the meaning that is given to it in the Indenture. See Appendix B for a summary of the Indenture. Unless otherwise indicated, all financial and statistical information herein has been provided by the City.

The City regularly prepares a variety of reports, including audits, budgets and related documents. Any registered owner of the 2020 Bonds may obtain a copy of such reports, as available, from the Trustee or the City. Additional information regarding the Official Statement may be obtained by contacting the Trustee or the City of Salinas, 200 Lincoln Avenue, Salinas, California 93901, Attention: City Manager.

The City has also undertaken to provide annual reports and notice of certain enumerated events to the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access System (“**EMMA**”) pursuant to a continuing disclosure certificate. See the caption “CONTINUING DISCLOSURE” and Appendix E.

* Preliminary; subject to change.

PLAN OF FINANCE

Refunding Plan

The City issued the 2012 Bonds, which are currently outstanding in the aggregate principal amount of \$14,645,000, pursuant to an Indenture of Trust, dated as of February 1, 2012 (the “**2012 Indenture**”), by and between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee (the “**2012 Trustee**”). The 2012 Bonds are payable from Net Revenues of the Wastewater System. The City plans to apply a portion of the proceeds of the 2020 Bonds to refund the 2012 Bonds in full.

Under an Escrow Agreement (2012 Bonds), dated as of December 1, 2020 (the “**Escrow Agreement**”), by and between the City and the 2012 Trustee, the City will cause a portion of the proceeds of the 2020 Bonds to be delivered to the 2012 Trustee for deposit in the escrow fund established under the Escrow Agreement (the “**Escrow Fund**”). In addition, the City will cause the 2012 Trustee to deposit into the Escrow Fund certain moneys held by the 2012 Trustee in funds and accounts established in connection with the 2012 Bonds. The 2012 Trustee will invest a portion of the amounts deposited in the Escrow Fund in federal securities as set forth in the Escrow Agreement. From the moneys on deposit in the Escrow Fund and the investment earnings thereon, the 2012 Trustee will pay: (i) the principal of and interest on the outstanding 2012 Bonds maturing on and prior to August 1, 2022 (the “**Redemption Date**”); and (ii) on the Redemption Date, the principal of the outstanding 2012 Bonds maturing after the Redemption Date, plus interest with respect thereto accrued through the Redemption Date, without premium.

Sufficiency of the deposits in the Escrow Fund for such purposes will be verified by Causey Demgen & Moore P.C., Denver, Colorado (the “**Verification Agent**”). Assuming the accuracy of such computations, as a result of the deposit and application of funds as provided in the Escrow Agreement, the 2012 Bonds will be defeased pursuant to the provisions of the 2012 Indenture as of the date of issuance of the 2020 Bonds.

Upon the issuance of the 2020 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 deposited in the Escrow Fund to pay: (i) the principal of and interest on the outstanding 2012 Bonds maturing on and prior to the Redemption Date; and (ii) on the Redemption Date, the principal of the outstanding 2012 Bonds maturing after the Redemption Date, plus interest with respect thereto accrued through the Redemption Date, without premium.

The amounts held by the 2012 Trustee in the Escrow Fund are pledged solely to the payment of the 2012 Bonds. Neither the funds deposited in the Escrow Fund nor any interest thereon will be available for the payments of principal of or interest on the 2020 Bonds.

Estimated Sources And Uses Of Funds

The following table sets forth the estimated sources and uses of funds relating to the 2020 Bonds and funds relating to the 2012 Bonds:

Sources⁽¹⁾:

Principal Amount	\$
Other Moneys ⁽²⁾	_____
Total Sources	\$ =====

Uses⁽¹⁾:

Transfer to Escrow Agent for Refunding of 2012 Bonds	\$
Costs of Issuance ⁽²⁾	_____
Total Uses	\$ =====

(1) All amounts rounded to the nearest dollar. Totals may not add due to rounding.

(2) Includes moneys held in funds and accounts established in connection with the 2012 Bonds. See the caption “—Refunding Plan.”

(3) Includes Underwriter’s discount and certain legal, municipal advisory, rating agency, verification, printing, and other financing-related costs.

THE 2020 BONDS

General Provisions

The 2020 Bonds will be issued in the aggregate principal amount of \$_____.* The 2020 Bonds will be dated as of their date of initial issuance, will bear interest from such date at the rates per annum set forth on the inside front cover page hereof, payable on August 1, 2021 and each February 1 and August 1 thereafter (each, an “**Interest Payment Date**”), and will mature on the dates set forth on the inside front cover page hereof. Interest on the 2020 Bonds will be computed on the basis of a 360 day year composed of twelve 30 day months.

The 2020 Bonds will be issued only in fully registered form and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“**DTC**”). DTC will act as securities depository for the 2020 Bonds. Ownership interests in the 2020 Bonds may be purchased in book-entry form, in any integral multiple of \$5,000. See the caption “—Book-Entry Only System” below and Appendix D.

In the event that the book-entry only system that is described below is discontinued, the principal of and redemption premium (if any) on the 2020 Bonds are payable by check of the Trustee upon presentation and surrender thereof at maturity or upon prior redemption at the office of the Trustee in San Francisco, California (the “**Office of the Trustee**”). Interest on the 2020 Bonds is payable on each Interest Payment Date to the person whose name appears on the registration books maintained by the Trustee (the “**Registration Books**”) as the Owner thereof as of the close of business on the fifteenth day of the calendar month preceding the Interest Payment Date (the “**Record Date**”), such interest to be paid by check of the Trustee sent by first class mail on the applicable Interest Payment Date to the Owner at such Owner’s address as it appears on the Registration Books. An Owner of \$1,000,000 or more in principal amount of 2020 Bonds may, at such Owner’s option, be paid by wire transfer of immediately available funds to an account in the United States in accordance with written instructions provided to the Trustee by such Owner prior to the applicable Record Date. The principal of and interest and premium, if any, on the 2020 Bonds will be payable in lawful money of the United States.

* Preliminary; subject to change.

Each 2020 Bond will bear interest from the Interest Payment Date next preceding the date of authentication thereof unless: (a) it is authenticated after a Record Date and on or before the following Interest Payment Date, in which event it will bear interest from such Interest Payment Date; or (b) unless it is authenticated on or before July 15, 2021, in which event it will bear interest from its date of issuance; provided, however, that if, as of the date of authentication of any 2020 Bond, interest thereon is in default, such 2020 Bond will bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon.

Transfers and Exchanges Upon Termination of Book-Entry Only System

In the event that the book-entry system that is described herein is discontinued, the 2020 Bonds will be printed and delivered as provided in the Indenture. Thereafter, any 2020 Bond may, in accordance with its terms, be transferred on the Registration Books by the person in whose name it is registered, in person or by his or her duly authorized attorney, upon surrender of such 2020 Bond at the Office of the Trustee for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form acceptable to the Trustee. The Trustee is not required to register the transfer of any 2020 Bond during the period in which the Trustee is selecting 2020 Bonds for redemption and any 2020 Bond that has been selected for redemption.

Whenever any 2020 Bond or 2020 Bonds are surrendered for transfer, the City will execute and the Trustee will authenticate and deliver a new 2020 Bond or 2020 Bonds of authorized denomination or denominations for a like aggregate principal amount of the same maturity. The Trustee will require the 2020 Bond Owner requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer. Following any transfer of 2020 Bonds, the Trustee will cancel and destroy the 2020 Bonds that it has received.

The 2020 Bonds may be exchanged at the Office of the Trustee for a like aggregate principal amount of other authorized denominations of the same maturity. The Trustee is not required to exchange any 2020 Bond during the period in which the Trustee is selecting 2020 Bonds for redemption and any 2020 Bond that has been selected for redemption. The Trustee will require the 2020 Bond Owner requesting such exchange to pay any tax or other governmental charge required to be paid with respect to such exchange. Following any exchange of 2020 Bonds, the Trustee will cancel and destroy the 2020 Bonds that it has received.

Prior to any transfer of the 2020 Bonds outside the book-entry system (including, but not limited to, the initial transfer outside the book-entry system) the transferor will provide or cause to be provided to the Trustee all information necessary to allow the Trustee to comply with any applicable tax reporting obligations, including without limitation any cost basis reporting obligations under Internal Revenue Code Section 6045, as amended. The Trustee will conclusively rely on the information provided to it and has no responsibility to verify or ensure the accuracy of such information.

Redemption of the 2020 Bonds

Optional Redemption. The 2020 Bonds with stated maturities on or after August 1, 20__, are subject to redemption prior to their respective stated maturities, as a whole or in part on ____ 1, 20__, or any date thereafter, as directed by the City in a Written Request provided to the Trustee at least 35 days (or such lesser number of days acceptable to the Trustee in the sole discretion of the Trustee, such notice for the convenience of the Trustee) and by lot within each maturity in integral multiples of \$5,000, at a Redemption Price equal to the principal amount thereof plus accrued interest thereon to the Redemption Date, without premium.

Mandatory Sinking Fund Redemption. The 2020 Bonds with stated maturities on August 1, 20__ are subject to mandatory sinking fund redemption in part (by lot) on August 1, 20__ and each August 1 thereafter through August 1, 20__, 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 (August 1)</i>	<i>Principal Amount</i>
20__	\$
20__	
20__	
20__	
20__*	

* Maturity.

If some but not all of the Term Bonds are redeemed pursuant to the optional redemption provisions of the Indenture (as described under the subcaption “—Optional Redemption”), the principal amount of the applicable Term Bonds to be redeemed pursuant to the Indenture on any subsequent August 1 will be reduced, by \$5,000 or an integral multiple thereof, as designated by the City in a Written Order of the City filed with the Trustee (which Written Order will include a revised sinking fund schedule); provided, however, that the aggregate amount of such reductions may not exceed the aggregate amount of the applicable Term Bonds redeemed pursuant to optional redemption provisions of the Indenture.

Notice of Redemption

Notice of redemption will be sent electronically or mailed by first class mail at least 20 days but not more than 60 days before any Redemption Date, to the respective Owners of any 2020 Bonds designated for redemption at their addresses appearing on the Registration Books, to the Securities Depositories and to the Information Services. Each notice of redemption will state the date of notice, the Redemption Date, the place or places of redemption, the Redemption Price, will designate the maturities, CUSIP numbers, if any, and, in the case of 2020 Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice will also state that on the Redemption Date there will become due and payable on each of said 2020 Bonds or parts thereof designated for redemption the Redemption Price thereof or of said specified portion of the principal thereof in the case of a 2020 Bond to be redeemed in part only, together with interest accrued thereon to the Redemption Date, and that (provided that moneys for redemption have been deposited with the Trustee) from and after such Redemption Date interest thereon will cease to accrue, and will require that such 2020 Bonds be then surrendered to the Trustee. Neither the failure to receive such notice nor any defect in the notice or the mailing thereof will affect the validity of the redemption of any 2020 Bond. Notice of redemption of 2020 Bonds will be given by the Trustee, at the expense of the City, for and on behalf of the City.

With respect to any notice of optional redemption of 2020 Bonds, such notice may state that such redemption will be conditional upon the receipt by the Trustee on or prior to the date fixed for such redemption of moneys sufficient to pay the principal of, premium, if any, and interest on such 2020 Bonds to be redeemed and that, if such moneys have not been so received, said notice will be of no force and effect and the Trustee will not be required to redeem such 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.

Book-Entry Only System

One fully-registered 2020 Bond of each maturity will be issued in the principal amount of the 2020 Bonds of such maturity. Such 2020 Bond will be registered in the name of Cede & Co. and will be deposited with DTC. As long as the ownership of the 2020 Bonds is registered in the name of Cede & Co., the term “**Owner**” as used in this Official Statement will refer to Cede & Co. and not to the actual purchasers of the 2020 Bonds (the “**Beneficial Owners**”).

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, the 2020 Bonds will be printed and delivered and will be governed by the provisions of the Indenture with respect to payment of principal and interest and rights of exchange and transfer. See the caption “—Transfers and Exchanges Upon Termination of Book-Entry Only System.”

The City cannot and does not give any assurances that DTC Participants or others will distribute payments of principal of and interest on the 2020 Bonds received by DTC or its Nominee as the registered Owner, or any redemption or other notices, to the Beneficial Owners (as such term is defined in Appendix D), or that they will do so on a timely basis, or that DTC will service and act in the manner described in this Official Statement. See Appendix D for additional information concerning DTC.

DEBT SERVICE PAYMENT SCHEDULE

Set forth below is an annualized schedule of principal of and interest on the 2020 Bonds for the period ending June 30 in each of the years indicated, assuming no optional redemptions of the 2020 Bonds.

<i>Period Ending June 30</i>	<i>Principal</i>	<i>Interest</i>	<i>Total Debt Service</i>
2021 ⁽¹⁾	\$	\$	\$
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
2037			
2038			
2039			
2040			
2041			
2042			
2043			
TOTAL	\$	\$	\$

⁽¹⁾ Does not reflect debt service on 2012 Bonds payable in Fiscal Year 2021.
Source: Underwriter.

SECURITY FOR THE 2020 BONDS

Limited Obligations Payable From Net Revenues

General. The City is obligated to make payments of principal of and interest on the 2020 Bonds solely from Net Revenues. The term “**Net Revenues**” means, for any period, the Revenues of the Wastewater

System for such period less the Operation and Maintenance Costs of the Wastewater System for such period. See Appendix B for detailed definitions of “Revenues” and “Operation and Maintenance Costs.” When held by the Trustee in any funds or accounts established under the Indenture, Net Revenues will include all interest or realized gain derived from the investment of amounts in any of such funds or accounts.

THE OBLIGATION OF THE CITY TO PAY PRINCIPAL OF AND INTEREST ON THE 2020 BONDS PURSUANT TO THE INDENTURE DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE GENERAL CREDIT OR TAXING POWER OF THE CITY IS PLEDGED. THE OBLIGATION OF THE CITY TO PAY PRINCIPAL OF AND INTEREST ON THE 2020 BONDS IS A SPECIAL OBLIGATION OF THE CITY PAYABLE SOLELY FROM NET REVENUES, AND DOES NOT CONSTITUTE A DEBT OF THE CITY OR OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF IN CONTRAVENTION OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

Pledge and Assignment; Revenue Fund. All of the Revenues, all amounts held in the Revenue Fund and any other amounts (including proceeds of the sale of the 2020 Bonds) held in any fund or account established pursuant to the Indenture have been irrevocably pledged to secure the payment of the principal of and interest, and the premium, if any, on the 2020 Bonds in accordance with their terms and the provisions of the Indenture, and the Revenues may not be used for any other purpose while the 2020 Bonds remain Outstanding; provided that out of the Revenues there may be apportioned such sums for such purposes as are expressly permitted in the Indenture. Said pledge, together with the pledge created by all other parity Contracts and Bonds (as such terms are defined in Appendix B), constitutes a first lien on and security interest on Revenues and, subject to application of Revenues and all amounts on deposit therein as permitted herein, the Revenue Fund and other funds and accounts created under the Indenture for the payment of the principal of and interest, and the premium, if any, on the 2020 Bonds and all Contracts and Debt Service on Bonds in accordance with the terms of the Indenture, and will attach, be perfected and be valid and binding from and after the Closing Date, without any physical delivery thereof or further act and will be valid and binding against all parties having claims of any kind in tort, contract or otherwise against the City, irrespective of whether such parties have notice of the Indenture.

In order to carry out and effectuate the pledge and lien contained in the Indenture, the City has agreed and covenanted that all Revenues will be received by the City in trust under the Indenture and will be deposited when and as received in the Revenue Fund, which fund the City has agreed and covenanted to maintain and to hold separate and apart from other funds so long as the 2020 Bonds and any Contracts or Debt Service on Bonds remain unpaid. Moneys in the Revenue Fund will be used and applied by the City as provided in the Indenture. All moneys in the Revenue Fund will be held in trust and will be applied, used and withdrawn for the purposes set forth below.

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

(i) **Interest and Principal Payments.** Not later than the Business Day prior to each Interest Payment Date, the City will, from the moneys in the Revenue Fund, transfer to the Trustee for deposit in the Payment Fund or the Redemption Fund the payments of interest and principal or mandatory sinking fund payments, as applicable, on the 2020 Bonds due and payable on such Interest Payment Date. The City will also, from the moneys in the Revenue Fund, transfer to the applicable trustee for deposit in the respective payment fund, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, any other Debt Service in accordance with the provisions of any Bond or Contract.

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

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

(iv) Surplus. Moneys on deposit in the Revenue Fund on any date when the City reasonably expects such moneys will not be needed for the payment of Operation and Maintenance Costs or any of the purposes described in clauses (i), (ii) or (iii) above may be expended by the City at any time for any purpose permitted by law.

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

Allocation of Revenues. There has been established with the Trustee the Payment Fund, which the Trustee has covenanted to maintain and hold in trust separate and apart from other funds held by it so long as any principal of and interest on the 2020 Bonds remain unpaid. Except as directed in the Indenture, all payments of interest and principal on the 2020 Bonds received by the Trustee as described above under the subcaption “—Pledge and Assignment; Revenue Fund” will be promptly deposited by the Trustee upon receipt thereof into the Payment Fund; except that all moneys received by the Trustee and required under the Indenture to be deposited in the Redemption Fund will be promptly deposited therein. All payments of interest and principal on the 2020 Bonds deposited with the Trustee will be held, disbursed, allocated and applied by the Trustee only as provided in the Indenture. The Trustee will also establish and hold an Interest Account and a Principal Account within the Payment Fund.

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

(a) Not later than the Business Day preceding each Interest Payment Date, the Trustee will deposit in the Interest Account that sum, if any, required to cause the aggregate amount on deposit in the Interest Account to be at least equal to the amount of interest becoming due and payable on such date on all 2020 Bonds then Outstanding. No deposit need be made into the Interest Account so long as there is in such fund moneys sufficient to pay the interest becoming due and payable on such date on all 2020 Bonds then Outstanding.

All amounts in the Interest Account will be used and withdrawn by the Trustee solely for the purpose of paying interest on the 2020 Bonds as it becomes due and payable (including accrued interest on any 2020 Bonds purchased or accelerated prior to maturity pursuant to the Indenture).

(b) Not later than the Business Day preceding each date on which the principal of the 2020 Bonds becomes due and payable under the Indenture, the Trustee will deposit in the Principal Account that sum, if any, required to cause the aggregate amount on deposit in the Principal Account to equal the principal amount of the 2020 Bonds coming due and payable on such date. No deposit need be made into the Principal Account so long as there is in in such fund moneys sufficient to pay the principal becoming due and payable on such date on all 2020 Bonds then Outstanding.

All amounts in the Principal Account will be used and withdrawn by the Trustee solely to pay the principal amount of the 2020 Bonds at maturity, purchase or acceleration; provided, however, that at any time prior to selection for redemption of any such 2020 Bonds, upon written direction of the City, the Trustee will apply such amounts to the purchase of 2020 Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as directed pursuant to a Written Request of the City, except that the purchase price (exclusive of accrued interest) may not exceed the Redemption Price then applicable to the 2020 Bonds.

Rate Covenant

To the fullest extent permitted by law, the City will fix and prescribe rates, fees and charges for the Wastewater Service which are reasonably expected, at the commencement of each Fiscal Year, to be at least sufficient to yield during such Fiscal Year Net Revenues equal to 120% of the Debt Service for such Fiscal Year.

The City may make adjustments from time to time in such rates and charges and may make such classification thereof as it deems necessary, but may not reduce the rates and charges then in effect unless the Net Revenues from such reduced rates and charges will at all times be sufficient to meet the foregoing requirements.

Additional Indebtedness

The City has covenanted in the Indenture not to issue additional obligations which are payable from Revenues on a senior basis to the 2020 Bonds.

The City may at any time execute any Contract or issue any Bonds, as the case may be, in accordance with the Indenture; provided that:

(a) The Net Revenues for the most recent audited Fiscal Year or any consecutive twelve calendar month period during the eighteen calendar month period preceding the date of adoption by the City Council of the resolution authorizing the issuance of such Bonds or the date of the execution of such Contract, as the case may be, as evidenced by a special report prepared by an Independent Certified Public Accountant or Independent Financial Consultant on file with the City, produce a sum equal to at least 120% of the Debt Service for such Fiscal Year or twelve month period, as applicable; and

(b) The Net Revenues for the most recent audited Fiscal Year or any consecutive twelve calendar month period during the eighteen calendar month period preceding the date of adoption by the City Council of the resolution authorizing the issuance of such Bonds or the date of the execution of such Contract, as the case may be, including adjustments to give effect as of the first day of such Fiscal Year or twelve month period to increases or decreases in rates and charges for the Wastewater Service approved and in effect as of the date of calculation, as evidenced by a special report prepared by an Independent Certified Public Accountant or Independent Financial Consultant on file with the City, produce a sum equal to at least 120% of the Debt Service for: (i) such Fiscal Year or twelve month period, as applicable; plus (ii) the Debt Service which would have accrued on any Contracts executed or Bonds issued since the end of such Fiscal Year or twelve month period, assuming that such Contracts had been executed or Bonds had been issued at the beginning of such Fiscal Year or twelve month period; plus (iii) the Debt Service which would have accrued had such proposed

additional Contract been executed or such proposed additional Bonds been issued at the beginning of such Fiscal Year or twelve month period.

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

Furthermore, notwithstanding the foregoing, the City may at any time issue evidence of indebtedness or incur other obligations for any lawful purpose that are payable from and secured by a lien on Revenues or money in the Revenue Fund as may from time to time be deposited therein subordinate to the 2020 Bonds.

No Reserve Fund

No debt service reserve fund has been established in connection with the issuance of the 2020 Bonds.

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. See the caption “—Land Use and Service Area.”

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. See the caption “—Governance and Management.”

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, a storm drain system and a parking district. Wastewater collection services are provided by the Wastewater Division of the City’s Public Works Department.

In Fiscal Year 2020, the City provided wastewater collection service to approximately 26,215 single family residential connections, 17,138 multi-family residential connections and 5,980 commercial, governmental, industrial and other connections. The City is the sole provider of sanitary sewer collection service within its service area.

Wastewater collected by the City is transported through the collection system to four large sanitary sewer pipes and received at the Salinas pump station for conveyance to Monterey One Water (“**MIW**”) for treatment. The pump station is owned and operated by MIW and the City is not responsible for the treatment of wastewater. See the caption “**THE WASTEWATER SYSTEM—Monterey One Water.**”

The Wastewater System consists of interceptors and pump stations for the conveyance of wastewater. The City’s interceptor system consists of approximately 289 miles of pipeline ranging from 6” to 54” in diameter, eleven lift stations, seven flow split structures and facilities for emergency power and odor control, including four on-site stationary backup generators.

The City maintains an industrial wastewater treatment facility for the treatment and disposal of water used in local agricultural businesses, which facility is not a part of the Wastewater System. The revenues from such facility are maintained in a separate City enterprise fund. Such revenues do not constitute Revenues pledged to repayment of the 2020 Bonds and the operation and maintenance costs of the industrial wastewater treatment facility do not constitute Operation and Maintenance Costs.

Land Use and Service Area

Land use within the City is primarily residential, with areas of commercial and industrial development. As the County seat and largest city in the County, the City also has a significant local government presence. The Wastewater System includes the approximately 24-square mile incorporated area within City limits. Certain areas within City limits are currently undeveloped and the City expects continued development of housing and commercial establishments in the future. Surrounding unincorporated lands include large areas devoted to agricultural production and agricultural packing businesses.

Governance and Management

General. The City operates under a Council/Manager form of government. Current City Council members and the expiration dates of their respective terms are as follows:

<i>Name</i>	<i>Office</i>	<i>Term Expires</i>
Kimbley Craig	Mayor	December 2024
—	Council Member, District 1	November 2024
Tony Barrera	Council Member, District 2	December 2022
Steve McShane	Council Member, District 3	December 2022
Orlando R. Osornio	Council Member, District 4	November 2024
Christie Cromeenes	Council Member, District 5	December 2022
Anthony Rocha	Council Member, District 6	November 2024

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.

Jim Pia is the interim City Manager of the City. Mr. Pia was appointed Assistant City Manager in 2011 and has served as interim City Manager since September 2018 while a nationwide recruitment for a permanent City Manager is ongoing. 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.

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

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.

Management Policies. The City has adopted several policies which are designed to ensure the prudent and effective management of City operations, including an investment policy, reserve policies and a debt management policy. Further information about each such policy is set forth below.

Investment Policy. The City invests its funds in accordance with the City's investment policy (the "**Investment Policy**"), which was most recently amended in 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.

The City held approximately \$186.8 million in cash and investments as of June 30, 2020. Approximately 2.9% of the total investment portfolio as of June 30, 2020, was attributed to the Wastewater System.

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

Reserve Policies. On June 16, 1998, the City adopted a policy to maintain a reserve in the Sanitary Sewer Fund equal to the larger of 25% of debt service on Wastewater System bonds or 25% of the Wastewater System's operating budget. The amount in the Sanitary Sewer Fund reserve as of June 30, 2020 equaled \$900,000, or approximately 25% of the Wastewater System's operating budget.

The City's financial policies also 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 pension liabilities (as discussed under the caption "—Employees

and Employee Benefits—Pension Obligations”). Budgeted Operating Reserves attributable to the General Fund for Fiscal Year 2021 totaled \$9,552,000. The City does not plan to draw upon such reserves in Fiscal Year 2021 or later Fiscal Years.

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 “—Employees and Employee Benefits—New York Life Plan.”

Debt Management Policy. The City’s debt management policy addresses the matters that are required by California Government Code § 8855(i), including: (i) the purposes for which debt proceeds may be used; (ii) the types of debt that may be issued; (iii) the relationship of the debt to, and integration with, the City’s capital improvement program or budget; (iv) policy goals related to the City’s planning goals and objectives; and (v) the internal control procedures which ensure that the proceeds of each debt issuance are directed to their intended use. The debt management policy also includes policies governing initial and continuing disclosure to the City’s bond investors.

Employees and Employee Benefits

General. The City had approximately 734 full and part-time employees as of June 30, 2020. Current City staffing for operation and maintenance of the Wastewater System includes 7.75 full time equivalent (“FTE”) employees of the Wastewater Division of the City’s Public Works Department. The Wastewater Division also has 11.50 FTE staff that are funded through storm sewer, industrial waste or street sweeping programs. All Wastewater Division staff are available for emergency and non-emergency support of the Wastewater System.

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⁾⁽²⁾	December 31, 2019
International Association of Firefighters ⁽²⁾	December 31, 2022
Police Managers Association ⁽²⁾	December 31, 2021
Salinas Police Officers Association ⁽²⁾	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.

⁽²⁾ None of the employees of this bargaining unit are responsible for the operation or support of the Wastewater System.
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.

Pension Obligations. The City’s pension obligations constitute an Operation and Maintenance Cost of the Wastewater System and is payable prior to the 2020 Bonds.

The City participates in two plans to fund pension benefits for employees that operate and support the Wastewater System. Such plans are administered by the California Public Employees Retirement System (“**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. Neither the City nor the Underwriter have independently verified the information provided by CalPERS and they make 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 “—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 had a net pension liability for its Miscellaneous plan in the amount of approximately \$36,911,981 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 Miscellaneous CalPERS plan, which governs benefits for employees

that operate and support the Wastewater System, contribute the full amount of the required employee contribution, which is up to 9.027% of their annual covered salary, depending on benefit level.

The City is also required to contribute the actuarially determined amounts necessary to fund benefits for its employees which are not contributed by such employees. 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 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 Years 2019 through 2021 (reflecting both normal costs and unfunded accrued liabilities as a percentage of projected payroll) are set forth in the below table. The total projected unfunded accrued liability for the City's CalPERS Miscellaneous plan for Fiscal Year 2021 is approximately \$21,784,743.

CITY OF SALINAS
CalPERS Miscellaneous Plan Employer Contribution Rate

<i>Fiscal Year</i>	<i>Rate</i>
2019	17.4%
2020	18.8
2021	20.4

Source: CalPERS.

For Fiscal Years 2019 and 2020, the City made total contributions to CalPERS for its Miscellaneous plan of \$4,933,299 and \$5,210,702, respectively. Of such amounts, an average of approximately 3.45% was attributable to the Wastewater System.

Included in the City's Fiscal Year 2020 contribution 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 (such numbers reflect total amounts attributable to both the City's Miscellaneous plan and its safety plans for fire and police personnel). The City has utilized this approach in prior years, also making a total \$11.3 million prefunding payment to CalPERS in Fiscal Year 2018. The City plans to make a Miscellaneous Plan pension contribution of \$5,200,000 for Fiscal Year 2021 and expects to make higher pension contributions in future 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 or otherwise, 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 Miscellaneous plan for Fiscal Year 2019 is shown below.

CITY OF SALINAS
CalPERS Miscellaneous 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 ⁽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 of Administration 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 Police Safety plans) and 15 years of mortality improvements using Society of Actuaries 90% of Scale MP 2016.

Source: City.

CITY OF SALINAS
CalPERS Miscellaneous Plan Benefits Summary

Hire Date	Prior to January 1, 2013	On or after January 1, 2013
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%

Source: City.

City employees who were hired on and after January 1, 2013 and who were not previously CalPERS members receive benefits based on a 2.0% at age 62 formula for Miscellaneous plan 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 2020

	<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 Miscellaneous Plan Change in Net Pension Liability

	<i>Increase (Decrease)</i>		
	<i>Total Pension Liability</i>	<i>Market Value of Assets</i>	<i>Net Pension Liability / (Asset)</i>
Balance at June 30, 2017	\$120,864,074	\$85,661,742	\$35,202,332
Changes ⁽¹⁾	<u>7,848,255</u>	<u>6,138,606</u>	<u>1,709,649</u>
Balance at June 30, 2018	\$128,712,329	\$91,800,348	\$36,911,981

⁽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 7.00%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.00%) or 1 percentage point higher (8.00%) than the current rate.

CITY OF SALINAS
Sensitivity of CalPERS Miscellaneous Plan Net Pension Liability to Changes in Discount Rate

	<i>Discount Rate – 1% (6.00%)</i>	<i>Current Discount Rate (7.00%)</i>	<i>Discount Rate + 1% (8.00%)</i>
Plan's Net Pension Liability/(Asset)	\$55,044,045	\$36,911,981	\$21,965,038

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. In July 2020, CalPERS reported preliminary earnings of 4.7% for Fiscal Year 2020, which was below its investment target. 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 Wastewater System 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 also 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⁾	781,745	1,804,019	(1,022,274)
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 New York Life Plan Net Pension Liability to Changes in Discount Rate

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

Source: City.

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 “—Pension Obligations,” 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 shown below. Approximately 3.45% of the OPEB liability was attributable to the Wastewater System in Fiscal Year 2019.

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 OPEB Plan Net Liability to Changes in Discount Rate

	<i>Discount Rate – 1%</i> <i>(3.95%)</i>	<i>Current Discount Rate</i> <i>(4.95%)</i>	<i>Discount Rate + 1%</i> <i>(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.

Budget Process

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.

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 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. See the caption "—Governance and Management—Management Policies."

The City Council adopted the Fiscal Year 2021 budget on June 23, 2020.

City Insurance

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. Certain portions of the Wastewater System, including underground pipelines, are not insured.

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 Wastewater System. See the caption "CERTAIN RISKS TO BONDHOLDERS—Natural Disasters."

For additional information relating to the City's insurance coverages, see Note 16 to the City's financial statements set forth in Appendix A.

No Senior or Parity Obligations

Upon the refunding of the 2012 Bonds as discussed under the caption "PLAN OF FINANCE—Refunding Plan," the City will have no debt or contractual obligations payable from Wastewater System Revenues on a parity with the 2020 Bonds.

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 the 2020 Bonds 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 experienced significant volatility attributed to COVID-19 concerns. CalPERS' Fiscal Year 2020 earnings were below its investment targets, which could result in an increase in the City's unfunded pension liability and future pension costs commencing in Fiscal Year 2023. See the caption "—Employees and Employee Benefits—Pension Obligations." 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.

Potential impacts to the City associated with the COVID-19 outbreak include, but are not limited to, increasing costs and challenges to the public health system in and around the City, cancellations of public events and disruption of the regional and local economy with corresponding decreases in the City's revenues, including as a result of reduced water use (particularly among commercial and hotel establishments), and potential declines in property values.

On-site City personnel are wearing masks and practicing social distancing while working. The City does not expect Wastewater System 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 State Governor has suspended utility service shutoffs (including for the Wastewater System) for the duration of the state of emergency declared by the State, and the City will not seek to collect late fees or penalties. Although no service charges are being forgiven, the City expects its accounts receivable amount to increase as a result of the foregoing policy.

The COVID-19 outbreak is ongoing, and the duration and severity of the outbreak and the economic and other actions that may be taken by governmental authorities to contain the outbreak or to treat its effects are uncertain. The ultimate impact of COVID-19 on the operations and finances of the City is unknown at this time. Despite the COVID-19 outbreak, Fiscal Year 2020 Wastewater System Revenues were approximately \$417,100 higher than budgeted, while Operation and Maintenance Costs were approximately \$909,275 lower than budgeted.

The City's Fiscal Year 2021 budget, which includes consideration of the effect of the COVID-19 outbreak and an anticipated recession, does not reflect an expected financial impact on the Wastewater System. The City continues to actively monitor customer usage, revenues and delinquencies so that any further impacts can be anticipated. See the caption "WASTEWATER SYSTEM FINANCIAL INFORMATION—Projected Operating Results and Debt Service Coverage."

The City also expects that CalPERS' earnings could be reduced in Fiscal Year 2021 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 estimate the magnitude of any such increases at this time. See the caption "—Employees and Employee Benefits—Pension Obligations."

As shown under the caption “THE WASTEWATER SYSTEM—Largest Wastewater System Customers,” many of the Wastewater System’s top water customers are commercial businesses. Wastewater service used by such customers was reduced in Fiscal Year 2020, and the City expects such reductions to continue in Fiscal Year 2021 as a result of the COVID-19 outbreak. However, as noted under the caption “THE WASTEWATER SYSTEM—Wastewater System Rates and Charges—Adopted Rates and Charges,” the City’s wastewater rates are primarily comprised of fixed rates that are payable without regard to the amount of water used, which mitigates a portion of the impact of reduced water use by commercial customers.

The City does not currently believe that the COVID-19 outbreak will materially adversely affect its ability to pay debt service on the 2020 Bonds.

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, 2020, prepared by McGilloway, Ray, Brown & Kaufman, Salinas, California (the “**Auditor**”), are included as Appendix A to this Official Statement. The Auditor’s letter dated [November __, 2020] 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.

The City accounts for moneys received and expenses paid in accordance with generally accepted accounting principles applicable to public entities (“**GAAP**”). Generally, the City recognizes revenues and expenses for the Wastewater System on the full accrual basis of accounting, meaning that revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flows take place. However, in certain cases, GAAP requires or permits moneys that are collected in one Fiscal Year to be recognized as revenue in a subsequent Fiscal Year and requires or permits expenses that are paid or incurred in one Fiscal Year to be recognized as expenses in a subsequent Fiscal Year. See Note 1.C to the Financial Statements that are set forth in Appendix A. Except as otherwise expressly noted herein, all financial information that has been derived from the City’s audited financial statements reflects the application of GAAP.

The Sanitary Sewer Fund of the City has a separate set of self-balancing accounts and is accounted for as a proprietary fund type (enterprise fund) using the economic resources measurement focus. In governmental accounting, enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis are to be financed or recovered primarily through user charges, or where periodic determination of revenues earned, expenses incurred and/or net income is deemed appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Prior Period Adjustments. For Fiscal Year 2015, the City implemented the provisions of GASB 68, as discussed under the caption “Employees and Employee Benefits—Pension Obligations.” 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 "—Employees and Employee Benefits—Other Post-Employment Benefits" and "Employees and Employee Benefits—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 WASTEWATER SYSTEM

General

In In Fiscal Year 2020, the City provided wastewater collection service to approximately 26,215 single family residential connections, 17,138 multi-family residential connections and 5,980 commercial, governmental, industrial and other connections. See the caption "—Historical Wastewater System Connections." The City is the sole provider of sanitary sewer collection service within its service area.

Wastewater collected by the City is transported through the collection system to four large sanitary sewer pipes and received at the Salinas pump station for treatment. The pump station is owned and operated by M1W and the City is not responsible for the treatment of wastewater. See the caption "—Monterey One Water."

The Wastewater System consists of interceptors and pump stations for the conveyance of wastewater. The City's interceptor system consists of approximately 289 miles of pipeline ranging from 6" to 54" in diameter, eleven lift stations, seven flow split structures and facilities for emergency power and odor control, including four on-site stationary backup generators.

The City's pump stations are equipped with Supervisory Control and Data Acquisition systems and the City maintains five portable towable diesel powered generators to provide emergency power to lift stations which are not already equipped with permanent on-site electrical generators. The portable generators reduce the potential for wastewater overflows during power outages. The City's lift stations are generally inspected daily.

The City maintains an industrial wastewater treatment facility for the treatment and disposal of water used in local agricultural businesses, which facility is not a part of the Wastewater System. The revenues from such facility do not constitute Revenues pledged to repayment of the 2020 Bonds and the operation and maintenance costs of such facility do not constitute Operation and Maintenance Costs.

Monterey One Water

M1W, a joint exercise of powers authority which was originally known as the Monterey Peninsula Water Pollution Control Agency, and later the Monterey Regional Water Pollution Control Agency, was

formed in 1971 by the cities of Monterey and Pacific Grove and the Seaside County Sanitation District (comprised of the cities of Seaside, Sand City and Del Rey Oaks). Its purpose was to seek joint solutions to water quality problems. Since its inception, M1W's membership has grown to include the City, Castroville Community Services District, Moss Landing County Sanitation District, Boronda County Sanitation District and Marina Coast Water District.

To reflect this larger service area, the name of the Agency was changed to Monterey Regional Water Pollution Control Agency and later, Monterey One Water. M1W has purchased the treatment plants, major interceptor lines and ocean outfalls that were previously owned by its member entities. Ultimate decision-making authority rests with M1W's Board of Directors (the "**M1W Board**"), with one director representing each member entity. The M1W Board meets monthly. Although the M1W Board generally operates on a one-member, one-vote basis, upon request of the City or any other member, the votes taken on action items may be weighted according to the population represented by each member. The City, with a population of approximately 162,200, is by far the most populous member of M1W, which has a total service area population of approximately 265,000, and would have 6 of 22 votes if it were to invoke the weighted vote provision that is described in the previous sentence.

In order to meet more stringent federal and State wastewater treatment requirements, a regional wastewater treatment plant was constructed in the 1980s and 1990s to replace the plants that were previously owned by member entities. The plant, which is currently known as the Regional Wastewater Treatment Plant and Advanced Water Purification Facility (the "**M1W Plant**"), is located west of the City in the city of Marina, approximately 14 miles from the central area of the City.

The initial construction phase of the M1W Plant (Stage I) consisted of the installation of a pipeline and constructing pump stations to divert wastewater from the Pacific Grove treatment plant to the Monterey plant. The M1W Plant was expanded and the Pacific Grove plant, which had badly deteriorated, was then closed. Stage II of the project connected all of the existing treatment plants so that treated wastewater could be discharged into Monterey Bay through a two-mile long outfall pipeline, rather than through near-shore outfalls or to rivers, as had previously been done in the City and Castroville Community Services District. Stage III, completed in 1990, involved the construction of a single regional treatment plant to replace the old plants owned by member entities. The M1W Plant produces a higher quality of treated effluent than was produced by the older plants. Stage IV, completed in 1997, enables M1W to recycle much of its wastewater flows at M1W's Castroville Treatment Plant for agricultural use during summer months. Stage V, completed in February 2020, enables M1W to purify wastewater through a process that involves ozone, membrane filtration, reverse osmosis and advanced oxidation. Such purified water is sold to a local groundwater management agency and applied to replenish the Seaside Groundwater Basin, a critical source of potable water for County residents.

The M1W Plant's treatment capacity is 29.6 million gallons per day ("**mgd**"). M1W processes an average of approximately 17 mgd, with a peak flow of 26.2 mgd.

M1W faces various challenges in the continued treatment of wastewater conveyed by the City and other member agencies. A description of these challenges as well as a variety of other operating information with respect to M1W is included in certain disclosure documents prepared by M1W. M1W has also entered into certain continuing disclosure agreements pursuant to which M1W is contractually obligated for the benefit of owners of certain of its outstanding obligations, to file certain annual reports, notices of certain enumerated events and annual audited financial statements (collectively, the "**M1W Information**") with the Municipal Securities Rulemaking Board's Electronic Municipal Market Access system ("**EMMA**") at <http://emma.msrb.org>. The M1W Information and M1W's disclosure documents are the disclosures of M1W and, accordingly, neither the City nor the Underwriter makes any representations as to the accuracy or completeness of such information or documents or as to the absence of material adverse changes in such information or documents after the date of this Official Statement. M1W HAS NOT ENTERED INTO ANY

CONTRACTUAL COMMITMENT WITH THE CITY, THE TRUSTEE OR THE OWNERS OF THE 2020 BONDS TO PROVIDE M1W INFORMATION TO THE CITY OR THE OWNERS OF THE 2020 BONDS.

M1W HAS NOT REVIEWED THIS OFFICIAL STATEMENT AND HAS MADE NO REPRESENTATIONS OR WARRANTIES WITH RESPECT TO THE ACCURACY OR COMPLETENESS OF THE INFORMATION CONTAINED OR INCORPORATED IN THIS OFFICIAL STATEMENT, INCLUDING INFORMATION WITH REGARD TO M1W. M1W IS NOT CONTRACTUALLY OBLIGATED, AND HAS NOT UNDERTAKEN, TO UPDATE ANY M1W INFORMATION FOR THE BENEFIT OF THE CITY OR THE OWNERS OF THE 2020 BONDS.

Regulatory Matters

The present discharge requirements for M1W’s treatment facilities are established by the Regional Water Quality Control Board, Central Coast Region (the “**Regional Board**”), which administers and enforces all federal and State discharge requirements. The Regional Board administers regulations promulgated under the National Pollutant Discharge Elimination System (“**NPDES**”) by the United States Environmental Protection Agency and Division 7 of the California Water Code and regulations adopted thereunder. M1W’s present discharge permit (Waste Discharge Order No. R3-2018-0017) was adopted by the Regional Board on December 6, 2018 expires on November 30, 2023. M1W is operating in compliance with the terms of the NPDES permit.

On May 2, 2006, the State Water Resources Control Board issued General Waste Discharge Requirements for Sanitary Sewer Systems, Water Quality Order No. 2006-0003 (the “**General Order**”). The General Order requires public agencies that own sanitary sewer systems comprised of more than one mile of pipes or sewer lines to develop sanitary sewer management plans and report all sanitary sewer overflows. The City is currently enrolled under the General Order and has a certified sanitary sewer management plan.

Historical Wastewater System Connections

The following table shows historical billed connections to the Wastewater System for the five most recent Fiscal Years:

CITY OF SALINAS						
Historical Wastewater System Connections						
<i>Fiscal Year</i>	<i>Single Family Residential</i>	<i>Multi-Family Residential</i>	<i>Commercial/ Governmental/ Industrial/Other</i>	<i>Total Connections</i>	<i>% Increase/ (Decrease)</i>	<i>Total M1W Billing Units⁽¹⁾</i>
2016	26,067	16,826	5,930	48,823	N/A%	107,097
2017	26,128	16,893	5,920	48,941	0.24	106,312
2018	26,132	16,941	5,881	48,954	0.03	108,856
2019	26,142	17,024	5,919	49,085	0.27	108,810
2020	26,215	17,138	5,980	49,333	0.51	108,555

⁽¹⁾ Represents the total number of billing units calculated by M1W for customers in the Wastewater System service area, adjusted for user type. Single family residential customers generally represent one billing unit.

Source: M1W.

Historical Wastewater System Usage

The following table shows the City’s historical share of the volume of wastewater treated by M1W for the five most recent calendar years.

CITY OF SALINAS
Historical Wastewater System Usage⁽¹⁾

<i>Calendar Year</i>	<i>Daily Average Flow (MGD)</i>	<i>% Increase/(Decrease)</i>
2016	11.2	N/A%
2017	10.4	(7.14)
2018	9.3	(10.58)
2019	10.6	13.98
2020 ⁽²⁾	9.1	(14.15)

⁽¹⁾ Fluctuations from year to year reflect conservation efforts, including increasing use of water-efficient appliances, as well as weather conditions.

⁽²⁾ Reflects daily average flow through October 2020 only.

Source: M1W.

Wastewater System usage is affected by a number of factors, including but not limited to the number of connections to the Wastewater System and water conservation efforts.

Historical Wastewater System Service Charge Revenues

The following table shows historical service charge revenues of the Wastewater System for the five most recent Fiscal Years.

CITY OF SALINAS
Historical Wastewater System Service Charge Revenues

<i>Fiscal Year</i>	<i>Wastewater System Service Charge Revenues</i>	<i>% Increase/(Decrease)</i>
2016	\$3,452,153	N/A%
2017	3,453,236	0.03
2018	3,637,031	5.32
2019	3,685,042	1.32
2020	3,748,470	1.72

Source: City.

Largest Wastewater System Customers

The following table sets forth the ten largest customers of the Wastewater System as of June 30, 2020, as determined by the amount of their respective payments.

CITY OF SALINAS Largest Wastewater System Customers

<i>Customer (Customer Type)</i>	<i>Wastewater Service Charge Revenues</i>	<i>% of Total</i>
Sabor Farms LLC (Food Processing)	\$ 222,032	5.92%
Mission Industries (Industrial)	164,079	4.38
County of Monterey (Government)	128,003	3.42
Suppes John et al. (Uncategorized)	94,128	2.51
Salinas Valley Memorial Hospital (Healthcare)	91,512	2.44
Casentini Street Apartments (Multifamily Housing)	81,408	2.17
Millennium Housing Company (Multifamily Housing)	79,500	2.12
Mission Linen Supply (Textiles)	79,288	2.12
Cityview Brentwood (Multifamily Housing)	76,320	2.04
Salinas Tallow Co. (Agricultural)	<u>75,363</u>	<u>2.01</u>
TOP TEN TOTAL	\$1,091,634	29.12%
TOTAL SYSTEM	\$3,748,470	100.0%

Source: MIW.

These customers accounted for approximately 29.12% of Wastewater System Revenues from wastewater service charges for Fiscal Year 2020.

Wastewater System Rates and Charges

General. The City is authorized under Chapter 36, Article II, Division 5 of the City Municipal Code to levy a sewer fee for the purpose of paying sanitary sewer-related expenses of the City. This fee is the primary source of Revenues and all proceeds of the fee are deposited in the Sanitary Sewer Fund. The City's Wastewater System rates are not subject to review or approval by the California Public Utilities Commission or any other agency. However, the City is required to comply with the notice, hearing and majority protest provisions of Article XIID of the State Constitution, which is popularly known as Proposition 218. See the caption "CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES—Proposition 218" for a discussion of limitations on the rate setting authority of the City under Proposition 218. The City determines the adequacy of the Wastewater System rate structure after full consideration of expected operations, maintenance and capital costs.

Wastewater collection fees reflect solely the cost of wastewater conveyance through the Wastewater System, based on a 189 gallon per day average residential sewage flow. The City's rates recognize that the City does not treat wastewater but is only responsible for conveying its customers' contributing wastewater flows to MIW, the costs of which are independent of the costs of treatment.

In 2012, after a hearing in accordance with Proposition 218, the City Council adopted rates and charges for the Wastewater System for Fiscal Years 2013 through 2017 (the "**Rate Plan**"). The Rate Plan remains in effect and the City has not raised Wastewater System rates since Fiscal Year 2017.

The City has engaged a consultant to prepare a new rate study for the Wastewater System that is expected to support adjustments to Wastewater System rates for Fiscal Years 2022 through 2026. The

projected operating results which are set forth under the caption “WASTEWATER SYSTEM FINANCIAL INFORMATION—Projected Operating Results and Debt Service Coverage” reflect Wastewater System rate increases averaging approximately 2% per annum beginning in Fiscal Year 2022 which have not yet been adopted, but which are expected to be supported by the new rate study which is currently being undertaken. All rate adjustments are subject to City Council approval after a public hearing in accordance with Proposition 218 and there can be no assurance that Wastewater System rates will be increased as projected herein. In the event that the City Council does not adopt such rate increases as currently contemplated, Wastewater System operating results could be materially different from the projections in this Official Statement.

The City is subject to certain covenants with respect to the 2020 Bonds which require the City to set Wastewater System rates and charges in amounts that it expects to be sufficient to pay the 2020 Bonds from Net Revenues. See the caption “SECURITY FOR THE 2020 BONDS—Rate Covenant.”

Rates and Charges. Of the 47 rate categories in the Rate Plan, the rates for the top ten customer categories, representing over 95% of total customers, are set forth below:

CITY OF SALINAS
Wastewater System Service Rates by User Category

<i>User Category</i>	<i>Effective Monthly Rate</i>
Business/Government ⁽¹⁾	\$ 4.21
Business - Vacant	1.09
Residence	5.45
Residence - Vacant	1.09
Medical Office	5.62
Dental Office	7.76
Restaurant - Two Meals (Per Seat)	0.32
Takeout Food - Small	10.21
Garage/Repair	5.45
Special Users ⁽²⁾	5.45

⁽¹⁾ Rate per each group of 10 employees.

⁽²⁾ Sewage flows based on metered rates. Billing is based on one unit for each 189 gallons used.
Source: City.

Comparative Wastewater Rates. The following table compares the City’s current average bi-monthly residential sewer rate to that of other M1W members.

CITY OF SALINAS
Comparison of Wastewater System Rates to Rates of Other M1W Members

City of Pacific Grove	\$62.82
City of Del Rey Oaks	31.46
City of Sand City	31.46
City of Seaside	31.46
City of Monterey	21.54
City of Salinas	10.90

Source: City.

Collection Procedures

The City’s sewer collection fee is collected by M1W every two months as part of the combined treatment and conveyance billing of City customers. M1W segregates the City’s portion of the amounts received in a separate account and remits the City’s portion to the City every two months, less an administrative fee of \$0.44 per customer per billing, or approximately \$167,500 per year.

In the event that an M1W bill is paid in part only or in arrears, the moneys received are applied first to the City portion of the bill until such portion is paid in full or to the late charges applicable to such portion. If the City’s portion of the M1W bill is not received, M1W’s collection procedures are as follows:

Payment is due by the 24th day after the billing date and is considered delinquent if not paid by the 30th day. Current amounts unpaid one month after the due date will be subject to a 10% late charge. Any balance over 60 days old will be subject to a 1.5% monthly late charge. Amounts delinquent over 60 days may cause a lien to be placed on the real property billed. Currently, approximately __% of accounts are more than 60 days delinquent.

See the caption “THE CITY—COVID-19 Outbreak” for a discussion of the suspension of wastewater service shutoffs for the duration of the State-declared public health emergency.

Future Wastewater System Improvements

The City projects capital improvements to the Wastewater System of approximately \$3.3 million over the current and next four Fiscal Years, including new lift stations, equipment replacements and pipe and manhole replacements. The City currently projects funding such capital improvements through a combination of grants and Revenues remaining after payment of debt service on Wastewater System obligations. The City does not anticipate entering into any additional Bonds or Contracts in the current or next four Fiscal Years to finance such capital improvements.

Projected Wastewater System Connections

The following table shows billed connections to the Wastewater System for the current and next four Fiscal Years, as projected by the City.

CITY OF SALINAS						
Projected Wastewater System Connections						
<i>Fiscal Year</i>	<i>Single Family Residential</i>	<i>Multi-Family Residential</i>	<i>Commercial/ Governmental/ Industrial/Other</i>	<i>Total Connections</i>	<i>% Increase/ (Decrease)</i>	<i>Total MIW Billing Units⁽¹⁾</i>
2021	26,288	17,253	6,042	49,583	0.51%	108,930
2022	26,367	17,425	6,104	49,896	0.63	109,620
2023	26,459	17,643	6,167	50,269	0.75	110,439
2024	26,552	17,908	6,230	50,690	0.84	111,363
2025	26,645	18,221	6,295	51,161	0.93	112,397

⁽¹⁾ Represents the total number of billing units calculated by M1W for customers in the Wastewater System service area, adjusted for user type. Single family residential customers generally represent one billing unit.
Source: City.

Projected increases in connections reflect expected development activity within the City.

Projected Wastewater System Usage

The following table shows the projected share of the volume of wastewater treated by M1W for the current and next four Fiscal Years.

CITY OF SALINAS Projected Wastewater System Usage

<i>Fiscal Year</i>	<i>Daily Average Flow (mgd)</i>	<i>% Increase/(Decrease)</i>
2021	9.1	0.00%
2022	9.2	1.10
2023	9.3	1.09
2024	9.3	0.00
2025	9.4	1.08

Source: City.

Wastewater System usage will be affected by a number of factors, including connections to the Wastewater System and water conservation efforts by Wastewater System customers. See the caption “—Projected Wastewater System Connections.”

Projected Wastewater System Service Charge Revenues

The following table shows service charge revenues, i.e., charges to customers, of the Wastewater System for the current and next four Fiscal Years, as projected by the City. The projected revenues assume Wastewater System rate increases averaging approximately 2% per annum beginning in Fiscal Year 2022, as well as projected increases in connections. See the captions “—Wastewater System Rates and Charges—General” and “—Projected Wastewater System Connections.”

CITY OF SALINAS Projected Wastewater System Service Charge Revenues

<i>Fiscal Year</i>	<i>Wastewater System Service Charge Revenues</i>	<i>% Increase/(Decrease)</i>
2021	\$3,823,439	2.00%
2022	3,899,908	2.00
2023	3,977,906	2.00
2024	4,057,464	2.00
2025	4,138,614	2.00

Source: City.

WASTEWATER SYSTEM FINANCIAL INFORMATION

Historical Operating Results and Debt Service Coverage

The following table is a summary of operating results of the City for the last five Fiscal Years. These results have been derived from the Financial Statements and audited financial statements of the City for prior Fiscal Years but exclude certain non-cash items and include certain other adjustments. The table has not been reviewed or audited by the Auditor.

CITY OF SALINAS
Historical Wastewater System Operating Results and Debt Service Coverage
Fiscal Year Ended June 30

	<i>2016</i>	<i>2017</i>	<i>2018</i>	<i>2019</i>	<i>2020</i>
REVENUES					
Charges for Services ⁽¹⁾	\$ 3,452,153	\$ 3,453,236	\$ 3,637,031	\$ 3,685,042	\$ 3,748,470
Interest Earnings	<u>35,346</u>	<u>33,160</u>	<u>59,683</u>	<u>149,516</u>	<u>108,791</u>
TOTAL REVENUES	\$ 3,487,499	\$ 3,486,396	\$ 3,696,714	\$ 3,834,558	\$ 3,857,261
OPERATION AND MAINTENANCE COSTS					
Administration	\$ 168,502	\$ 201,384	\$ 215,033	\$ 264,860	\$ 266,697
Operations and Maintenance ⁽²⁾	<u>1,130,074</u>	<u>1,664,065</u>	<u>1,459,217</u>	<u>1,833,027</u>	<u>1,864,906</u>
TOTAL OPERATION AND MAINTENANCE COSTS	\$ 1,298,576	\$ 1,865,449	\$ 1,674,250	\$ 2,097,887	\$ 2,131,603
NET REVENUES	\$ 2,188,923	\$ 1,620,947	\$ 2,022,464	\$ 1,736,671	\$ 1,725,658
DEBT SERVICE					
2012 Bonds ⁽³⁾	<u>\$ 1,020,256</u>	<u>\$ 1,016,056</u>	<u>\$ 1,021,256</u>	<u>\$ 1,017,806</u>	<u>\$ 1,020,881</u>
TOTAL DEBT SERVICE	\$ 1,020,256	\$ 1,016,056	\$ 1,021,256	\$ 1,017,806	\$ 1,020,881
REMAINING REVENUES	\$ 1,168,667	\$ 604,891	\$ 1,001,208	\$ 718,865	\$ 704,777
DEBT SERVICE COVERAGE	2.15	1.60	2.02	1.71	1.69

(1) Does not include connection fee revenues.

(2) Includes personnel costs (including CalPERS plan costs, New York Life plan costs and PEMHCA OPEB costs), pumping and other electrical costs, supply costs, insurance costs, administration costs and other costs of operating and maintaining the Wastewater System. Excludes depreciation and amortization.

(3) This obligation is expected to be refunded from proceeds of the 2020 Bonds. See the caption "PLAN OF FINANCE—Refunding Plan."

Source: City.

Projected Operating Results and Debt Service Coverage

The estimated projected operating results for the City for current and next four Fiscal Years are set forth below, reflecting certain significant assumptions concerning future events and circumstances. The financial forecast represents the City's estimate of projected financial results based on a variety of assumptions, including the assumptions set forth in the footnotes to the chart set forth below and assumed rate increases averaging approximately 2% per annum which have not yet been adopted, as discussed under the caption "THE WASTEWATER SYSTEM—Wastewater System Rates and Charges—General." All of such assumptions are material in the development of the City's financial projections, and variations in the assumptions may produce substantially different financial results. Actual operating results achieved during the projection period may vary from those presented in the forecast and such variations may be material. See the caption "CERTAIN RISKS TO BONDHOLDERS—Accuracy of Assumptions."

CITY OF SALINAS
Projected Wastewater System Operating Results and Debt Service Coverage
Fiscal Year Ending June 30

	<i>2021⁽¹⁾</i>	<i>2022</i>	<i>2023</i>	<i>2024</i>	<i>2025</i>
REVENUES					
Charges for Services ⁽²⁾	\$ 3,823,439	\$ 3,899,908	\$ 3,977,906	\$ 4,057,464	\$ 4,138,614
Interest Earnings ⁽³⁾	<u>110,967</u>	<u>113,186</u>	<u>115,450</u>	<u>117,759</u>	<u>120,114</u>
TOTAL REVENUES	\$ 3,934,406	\$ 4,013,094	\$ 4,093,356	\$ 4,175,223	\$ 4,258,728
OPERATION AND MAINTENANCE COSTS					
Administration ⁽⁴⁾	\$ 272,031	\$ 277,472	\$ 283,021	\$ 288,681	\$ 294,455
Operations and Maintenance ⁽⁵⁾	<u>1,902,204</u>	<u>1,940,248</u>	<u>1,979,053</u>	<u>2,018,634</u>	<u>2,059,007</u>
TOTAL OPERATION AND MAINTENANCE COSTS	\$ 2,174,235	\$ 2,217,720	\$ 2,262,074	\$ 2,307,316	\$ 2,353,462
NET REVENUES	\$ 1,760,171	\$ 1,795,374	\$ 1,831,282	\$ 1,867,908	\$ 1,905,266
DEBT SERVICE					
2012 Bonds ⁽⁶⁾	\$ 724,903	\$ -	\$ -	\$ -	\$ -
2020 Bonds*	<u>39,040</u>	<u>928,199</u>	<u>934,581</u>	<u>935,199</u>	<u>929,794</u>
TOTAL DEBT SERVICE*	\$ 763,943	\$ 928,199	\$ 934,581	\$ 935,199	\$ 929,794
REMAINING REVENUES*	\$ 996,228	\$ 867,175	\$ 896,702	\$ 932,709	\$ 975,472
DEBT SERVICE COVERAGE*	2.30	1.93	1.96	2.00	2.05

(1) Reflects Fiscal Year 2021 adopted budget. See the caption "THE CITY—Budget Process."

(2) Assumes Wastewater System rate increases averaging approximately 2% per annum which have not yet been adopted, as discussed under the caption "THE WASTEWATER SYSTEM—Wastewater System Rates and Charges—General." Does not include projected connection fee revenues.

(3) Reflects projected earnings of approximately 0.57% on Wastewater System reserves.

(4) Projected to increase by approximately 2% per annum.

(5) Includes personnel costs (including CalPERS plan costs, New York Life plan costs and PEMHCA OPEB costs), pumping and other electrical costs, supply costs, insurance costs, administration costs and other costs of operating and maintaining the Wastewater System. Excludes depreciation and amortization. Projected to increase by approximately 2% per annum.

(6) This obligation is expected to be refunded from proceeds of the 2020 Bonds. See the caption "PLAN OF FINANCE—Refunding Plan."

Source: City.

CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES

Article XIII B

Article XIII B of the State Constitution limits the annual appropriations of the State and of any city, county, school district, authority, special district or other political subdivision of the State to the level of appropriations of the particular governmental entity for the prior fiscal year, as adjusted for changes in the cost of living and population. The "base year" for establishing such appropriation limit is the 1978-79 State fiscal year and the limit is to be adjusted annually to reflect changes in population and consumer prices. Adjustments in the appropriations limit of an entity may also be made if: (a) the financial responsibility for a service is transferred to another public entity or to a private entity; (b) the financial source for the provision of services is transferred from taxes to other revenues; or (c) the voters of the entity approve a change in the limit for a period of time not to exceed four years.

Appropriations that are subject to Article XIII B generally include the proceeds of taxes levied by or for the State or other entity of local government, exclusive of certain State subventions, refunds of taxes and

* Preliminary; subject to change.

benefit payments from retirement, unemployment, insurance and disability insurance funds. “Proceeds of taxes” include, but are not limited to, all tax revenues and the proceeds to an entity of government from: (i) regulatory licenses, user charges, and user fees (but only to the extent that such proceeds exceed the cost reasonably borne by the entity in providing the service or regulation); and (ii) the investment of tax revenues. Article XIII B includes a requirement that if an entity’s revenues in any year exceed the amounts that are permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years.

Certain expenditures are excluded from the appropriations limit, including payments of indebtedness that were existing or legally authorized as of January 1, 1979, or of bonded indebtedness thereafter approved by the voters, and payments that are required to comply with court or federal mandates which without discretion require an expenditure for additional services or which unavoidably make the provision of existing services more costly.

The City is of the opinion that its charges for Wastewater Service do not exceed the costs that it reasonably bears in providing such service and therefore are not subject to the limits of Article XIII B. See the caption “SECURITY FOR THE 2020 BONDS—Rate Covenant” for a description of the City’s covenant to set rates and charges for the Wastewater Service.

Proposition 218

General. An initiative measure entitled the “Right to Vote on Taxes Act” (the “**Initiative**”) was approved by the voters of the State at the November 5, 1996 general election. The Initiative added Articles XIII C and XIII D to the State Constitution. According to the “Title and Summary” of the Initiative prepared by the State Attorney General, the Initiative limits “the authority of local governments to impose taxes and property-related assessments, fees and charges.”

Article XIII D. Article XIII D defines the terms “fee” and “charge” to mean “any levy other than an ad valorem tax, a special tax or an assessment, imposed by an agency upon a parcel or upon a person as an incident of property ownership, including user fees or charges for a property-related service.” A “property-related service” is defined as “a public service having a direct relationship to property ownership.” Article XIII D further provides that reliance by an agency on any parcel map (including an assessor’s parcel map) may be considered a significant factor in determining whether a fee or charge is imposed as an incident of property ownership.

Article XIII D requires that any agency which imposes or increases any property-related fee or charge must provide written notice thereof to the record owner of each identified parcel upon which such fee or charge is to be imposed and must conduct a public hearing with respect thereto. The proposed fee or charge may not be imposed or increased if a majority of owners of the identified parcels file written protests against it. As a result, because fees for water service are a “fee” or “charge” as defined in Article XIII D, the local government’s ability to increase such fees or charges may be limited by a majority protest.

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

Based upon the California Court of Appeal decision in *Howard Jarvis Taxpayers Association v. City of Los Angeles*, 85 Cal. App. 4th 79 (2000), which was denied review by the State Supreme Court, it was

generally believed that Article XIID did not apply to charges for water and wastewater services that are “primarily based on the amount consumed” (i.e., metered water or wastewater rates), which had been held to be commodity charges related to consumption of the service, not property ownership. The State Supreme Court ruled in *Bighorn-Desert View Water Agency v. Verjil*, 39 Cal. 4th 205 (2006) (the “*Bighorn Case*”), however, that fees for ongoing water service through an existing connection were property-related fees and charges. The Court specifically disapproved the holding in *Howard Jarvis Taxpayers Association v. City of Los Angeles* that metered water rates are not subject to Proposition 218. The City complies with the notice, hearing and protest procedures in Article XIID, as further explained by the State Supreme Court in the *Bighorn Case*, when considering wastewater rate increases.

On April 20, 2015, the California Court of Appeal, Fourth District, issued an opinion in *Capistrano Taxpayers Association, Inc. v. City of San Juan Capistrano*, 235 Cal. App. 4th 1493 (2015) (the “*SJC Case*”) upholding tiered water rates under Proposition 218 provided that the tiers correspond to the actual cost of furnishing service at a given level of usage. The opinion included a finding that the City of San Juan Capistrano did not attempt to calculate the actual costs of providing water at various tier levels. The City’s current wastewater rate structure does not include tiered rates based on usage. The City has reviewed the *SJC Case* decision and does not expect the decision to affect its rate structure. The City believes that its current wastewater rates comply with the requirements of Proposition 218 because they are cost-based and expects that any future wastewater rate increases will comply with Proposition 218’s procedural and substantive requirements to the extent applicable thereto.

Article XIIC. Article XIIC provides that the initiative power may not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge and that the power of initiative to affect local taxes, assessments, fees and charges is applicable to all local governments. Article XIIC does not define the terms “local tax,” “assessment,” “fee” or “charge,” so it was unclear whether the definitions set forth in Article XIID referred to above are applicable to Article XIIC. Moreover, the provisions of Article XIIC are not expressly limited to local taxes, assessments, fees and charges imposed after November 6, 1996. On July 24, 2006, the State Supreme Court held in the *Bighorn Case* that the provisions of Article XIIC applied to rates and fees charged for domestic water use. In the decision, the Court noted that the decision did not address whether an initiative to reduce fees and charges could override statutory rate setting obligations.

On August 3, 2020, the State Supreme Court issued an opinion in *Wilde v. City of Dunsmuir* (Cal. S. Ct. S252915) holding that the taxation exemption from the State Constitution’s referendum process applies to measures setting water rates, and that the Initiative does not subject water rates to challenge by referendum. The City does not believe that Article XIIC grants to the voters within the City the power (whether by initiative under Article XIIC or otherwise, or by referendum, which is not authorized under Article XIIC) to repeal or reduce rates and charges for the Wastewater Service in a manner that would interfere with the contractual obligations of the City or the obligation of the City to maintain and operate the Wastewater System. However, there can be no assurance as to the availability of particular remedies adequate to protect the Beneficial Owners of the 2020 Bonds. Remedies that are available to Beneficial Owners of the 2020 Bonds in the event of a default by the City are dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time-consuming to obtain. So long as the 2020 Bonds are held in book-entry form, DTC (or its nominee) will be the sole registered owner of the 2020 Bonds and the rights and remedies of the 2020 Bond Owners will be exercised through the procedures of DTC.

Proposition 26

On November 2, 2010, voters in the State approved Proposition 26. Proposition 26 amends Article XIIC of the State Constitution to expand the definition of “tax” to include “any levy, charge, or exaction of any kind imposed by a local government” except the following: (a) a charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege;

(b) a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product; (c) a charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections, and audits, enforcing agricultural marketing orders, and the administrative enforcement and adjudication thereof; (d) a charge imposed for entrance to or use of local government property, or the purchase, rental or lease of local government property; (e) a fine, penalty or other monetary charge imposed by the judicial branch of government or a local government as a result of a violation of law; (f) a charge imposed as a condition of property development; and (g) assessments and property-related fees imposed in accordance with the provisions of Article XIII D. Proposition 26 applies to charges imposed or increased after November 2, 2010 and provides that the local government bears the burden of proving by a preponderance of the evidence that a levy, charge, or other exaction is not a tax, that the amount is no more than necessary to cover the reasonable costs of the governmental activity, and that the manner in which those costs are allocated to a payor bear a fair or reasonable relationship to the payor's burdens on, or benefits received from, the governmental activity. The City believes that its wastewater rates and charges meet the exception that is described in clause (g) above and are not taxes under Proposition 26.

Future Initiatives

Articles XIII B, XIII C and XIII D and Proposition 26 were adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time other initiatives could be proposed and adopted affecting the City's revenues or ability to increase revenues.

CERTAIN RISKS TO BONDHOLDERS

The following information, in addition to the other matters that are described in this Official Statement, should be considered by prospective investors in evaluating the 2020 Bonds. However, the following does not purport to be comprehensive, definitive or an exhaustive listing of risks and other considerations that may be relevant to making an investment decision with respect to the 2020 Bonds. In addition, the order in which the following information is presented is not intended to reflect the relative importance of any such risks. If any risk factor materializes to a sufficient degree, it alone could delay or preclude payment of principal of or interest on the 2020 Bonds.

Limited Obligations

The obligation of the City to pay the 2020 Bonds is a limited obligation of the City and is not secured by a legal or equitable pledge or charge or lien upon any property of the City or any of its income or receipts, except the Revenues. The obligation of the City to pay the 2020 Bonds does not constitute an obligation for which the general credit or taxing power of the City is pledged.

Accuracy of Assumptions

To estimate the revenues that will be available to pay debt service on the 2020 Bonds, the City has made certain assumptions with regard to the rates and charges to be imposed in future years, the expenses associated with operating the Wastewater System and the interest rate at which funds will be invested. The City believes these assumptions to be reasonable, but to the extent that any of these assumptions fail to materialize, the Net Revenues available to pay debt service on the 2020 Bonds will, in all likelihood, be less than those projected herein. See the caption "WASTEWATER SYSTEM FINANCIAL INFORMATION—Projected Operating Results and Debt Service Coverage." The City may choose, however, to maintain compliance with the rate covenant that is set forth in the Indenture in part by means of contributions from other available reserves or resources. In such event, Net Revenues may generate amounts which are less than 125% of Debt Service in any given Fiscal Year. See the caption "SECURITY FOR THE 2020 BONDS—Rate Covenant."

System Demand

There can be no assurance that the demand for wastewater service will occur as described in this Official Statement. Reductions in demand could require an increase in rates or charges in order to comply with the rate covenant. Demand for wastewater services could be reduced as a result of conservation efforts (including in response to drought), an economic downturn (including as a result of the COVID-19 outbreak that is discussed under the caption “THE CITY—COVID-19 Outbreak”) or other factors. See the caption “THE WASTEWATER SYSTEM—Wastewater System Rates and Charges” and “—Accuracy of Assumptions.”

System Expenses

There can be no assurance that the City’s expenses will be consistent with the descriptions in this Official Statement. Operation and Maintenance Costs may vary with labor costs (including costs related to pension liabilities), treatment costs, energy costs, regulatory compliance costs, increased costs to deliver wastewater to M1W wastewater treatment facilities and other factors. Increases in expenses could require an increase in rates or charges in order to comply with the rate covenant. See the caption “SECURITY FOR THE 2020 BONDS—Rate Covenant.” Rate increases are subject to the provisions of Proposition 218 and there can be no assurance that the City will be able to increase rates as needed to address increases in Wastewater System expenses. See the caption “—Rate-Setting Process under Proposition 218.”

Limited Recourse on Default

If the City defaults on its obligation to pay the principal of and interest on the 2020 Bonds, the Trustee has the right to declare the total unpaid principal of the 2020 Bonds, together with the accrued interest thereon to be immediately due and payable. However, in the event of a default and such acceleration, there can be no assurance that the City will have sufficient funds to pay the accelerated amounts due on the 2020 Bonds from Net Revenues.

Rate-Setting Process under Proposition 218

Proposition 218, which added Articles XIII C and XIII D to the State Constitution, affects the City’s ability to maintain existing rates and impose rate increases, and no assurance can be given that future rate increases will not encounter majority protest opposition or be challenged by initiative action authorized under Proposition 218. In the event that future proposed rate increases cannot be imposed as a result of majority protest or initiative, the City might thereafter be unable to generate Net Revenues in the amounts required by the Indenture to pay the 2020 Bonds. The City believes that its current wastewater rates were effected in compliance with the notice, public hearing and majority protest provisions of Proposition 218. See the caption “CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES—Proposition 218.”

Statutory and Regulatory Compliance

Laws and regulations governing the collection of wastewater are enacted and promulgated by federal, State and local government agencies. Compliance with these laws and regulations is and will continue to be costly, and, as more stringent standards are developed, such costs will likely increase.

Claims against the Wastewater System for failure to comply with applicable laws and regulations could be significant. Such claims may be payable from assets of the Wastewater System or from other legally available sources. In addition to claims by private parties, changes in the standards for public agency wastewater collection systems such as that operated by the City may also lead to administrative orders issued by federal or State regulators. Future compliance with such orders could also impose substantial additional costs on the City. No assurance can be given that the cost of compliance with such laws, regulations and

orders would not adversely affect the ability of the City to generate Net Revenues sufficient to pay the 2020 Bonds.

Natural Disasters

The occurrence of any natural disaster in the City, including, without limitation, fire, earthquake, landslide, land subsidence, high winds, drought or flood, could have an adverse material impact on the economy within the City, the Wastewater System and the revenues available for the payment of the 2020 Bonds.

Portions of the City are located within floodways as defined by the Federal Emergency Management Agency. In addition, portions of the Wastewater System may be at risk of damage or destruction from unpredictable seismic activity. 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. The City is not required to maintain earthquake insurance under the Indenture, and does not currently maintain such insurance. See the caption "THE CITY—City Insurance."

The occurrence of natural disasters in the City's service area could result in substantial damage to the Wastewater System or the property of its customers which, in turn, could substantially reduce revenue generated by the Wastewater System and affect the ability of the City to pay the 2020 Bonds. The City maintains liability insurance for the Wastewater System and property casualty insurance for certain portions of the Wastewater System. However, there can be no assurance that specific losses will be covered by insurance or, if covered, that claims will be paid in full by the applicable insurers.

Furthermore, as described under the caption "THE CITY—City Insurance," significant portions of the Wastewater System, including underground pipelines, are not covered by property casualty insurance. Damage to such portions of the Wastewater System as a result of natural disasters would result in uninsured losses to the City.

Cybersecurity

The City relies on computers and technology to conduct its operations. The City and its departments face cyber threats from time to time including, but not limited to, hacking, viruses, malware and other forms of technology attacks. Recently, there have been significant cyber security incidents affecting municipal agencies, including a freeze affecting computer systems of the City of Atlanta, an attack on the City of Baltimore's 911 system, an attack on the Colorado Department of Transportation's computers 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.

Limitations on Remedies

The ability of the City to comply with its covenants under the Indenture and to generate Net Revenues in amounts that are sufficient to pay principal of and interest on the 2020 Bonds may be adversely affected by

actions and events outside of the control of the City or actions taken (or not taken) by voters, property owners, taxpayers or persons obligated to pay assessments, fees and charges. See the caption “CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES—Proposition 218.” Furthermore, the remedies available to the owners of the 2020 Bonds upon the occurrence of an event of default under the Indenture are in many respects dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time consuming to obtain. In the event that the City fails to comply with its covenants under the Indenture or fails to pay principal of and interest on the 2020 Bonds, there can be no assurance as to the availability of remedies adequate to protect the interest of the holders of the 2020 Bonds.

In addition to the limitations on remedies contained in the Indenture, the rights and obligations under the Indenture may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors’ rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against cities in the State. The opinion to be delivered by Bond Counsel concurrently with the issuance of the 2020 Bonds will be subject to such limitations, and the various other legal opinions to be delivered concurrently with the issuance of the 2020 Bonds will be similarly qualified. See Appendix C.

In addition, usual equity principles may limit the specific enforcement under State law of certain remedies, as may the exercise by the United States of America of the powers delegated to it by the federal Constitution, and the reasonable and necessary exercise, in certain exceptional situations, of the police power inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose. Bankruptcy proceedings, or the exercise of powers by the federal or state government, if initiated, could subject the owners of the 2020 Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitations or modification of their rights. Remedies may be limited because the Wastewater System serves an essential public purpose.

Secondary Market

There can be no guarantee that there will be a secondary market for the 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, failure to provide continuing disclosures or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then prevailing circumstances. Such prices could be substantially different from the original purchase price.

Parity Obligations

The Indenture permits the City to enter into additional Contracts and issue additional Bonds which are payable from Net Revenues on a parity with the 2020 Bonds, subject to the terms and conditions set forth therein. The entry into of additional Contracts or the issuance of Bonds could result in reduced Net Revenues available to pay the 2020 Bonds. The City has covenanted to maintain Debt Service coverage of 125%, as further described under the caption “SECURITY FOR THE 2020 BONDS—Additional Indebtedness.”

Climate Change

The State has historically been susceptible to wildfires and hydrologic variability. As greenhouse gas emissions continue to accumulate in the atmosphere as a result of economic activity, climate change is expected to intensify, increasing the frequency, severity and timing of extreme weather events such as coastal storm surges, drought, wildfires, floods and heat waves, and raising sea levels. The future fiscal impact of climate change on the City is difficult to predict, but it could be significant and it could have a material adverse effect on the Wastewater System’s finances by requiring greater expenditures to counteract the effects of climate change or by changing the business and activities of Wastewater System customers.

Rate Covenant Not a Guarantee

The 2020 Bonds are payable from Net Revenues of the Wastewater System. See the caption “SECURITY FOR THE 2020 BONDS.” The City’s ability to pay debt service on the 2020 Bonds depends on its ability to generate Net Revenues at the levels required by the Indenture. Although the City has covenanted in the Indenture to impose rates and charges as more particularly described under the caption “SECURITY FOR THE 2020 BONDS—Rate Covenant,” and although the City expects that sufficient Revenues will be generated through the imposition and collection of such rates and charges, there is no assurance that the imposition and collection of such rates and charges will result in the generation of Net Revenues in amounts that are sufficient to pay the 2020 Bonds. Among other matters, the availability of and demand for water and changes in law and government regulations could adversely affect the amount of Revenues realized by the City.

Dependence on M1W to Treat Wastewater

As described under the caption “THE WASTEWATER SYSTEM,” the Wastewater System of the City is a collection-only system. Wastewater collected by the City is delivered to the M1W Plant for treatment by M1W. There can be no assurance that M1W will continue to operate the M1W Plant or other treatment facilities in the future. In the event that M1W curtails or discontinues its operations, the City would be compelled to construct a connection to alternate treatment facilities or to construct and operate its own treatment facilities. Although the City does not expect any changes in M1W’s operations, alternatives to the M1W Plant would almost certainly be more expensive and would increase Wastewater System Operation and Maintenance Costs by a material amount.

APPROVAL OF LEGAL PROCEEDINGS

The valid, legal and binding nature of the 2020 Bonds is subject to the approval of Stradling Yocca Carlson & Rauth, a Professional Corporation, acting as Bond Counsel. The form of such legal opinion is attached hereto as Appendix C, and such legal opinion will be attached to each 2020 Bond. Certain legal matters will be passed upon for the City by Stradling Yocca Carlson & Rauth, a Professional Corporation, as Disclosure Counsel, and by the City Attorney, for the Underwriter by its counsel, Kutak Rock LLP, and for the Trustee by its counsel.

LITIGATION

At the time of delivery of and payment for the 2020 Bonds, the City will certify substantially to the effect that there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, regulatory agency, public board or body, pending or, to the knowledge of the City, threatened against the City affecting the existence of the City or the titles of its directors or officers to their respective offices or seeking to restrain or to enjoin the sale or delivery of the 2020 Bonds, the application of the proceeds thereof in accordance with the Indenture, or in any way contesting or affecting the validity or enforceability of the 2020 Bonds, the Indenture, or any action of the City contemplated by any of said documents, or in any way contesting the completeness or accuracy of this Official Statement or any amendment or supplement thereto, or contesting the powers of the City or its authority with respect to the 2020 Bonds or any action of the City contemplated by any of said documents, nor to the knowledge of the City, is there any basis therefor.

TAX MATTERS

In the opinion of Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest on the 2020 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 2020 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 2020 Bond may elect to amortize under Section 171 of the Code; such amortizable premium reduces the Beneficial Owner's basis in the applicable 2020 Bond (and the amount of taxable interest received with respect to the 2020 Bond), 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 2020 Bond is sold by the Beneficial Owner for an amount equal to or less (under certain circumstances) than the original cost of the 2020 Bond to the Beneficial Owner. The Beneficial Owners of the 2020 Bonds that have a basis in the 2020 Bonds 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.

In the event of a legal defeasance of the 2020 Bonds, such 2020 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 2020 Bonds Owner generally equal to the difference between the amount deemed realized from the deemed prepayment and reissuance and the 2020 Bonds Owner's adjusted tax basis in such 2020 Bond.

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

A copy of the proposed form of opinion of Bond Counsel is attached hereto as Appendix C.

RATING

The City expects that S&P Global Ratings, a Standard & Poor's Financial Services LLC business ("**S&P**") will assign the 2020 Bonds the rating of "[]". Future events, including the impacts of the COVID-19 pandemic that is described under the caption "**THE CITY—COVID-19 Outbreak,**" could have an adverse impact on the rating of the 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 such qualification, downgrade, lowering or withdrawal of the rating may have an adverse effect on the market price of the 2020 Bonds. The rating reflects only the current views and current rating criteria of S&P (which views and criteria could change at any time), and an explanation of the significance of such rating may be obtained from S&P. Generally, 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 a Continuing Disclosure Certificate 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 the rating agencies 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 the rating agencies and their respective websites and official media outlets for the most current ratings with respect to the 2020 Bonds after the initial issuance of the 2020 Bonds.

In providing a rating on the 2020 Bonds, S&P may have performed independent calculations of coverage ratios using its own internal formula and methodology, which may not reflect the provisions of the Indenture. The City makes no representations as to any such calculations, and such calculations should not be construed as a representation by the City as to past or future compliance with any financial covenants, the availability of particular revenues for the payment of debt service or for any other purpose.

UNDERWRITING

The 2020 Bonds will be purchased by Stifel, Nicolaus & Company, Incorporated (the “**Underwriter**”), pursuant to a purchase contract, dated the date hereof (the “**Purchase Contract**”), by and between the City and the Underwriter. Under the Purchase Contract, the Underwriter has agreed to purchase all, but not less than all, of the 2020 Bonds for an aggregate purchase price of \$____ (representing the principal amount of the 2020 Bonds, less an Underwriter’s discount of \$____). The Purchase Contract provides that the Underwriter will purchase all of the 2020 Bonds if any are purchased, the obligation to make such a purchase being subject to certain terms and conditions set forth in the Purchase Contract, the approval of certain legal matters by counsel and certain other conditions.

The initial public offering prices stated on the inside cover page of this Official Statement may be changed from time to time by the Underwriter. The Underwriter may offer and sell the 2020 Bonds to certain dealers (including dealers depositing 2020 Bonds into investment trusts), dealer banks, banks acting as agents and others at prices lower than said public offering prices.

CONTINUING DISCLOSURE

The City has covenanted in a Continuing Disclosure Certificate, dated the date of issuance of the 2020 Bonds for the benefit of the holders and Beneficial Owners of the 2020 Bonds: (1) to provide certain financial information and operating data (each, an “**Annual Report**”) relating to the City and the Wastewater System 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 Report and the notices of enumerated events will be filed by the City with EMMA, which is maintained on the Internet at <http://emma.msrb.org/>. The specific nature of the information to be contained in the Annual Report and the notices of enumerated events is set forth in Appendix E. These covenants have been made in order to assist the Underwriter in complying with subsection (b)(5) of Rule 15c2-12 adopted by the Securities and Exchange Commission (the “**Rule**”).

In the past five years, the City filed notice of a rating change with respect to the City of Salinas Variable Rate Taxable Refunding Certificates of Participation (Fairways Golf Project) Series 2008 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’s 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. In addition, in June 2019, the City adopted a comprehensive continuing disclosure policy, including provisions addressing the amendments to the Rule that went into effect in February 2019.

FINANCIAL INTERESTS

The fees being paid to the Underwriter, Bond Counsel, Disclosure Counsel and counsel to the Underwriter are contingent upon the issuance and delivery of the 2020 Bonds.

MISCELLANEOUS

Insofar as any statements made in this Official Statement involve matters of opinion or of estimates, whether or not expressly stated, they are set forth as such and not as representations of fact. No representation is made that any of such statements made will be realized. Neither this Official Statement nor any statement which may have been made verbally or in writing is to be construed as a contract with the Owners of the 2020 Bonds.

The execution and delivery of this Official Statement have been duly authorized by the City.

CITY OF SALINAS

By: _____
Interim City Manager

APPENDIX A
FINANCIAL STATEMENTS

APPENDIX B

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following is a summary of certain provisions of the Indenture which are not described elsewhere. This summary does not purport to be comprehensive and reference should be made to the Indenture for a full and complete statement of the provisions thereof.

[TO COME].

APPENDIX C

FORM OF OPINION OF BOND COUNSEL

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

December __, 2020

City of Salinas
Salinas, California

Re: City of Salinas Wastewater Revenue Refunding Bonds, Series 2020A (Federally Taxable)

Members of the City Council:

We have examined a certified copy of the record of the proceedings of the City of Salinas (the “City”) relative to the issuance of the \$_____ City of Salinas Wastewater Revenue Refunding Bonds, Series 2020A (Federally Taxable) (the “2020 Bonds”), dated the date hereof, and such other information and documents as we consider necessary to render this opinion. In rendering this opinion, we have relied upon certain representations of fact and certifications made by the City, the initial purchaser of the 2020 Bonds and others. We have not undertaken to verify through independent investigation the accuracy of the representations and certifications relied upon by us.

The 2020 Bonds are being issued pursuant to an Indenture of Trust, dated as of December 1, 2020 (the “Indenture”), by and between the City and The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”). The 2020 Bonds mature on the dates and in the amounts referenced in the Indenture. The 2020 Bonds are dated their date of delivery and bear interest at the rates per annum referenced in the Indenture. The 2020 Bonds are registered in the form set forth in the Indenture.

Based on our examination as Bond Counsel of existing law, certified copies of such legal proceedings and such other proofs as we deem necessary to render this opinion, we are of the opinion, as of the date hereof and under existing law, that:

1. The proceedings of the City show lawful authority for the issuance and sale of the 2020 Bonds under the laws of the State of California now in force, and the Indenture has been duly authorized, executed and delivered by the City. Assuming due authorization, execution and delivery by the Trustee, as appropriate, the 2020 Bonds and the Indenture are valid and binding obligations of the City enforceable against the City in accordance with their terms.

2. The Indenture creates a valid pledge of and lien and charge upon the Revenues and certain amounts held under the Indenture to secure the payment of the principal of and interest on the 2020 Bonds. The obligation of the City to make the payments of principal of and interest on the 2020 Bonds from Net Revenues (as such term is defined in the Indenture) is an enforceable obligation of the City and does not constitute an indebtedness of the City in contravention of any constitutional or statutory debt limit or restriction.

3. Interest on the 2020 Bonds is exempt from State of California personal income tax.

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 with respect to 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 Bonds 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 Bonds 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 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 ends as of the date of issuance of the 2020 Bonds. Other than expressly stated herein, we express no other opinion regarding tax consequences with respect to the 2020 Bonds.

The opinions expressed herein are based upon our analysis and interpretation of existing laws, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities. We call attention to the fact that the rights and obligations under the Indenture and the 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 of California.

Our opinion is limited to matters governed by the laws of the State of California and federal law. We assume no responsibility with respect to the applicability or the effect of the laws of any other jurisdiction.

We express no opinion herein as to the accuracy, completeness or sufficiency of the Official Statement relating to the 2020 Bonds 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 D

INFORMATION CONCERNING DTC

The information in this section concerning DTC and DTC's book-entry only system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the completeness or accuracy thereof. The following description of the procedures and record keeping with respect to beneficial ownership interests in the 2020 Bonds, payment of principal, premium, if any, accreted value, if any, 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.

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the 2020 Bonds. The 2020 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered 2020 Bond will be issued for each annual maturity of the 2020 Bonds, each in the aggregate principal amount of such annual maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC is rated AA+ by Standard & Poor's. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of 2020 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2020 Bonds on DTC's records. The ownership interest of each actual purchaser of each 2020 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2020 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive bonds representing their ownership interests in 2020 Bonds, except in the event that use of the book-entry system for the 2020 Bonds is discontinued.

To facilitate subsequent transfers, all 2020 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of 2020 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2020 Bonds; DTC's records reflect only the identity of the Direct Participants to whose

accounts such 2020 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of 2020 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2020 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the 2020 Bonds documents. For example, Beneficial Owners of 2020 Bonds may wish to ascertain that the nominee holding the 2020 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2020 Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to 2020 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts 2020 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the 2020 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A 2020 Bond Owner shall give notice to elect to have its 2020 Bonds purchased or tendered, through its Participant, to the Trustee, and shall effect delivery of such 2020 Bond by causing the Direct Participant to transfer the Participant's interest in the 2020 Bonds, on DTC's records, to the Trustee. The requirement for physical delivery of 2020 Bond in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the 2020 Bond are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered 2020 Bond to the Trustee's DTC account.

DTC may discontinue providing its services as depository with respect to the 2020 Bonds at any time by giving reasonable notice to the City or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, physical certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, 2020 Bonds will be printed and delivered to DTC.

THE TRUSTEE, AS LONG AS A BOOK-ENTRY ONLY SYSTEM IS USED FOR THE 2020 BONDS, WILL SEND ANY NOTICE OF REDEMPTION OR OTHER NOTICES TO OWNERS ONLY TO DTC. ANY FAILURE OF DTC TO ADVISE ANY DTC PARTICIPANT, OR OF ANY DTC PARTICIPANT TO NOTIFY ANY BENEFICIAL OWNER, OF ANY NOTICE AND ITS CONTENT OR EFFECT WILL NOT AFFECT THE VALIDITY OF SUFFICIENCY OF THE PROCEEDINGS RELATING TO THE REDEMPTION OF THE 2020 BONDS CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE.

APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

Upon issuance of the 2020 Bonds, the City proposes to enter into a Continuing Disclosure Certificate in substantially the following form:

This Continuing Disclosure Certificate (the “**Disclosure Certificate**”) is executed and delivered by the City of Salinas (the “**City**”) in connection with the issuance of the City of Salinas Wastewater Revenue Refunding Bonds, Series 2020A (Federally Taxable) (the “**Bonds**”). The Bonds are being issued pursuant to an Indenture of Trust, dated as of December 1, 2020 (the “**Indenture**”), by and between the City 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.

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 December __, 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; and

(ii) An update for the last completed Fiscal Year of the information set forth in the table in the Official Statement entitled "CITY OF SALINAS Historical Wastewater System Operating Results and Debt Service Coverage Fiscal Year Ended June 30."

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. Bond calls;
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. [Reserved].

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: December __, 2020

CITY OF SALINAS

By: _____
Interim City Manager