

**PRELIMINARY OFFICIAL STATEMENT DATED JUNE \_\_, 2018**

**NEW ISSUE – FULL BOOK- ENTRY**

**RATING: S&P: \_\_**

**See the caption “RATING.”**

*In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described in this Official Statement, interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals. In the further opinion of Bond Counsel, interest (and original issue discount) on the Bonds is exempt from State of California personal income tax. See the caption “TAX MATTERS.”*

\$ \_\_\_\_\_\*

**SALINAS PUBLIC FACILITIES INC.  
2018 LEASE REVENUE BONDS, SERIES B  
(CITY OF SALINAS EL GABILAN LIBRARY PROJECT)**

**Dated: Date of Initial Delivery**

**Due: \_\_\_\_\_, as shown on the inside front cover.**

Salinas Public Facilities Inc. (the “**Issuer**”), a California nonprofit public benefit corporation and an organization that is described under Section 501(c)(3) of the federal Internal Revenue Code of 1986, as amended (the “**Code**”), is issuing its 2018 Lease Revenue Bonds, Series B (City of Salinas El Gabilan Library Project) (the “**Bonds**”). The Bonds are being issued as “qualified 501(c)(3) bonds” pursuant to Revenue Ruling 63-20 of the United States Treasury, as amended and updated by Revenue Procedure 82-26 of the United States Treasury.

The Bonds are being issued as fully registered bonds and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company (“**DTC**”). DTC will act as securities depository for the Bonds. The Bonds are being issued initially in book-entry form only in integral multiples of \$5,000. Purchasers will not receive certificates representing their interest in the Bonds purchased. The Bonds will bear interest from their date of delivery, payable semiannually on each \_\_\_\_\_ and \_\_\_\_\_, commencing on \_\_\_\_\_, 20\_\_\_\_. The Bonds are issued pursuant to an Indenture of Trust, dated as of June 1, 2018 (the “**Indenture**”), by and between the Issuer and The Bank of New York Mellon Trust Company, N.A., as trustee (the “**Trustee**”). For so long as the Bonds remain in a book-entry only system, the Trustee will make payments of principal of and interest on the Bonds only to DTC, which, in turn, is obligated to remit such payments to DTC participants for subsequent disbursement to Beneficial Owners of the Bonds as described in Appendix F.

The Bonds are subject to acceleration and redemption prior to maturity as provided in this Official Statement; however, the obligations of the City of Salinas, California (the “**City**”), to pay Base Rent under the Project Lease (as such term is defined below) are not subject to acceleration.

The proceeds of the Bonds will be used by the Issuer: (i) to finance a portion of the costs of designing, permitting, constructing and furnishing a new two-story El Gabilan Library building containing approximately 21,076 square feet with associated parking and related on- and off-site improvements (collectively, the “**Project**”) on behalf of the City; (ii) to capitalize interest on the Bonds through \_\_\_\_\_, 20\_\_\_\_; (iii) to fund a reserve fund for the Bonds; and (iv) to pay costs of issuance of the Bonds.

The Issuer has agreed to lease the Project and any other improvements that are constructed on the land on which the Project will sit (collectively, the “**Premises**”) to the City pursuant to a Project Lease Agreement relating to the Premises, dated as of June 1, 2018 (the “**Project Lease**”), by and between the Issuer and the City.

The City is obligated under the Project Lease to begin paying Base Rent on the Rent Commencement Date, which is the Substantial Completion Date of the Project. The City has covenanted in the Project Lease to take such action as may be necessary to include the payment of all Base Rent in its annual budget and to make the necessary annual appropriations for the payment of Base Rent. The City’s obligation to pay Base Rent is subject to abatement in the event of damage to, destruction of or condemnation of the Premises and other provisions of the Project Lease. Unless sooner terminated in accordance with its terms, the Project Lease will expire on the earlier of \_\_\_\_\_, 20\_\_\_\_ (unless extended in accordance with the Project Lease), or on the date that the Bonds have been paid or defeased in full.

The Bonds are special, limited obligations of the Issuer payable solely from and secured solely by a pledge of the Trust Estate (consisting of all rents, issues, income, revenues and receipts derived by the Issuer from the Project Lease and certain other money and property) as provided in the Indenture. No revenue, income, receipts, donations, earnings, property or assets of the Issuer, other than the Trust Estate, will be subject to any lien or claim for the payment of the Bonds or the performance of any other obligation of the Issuer under the Indenture. The Issuer is a limited-purpose entity, not a governmental unit, and has no taxing power. The Issuer has no source of funds available to pay debt service on the Bonds other than the Trust Estate. The primary source of revenues that is anticipated to be received by the Issuer and included within the Trust Estate is Base Rent to be received from the City under the Project Lease.

**Neither the City nor any other municipal corporation, subdivision or agency of the State of California is obligated to pay debt service on the Bonds. The Bonds are not an obligation of the City, moral or otherwise. The City’s sole obligations with respect to this financing, including the obligation to pay Base Rent, are those set forth in the Project Lease. The City is obligated to pay Base Rent and Additional Rent under the Project Lease from its general revenues, consisting of all revenues and receipts of the City, if and to the extent that such funds are not restricted in their use by law, regulation or contract.**

**MATURITY SCHEDULE – SEE INSIDE FRONT COVER PAGE**

*This cover page contains certain information for quick reference only. It is not a summary of the terms of or security for the Bonds. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.*

The Bonds were awarded on June \_\_, 2018, as set forth in the Official Notice Inviting Bids dated June \_\_, 2018. The Bonds will be offered when, as and if delivered and received by the Underwriter, subject to approval as to legality by Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon by Stradling Yocca Carlson & Rauth, a Professional Corporation, as Disclosure Counsel, for the Issuer by Hillis Clark Martin & Peterson P.S. and Glaser Weil Fink Howard Avchen & Shapiro LLP, as counsel to the Issuer, and for the Trustee by its counsel. The Bonds will be available for delivery through the facilities of The Depository Trust Company on or about June \_\_, 2018.

Dated: June \_\_, 2018.

\*Preliminary; subject to change.

**MATURITY SCHEDULE**  
**BASE CUSIP<sup>®†</sup> \_\_\_\_\_**

\$ \_\_\_\_\_ \*

**SALINAS PUBLIC FACILITIES INC.**  
**2018 LEASE REVENUE BONDS, SERIES B**  
**(CITY OF SALINAS EL GABILAN LIBRARY PROJECT)**

<i><b>Maturity Date</b></i> <i><b>(____ _)</b></i>	<i><b>Principal</b></i> <i><b>Amount</b></i>	<i><b>Interest Rate</b></i>	<i><b>Yield</b></i>	<i><b>Price</b></i>	<i><b>CUSIP<sup>®†</sup></b></i>
2019	\$	%	%		
2020					
2021					
2022					
2023					
2024					
2025					
2026					
2027					
2028					
2029					
2030					
2031					
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2037					
2038					
2039					
2040					
2041					
2042					
2043					
2044					
2045					
2046					

\$ \_\_\_\_\_ % Term Bonds due \_\_\_\_\_, 2048; Yield: \_\_\_\_%; Price: \_\_\_\_; CUSIP<sup>®†</sup>: \_\_\_\_

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\* Preliminary; subject to change.

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**SALINAS PUBLIC FACILITIES INC.**

**Board of Directors and Officers**

John Finke, *Director and President*  
Erin Birkenkopf, *Director, Vice President, Secretary and Treasurer*  
Matt Calcavecchia, *Director and Vice President*

**CITY OF SALINAS**

**City Council**

Joe Gunter, *Mayor*  
Scott Davis, *Council Member*  
Tony Barrera, *Council Member*  
Steve McShane, *Council Member*  
Gloria De La Rosa, *Council Member*  
Kimbly Craig, *Council Member*  
John “Tony” Villegas, *Council Member*

**City Staff**

Ray E. Corpuz, Jr., *City Manager*  
Matt N. Pressey, CPA, *Finance Director*  
Don Reynolds, *Acting Public Works Director*  
Patricia M. Barajas, *City Clerk*  
Christopher A. Callihan, *City Attorney*

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**Municipal Advisor**

Stifel, Nicolaus & Company, Incorporated  
San Francisco, California

**Trustee**

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

**Developer**

Griffin Swinerton  
Irvine, California

No dealer, broker, sales representative or other person has been authorized by the Issuer, the City or the Underwriter to give any information or to make any representations with respect to the Bonds other than those contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. 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 Bonds by any person, in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

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 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 the Issuer, the City and other sources that are believed to be reliable, but it is not guaranteed as to accuracy or completeness. The information and expression of opinions in this Official Statement are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder will, under any circumstances, create any implication that there has been no change in the affairs of the Issuer, the City or any other person described herein since the date hereof. All summaries of the Indenture, the Project Lease or other documents are made subject to the provisions of such documents, and do not purport to be complete statements of any or all of such provisions.

In connection with the offering of the Bonds, the Underwriter may over-allot or effect transactions that stabilize or maintain the market price of such Bonds at levels 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 Bonds to certain dealers, institutional investors and others at prices lower than the public offering prices stated on the inside cover page hereof and such public offering prices may be changed from time to time by the Underwriter.

Certain statements included or incorporated by reference in this Official Statement do not reflect historical facts but constitute “forward-looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as “plan,” “anticipate,” “intend,” “forecast,” “believe,” “expect,” “estimate,” “project,” “budget” or other similar words. All projections, forecasts, assumptions and other forward-looking statements are expressly qualified in their entirety by the cautionary statements set forth in this Official Statement.

**The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described in this Official Statement to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The City and the Issuer do not plan to issue any updates or revisions to the forward-looking statements set forth in this Official Statement.**

This Official Statement is not to be construed as a contract or agreement between the Issuer or the City and purchasers or owners of any of the Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, are intended solely as such and are not to be construed as representations of fact.

Although the City maintains an Internet website for various purposes, none of the information on its website is incorporated by reference into this Official Statement. Any such information that is inconsistent with the information set forth in this Official Statement should be disregarded.

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**SALINAS PUBLIC FACILITIES INC.  
2018 LEASE REVENUE BONDS, SERIES B  
(CITY OF SALINAS EL GABILAN LIBRARY PROJECT)**

**INTRODUCTION**

**General**

This Official Statement, including the front cover page, inside front cover page and appendices, is provided in connection with the issuance by Salinas Public Facilities Inc. (the “**Issuer**”), a California nonprofit public benefit corporation and an organization that is described under Section 501(c)(3) of the federal Internal Revenue Code of 1986, as amended (the “**Code**”), of its 2018 Lease Revenue Bonds, Series B (City of Salinas El Gabilan Library Project) (the “**Bonds**”). The Issuer is issuing the Bonds as “qualified 501(c)(3) bonds” pursuant to Revenue Ruling 63-20 of the United States Treasury, as amended and updated by Revenue Procedure 82-26 of the United States Treasury (the “**Ruling**”).

The proceeds of the Bonds will be used by the Issuer: (i) to finance a portion of the costs of designing, permitting, constructing and furnishing a new two-story El Gabilan Library building containing approximately 21,076 square feet with associated parking and related on- and off-site improvements (collectively, the “**Project**”) on behalf of the City of Salinas (the “**City**”); (ii) to capitalize interest on the Bonds through \_\_\_\_\_, 20\_\_\_\_; (iii) to fund a reserve fund for the Bonds; and (iv) to pay costs of issuance of the Bonds. See the caption “THE PROJECT AND THE FINANCING PLAN.”

The Issuer has agreed to lease the Project and any other improvements that are constructed on the land on which the Project will sit (collectively, the “**Premises**”) to the City for a term of approximately \_\_\_\_ years pursuant to a Project Lease Agreement relating to the Premises, dated as of June 1, 2018 (the “**Project Lease**”), by and between the Issuer and the City.

The City is obligated under the Project Lease to pay Rent at the times and in the amounts specified in the Project Lease. Rent includes: (a) a Base Rent component that is sufficient to pay scheduled debt service on the Bonds; and (b) an Additional Rent component to cover Operating Costs (as such term is defined in Appendix A under the caption “PROJECT LEASE—Definitions”) and fund the Capital Repairs Fund. See the caption “THE PROJECT AND THE FINANCING PLAN.” The Project Lease is an absolute net lease.

The City is obligated under the Project Lease to begin paying Base Rent on the “**Rent Commencement Date**,” which the Project Lease defines as the date of Substantial Completion of the Project. The City will also be obligated to pay Additional Rent, including Operating Costs and the Annual Capital Repair Reserve Payment, following the Substantial Completion Date of the Project. The City has covenanted in the Project Lease to take such action as may be necessary to include the payment of all Base Rent in its annual budget and to make the necessary annual appropriations for the payment of Base Rent. The City’s obligation to pay Base Rent is subject to abatement in the event of damage to, destruction of or condemnation of the Premises and other provisions of the Project Lease, as more fully described under the caption “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Abatement.”

Neither the City nor any other municipal corporation, subdivision or agency of the State of California (the “**State**”) is obligated to pay debt service on the Bonds. The Bonds are not an obligation of the City, moral or otherwise. The City’s sole obligations with respect to this financing, including the obligations to pay Rent, are those set forth in the Project Lease. The City is obligated to pay Rent under the Project Lease from its general revenues. The obligation of the City to pay Rent when due is a general fund obligation of the City and

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*\*Preliminary; subject to change.*

does not constitute a debt of the City for which the City is obligated to pledge or levy any form of taxation or for which the City has levied or pledged any form of taxation.

Roughly contemporaneously with the issuance of the Bonds, the Issuer expects to issue another series of bonds to finance a police headquarters complex (the “**Public Safety Facility**”) within the City (the “**Police Bonds**”). The Issuer’s role in construction of the Public Safety Facility will be substantially identical to its role in construction of the Project in that the Issuer will enter into a Development Agreement with the Developer and manage all aspects of construction. See the caption “BOND OWNERS’ RISKS—Start-Up Special Purpose Entity.” The Police Bonds, which are expected to be issued in the initial aggregate principal amount of \$\_\_\_\_, \* are secured by lease payments made by the City under a lease agreement with the Issuer for the right to occupy the land that comprises the Public Safety Facility premises. Such lease payments do not constitute Rent under the Project Lease and are not available to pay the Bonds, nor will Bondholders have any rights to the Public Safety Facility premises in the event of a default under the Project Lease. However, the City’s obligation to make the lease payments that secure the Police Bonds is a general fund obligation of the City and is payable from the same general revenues of the City that are the source of lease payments that secure the Bonds. See the caption “CITY FINANCIAL INFORMATION—Other Indebtedness—General Fund-Supported Obligations.” There can be no assurance as to the timing of the issuance of the Police Bonds or the actual principal amount issued.

### **The Issuer**

The Issuer is a California nonprofit public benefit corporation and will issue the Bonds on behalf of the City as “qualified 501(c)(3) bonds” under the Code. The Issuer is a limited-purpose entity whose activities are confined to development and operation of the Project and the Public Safety Facility. See the caption “THE ISSUER.”

### **The Bonds**

The Issuer is issuing the Bonds pursuant to an Indenture of Trust, dated as of June 1, 2018 (the “**Indenture**”), by between the Issuer and The Bank of New York Mellon Trust Company, N.A., as trustee (the “**Trustee**”). The Bonds will be dated and bear interest from their date of delivery. Interest on the Bonds will be payable semiannually on each \_\_\_\_\_ and \_\_\_\_\_, beginning \_\_\_\_\_, 20\_\_\_\_. The Bonds will be issued as fully registered bonds in integral multiples of \$5,000, and will be issued initially in book-entry only form. See Appendix F. Capitalized terms that are used and not otherwise defined in this Official Statement have the meanings that are set forth in the Indenture, the Project Lease or the Development Agreement. See Appendix A.

The Bonds are subject to redemption prior to maturity as described in this Official Statement. See the caption “THE BONDS—Redemption of the Bonds.”

### **The Project**

Griffin Swinerton, a joint venture of Griffin Structures, Inc., a California corporation (“**Griffin**”), and Swinerton Builders, a California corporation (the “**Construction Manager**”), has been selected as the developer (the “**Developer**”) for the Project. Pursuant to a Development Agreement, dated as of June 1, 2018 (the “**Development Agreement**”), by and between the Issuer and the Developer, the Developer has committed to oversee and manage the design, permitting and construction of the Project for a fixed price (the “**Fixed Price**”) and to deliver the completed Project to the Issuer by the “**Developer Obligation Date**,” which is defined as \_\_\_\_\_, 20\_\_\_\_ (provided that the Developer Obligation Date may be extended for certain delays caused by the Issuer and for unavoidable delays, as described in this Official Statement).

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\*Preliminary; subject to change.



The Developer is responsible for managing the development and construction of the Project. The Issuer will enter into a guaranteed maximum price construction contract (the “**Construction Management Agreement**”), by and between the Issuer and the Construction Manager, for the Project. See the caption “THE PROJECT AND THE FINANCING PLAN.” The Construction Management Agreement is required to include provisions for initiating, maintaining and providing supervision of safety precautions and programs in connection with the construction of the Project and provisions for indemnification of claims arising out of the negligence or willful misconduct of the Construction Manager and its employees, agents and sub-contractors.

### **The Project Lease**

The Issuer is leasing the Premises to the City under the terms of the Project Lease. The Project Lease is an absolute net lease. Unless extended or sooner terminated in accordance with its terms, the Project Lease will expire on the earlier of \_\_ \_\_, 20\_\_, or the date that the Bonds have been paid or defeased in full. The Project Lease is subject to early termination under certain circumstances. First, the Project Lease will terminate if the City exercises its option to purchase the Premises and redeem or defease the Bonds. Second, the Project Lease is subject to termination upon the total condemnation of the Premises or in the event of a partial condemnation that results in no reasonable use of the Premises by the City. Finally, the Project Lease is subject to termination in the event of underinsured damage to the Premises under certain circumstances following total or partial destruction of the Premises. See the captions “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS” and “BOND OWNERS’ RISKS—City Obligations under the Project Lease.”

The Project Lease obligates the City to pay Rent, which includes: (a) Base Rent paid pursuant to a schedule of payments attached to the Project Lease in the aggregate amount that is sufficient to pay debt service on the Bonds; and (b) Additional Rent in an amount that is sufficient to pay the Operating Costs and fund the Capital Repairs Fund.

Under the Project Lease, the Issuer is obligated to diligently cause the Project to be designed, permitted and constructed in a good and workmanlike manner, in accordance with plans and specifications that are developed by the Issuer with the concurrence of the City. The Issuer is obligated to pay Project Costs from proceeds of the Bonds. The Issuer does not have any obligation to pay Project Costs in excess of the Fixed Price, subject to certain exceptions that are set forth in the Development Agreement, and the City, whose only payment obligation under the Project Lease is the payment of Rent and other amounts that are specifically set forth in the Project Lease and the Ground Lease (as such term is defined under the caption “—Ownership of the Premises”), has no obligation to pay Project Costs. **The City’s obligation to pay Base Rent commences on the Rent Commencement Date, which is the Substantial Completion Date of the Project, as defined in the Project Lease.** See the captions “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS” and “THE PROJECT AND THE FINANCING PLAN.”

If the Premises are damaged or destroyed by fire, earthquake or other casualty following the Rent Commencement Date, the Project Lease will not terminate (unless insurance is insufficient to repair the casualty, as provided in the Project Lease), but the Base Rent that is otherwise payable by the City will be reduced to the extent and during the period that the City’s occupancy of the Premises is affected thereby. See the caption “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Abatement.”

### **Authorization**

The Bonds are being issued pursuant to the Nonprofit Public Benefit Corporation Law of the State (Corporations Code Sections 5110 *et seq.*) and the Public Leaseback Act of the State (Government Code Sections 54240 *et seq.*). The Issuer’s Board of Directors approved the Project Lease, and authorized the Issuer to issue the Bonds, by resolution dated May 15, 2018. By ordinance adopted on March 6, 2018, and subsequent action at its May 15, 2018 meeting, the City Council of the City (the “**City Council**”) approved the Project, the Ground Lease, the Project Lease, the Subordination, Non-Disturbance and Attornment Agreement (the “**Nondisturbance Agreement**”), the Indenture and the issuance of the Bonds by the Issuer, and agreed to

accept unencumbered title to the Premises upon retirement of the Bonds, solely for the purposes of meeting the requirements of the Ruling.

## **Security**

The Bonds are special, limited obligations of the Issuer that are payable solely from and secured solely by a pledge of the Trust Estate (consisting of all rents, issues, income, revenues and receipts derived by the Issuer from the Project Lease and certain other money and property) as provided in the Indenture. See the caption “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS.” No revenue, income, receipts, donations, earnings, property or assets of the Issuer, other than the Trust Estate, will be subject to any lien or claim for the payment of the Bonds or the performance of any other obligation of the Issuer under the Indenture. The Issuer is a limited-purpose entity whose activities are confined to development and management of the Project and the Public Safety Facility, is not a governmental unit and has no taxing power. The Issuer has no source of funds available to pay debt service on the Bonds other than the Trust Estate.

The Trust Estate pledged under the Indenture includes all funds held by the Trustee under the Indenture, excluding the Rebate Fund and the Capital Repairs Fund, as further described in the Indenture. See Appendix A.

The primary source of Revenues anticipated to be received by the Issuer and included within the Trust Estate is Base Rent to be received from the City under the Project Lease. See the caption “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Pledge of Revenues” for a complete definition of Revenues.

Base Rent will be paid from general revenues of the City. The Bonds are not a debt or general obligation of the City.

The Issuer will provide a Construction Leasehold Deed of Trust, Security Agreement, Assignment of Leases, and Fixture Filing, dated the date of issuance of the Bonds (the “**Deed of Trust**”), and an Assignment of Leases and Cash Collateral, dated the date of issuance of the Bonds (the “**Assignment of Lease**”), as additional security instruments in favor of the Trustee.

**Neither the City nor any other municipal corporation, subdivision or agency of the State is obligated to pay debt service on the Bonds. The Bonds are not an obligation of the City, moral or otherwise. The City’s sole obligations with respect to this financing, including the obligations to pay Rent, are those set forth in the Project Lease. The Bonds are not a general obligation or debt of the City.**

## **Measure E**

Proceeds of a one-half cent transactions and use tax (Measure E) that is imposed on certain sales in the City to support enhanced City services are not pledged as security for the Bonds. However, Measure E proceeds are available to pay Rent under the Project Lease, and the City currently expects to pay all or a portion of Rent under the Project Lease through 2048 from Measure E proceeds. Measure E does not have a termination date. Notwithstanding the foregoing, the City makes no assurances regarding the amount of Measure E revenues or the availability of Measure E revenues to pay Rent under the Project Lease. See the caption “CITY FINANCIAL INFORMATION—Measure E Taxes.”

## **Reserve Fund**

A debt service reserve fund has been created with respect to the Bonds. [PROVISIONS TO COME] See the caption “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Reserve Fund.”

## **Future Bonds and Other City Obligations**

The Issuer may issue future obligations that are payable from Revenues (“**Future Bonds**”) only for the purposes of refunding all or a portion of the Bonds or financing the repair or replacement of tenant improvements to the Premises, subject to the conditions that are described under the caption “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Future Bonds and Other City Obligations—Future Bonds.” Any such Future Bonds will have a lien and charge on the Trust Estate that is equal to the lien of the Bonds.

In addition, the City may issue other obligations payable from its general revenues at any time. See the captions “CITY FINANCIAL INFORMATION—Other Indebtedness—General-Fund Supported Obligations” and “BOND OWNERS’ RISKS—Special Obligations of the Issuer.”

## **Ownership of the Premises**

The City holds fee title to the site on which the Premises will be constructed. In consideration for the Issuer’s issuance of the Bonds, the City has leased such site to the Issuer pursuant to a Ground Lease Agreement, dated as of June 1, 2018 (the “**Ground Lease**”), by and between the City and the Issuer. In consideration for the City’s payment of Rent, the Issuer will sublease the completed Premises back to the City pursuant to the Project Lease.

The Issuer is obligated under the terms of the Project Lease and the Indenture to tender to the City unencumbered title to the Premises when the Bonds have been retired or fully provided for. The City Council has stated its present intent to accept delivery of title to the Premises at that time.

## **Continuing Disclosure**

The City and the Issuer have agreed to provide, or cause to be provided, to the Municipal Securities Rulemaking Board for purposes of Securities and Exchange Commission Rule 15c2-12 (the “**Rule**”) certain annual financial information and operating data and, in a timely manner, notice of certain enumerated events. See the caption “CONTINUING DISCLOSURE.”

## **Certain Risk Factors**

Certain events could affect the timely completion of the Project, the ability of the City to pay Rent when due or the ability of the Issuer to make payments on the Bonds when due. See the caption “BOND OWNERS’ RISKS” for a discussion of certain factors that should be considered, in addition to other matters that are set forth in this Official Statement, in evaluating an investment in Bonds.

## **THE PROJECT AND THE FINANCING PLAN**

### **The Project**

The Project consists of the design, permitting, construction and furnishing of a new two-story El Gabilan Library building containing approximately 21,076 square feet with associated parking and related on- and off-site improvements. The City-owned Land for the Project will be leased to the Issuer under the Ground Lease. The approximately 1.25 acre site is located on North Main Street south of Navajo Drive in the northern part of the City, approximately 100 miles south of San Francisco, California. Pursuant to the Project Lease, the Issuer will lease the Premises to the City.

The components of the Project are expected to be as follows:

***El Gabilan Library Building.*** The El Gabilan Library building will be a two-story structure containing approximately 21,076 square feet. The building will include a main lobby, community meeting rooms, library circulation facilities and elevators.

***Ancillary Improvements.*** Approximately [ ] public parking spaces will be developed on the Premises to provide parking for library employees and members of the public. The Premises will also include specific program areas within the building designed for all ages and a secure exterior patio and garden on the south perimeter.

## **Development Agreement**

The Issuer will enter into a Development Agreement with the Developer for the oversight and management of the design, development, permitting and construction of the Project. A full summary of the Development Agreement, including definitions of capitalized terms used in this caption, is set forth (without all exhibits) in Appendix A. The following is only a brief summary of the Development Agreement, and reference is made to Appendix A for a fuller description of the terms of the Development Agreement.

Pursuant to the Development Agreement, the Developer will manage the design, development, permitting and construction of the Project for the Fixed Price of \$\_\_\_\_. The Fixed Price covers the Project Costs, but does not include, and the Developer has no responsibility for, certain other costs which are not Project Costs, including Tenant's Personal Property (as such term is defined in the Project Lease), Costs Resulting from Owner-Caused Delays (as such term is defined in the Project Lease), change orders initiated by the Issuer or the City, costs resulting from unavoidable delays and certain other costs that are excluded from the definition of Project Costs. See the caption "—Project Costs."

If Project Costs exceed the Fixed Price, the Developer is required by the Development Agreement, subject to limitations set forth in the Development Agreement, to deposit funds with the Trustee in an amount that is sufficient to pay such excess Project Costs. The Project will be deemed to be in balance only when the undisbursed portion of Bond proceeds (which the Issuer will cause to contain an amount that is sufficient to pay the Fixed Price plus all other funds that are the responsibility of the Issuer under the Development Agreement) in the Project Fund allocable to payment of the Fixed Price, together with funds deposited by the Developer with the Trustee and expected earnings on the Project Fund to the date of their anticipated disbursement after provision for all contingencies, equal or exceed the amount that is reasonably estimated by the Issuer to pay for all Project Costs that are the responsibility of the Developer under the terms of the Development Agreement. If the Issuer properly advises the Developer that the Project is not in balance, the Developer will, subject to limitations set forth in the Development Agreement, deposit into the Project Fund held by the Trustee the amount necessary to bring the Project into balance, and such funds will be disbursed in their entirety prior to any further disbursement of Bond proceeds from the Project Fund, provided that if the shortfall in the Project Fund is due to the Issuer's failure to deposit funds as required in connection with any Issuer-initiated change orders or other costs that Issuer is responsible for, the Issuer or the City, as applicable, will deposit the necessary funds into the Project Fund. Any funds deposited by the Developer but not used as of the time of completion of the Project will be returned to the Developer.

If the Fixed Price is paid in accordance with the Development Agreement, the Developer warrants Substantial Completion of the Project, free and clear of all liens, by the Developer Obligation Date (expected to be \_\_ \_\_, 20\_\_). The Developer Obligation Date may be extended because of: (i) delays caused by the Issuer or the City; (ii) delays resulting from remediation of any hazardous substances in, on or emanating from the Premises in excess of the time in the approved Project schedule; and (iii) Unavoidable Delays. "Unavoidable Delays" means delays in the construction of the Project caused by strikes, acts of God, casualty, adverse weather conditions, acts of terrorists, governmental delays, governmental embargo restrictions, subsurface and environmental conditions or other causes beyond the reasonable control of the Developer or the Construction Manager. Extensions due to Unavoidable Delays may not exceed 90 days.

If Substantial Completion of the Project does not occur by the Developer Obligation Date, then commencing on the Developer Obligation Date and continuing on the first day of each successive calendar month through the month in which Substantial Completion occurs, the Developer is required under the Development Agreement to pay to the Trustee or otherwise forfeit the applicable portion of the Developer's Fee to which it would otherwise be entitled, in an amount (the "**Monthly Carrying Costs**") equal to the amounts payable by the Issuer to the Trustee under the Indenture during such calendar month, which will be offset by insurance proceeds received under the Issuer's builder's risk insurance and damages for delay received from other contracting parties (such as the Construction Manager).

For its services under the Development Agreement, the Developer will receive a Developer's Fee of \$\_\_\_\_\_ for the Project, 90% of which will be payable in monthly installments during the construction of the Project, with the remaining 10% paid upon "Final Acceptance" (as such term is defined in the Development Agreement) of the Project by Issuer. In addition, the Developer will be paid an Overhead Allowance of \$\_\_\_\_\_ for the Project, payable in installments of \$\_\_\_\_ per month from \_\_\_\_ 20\_\_ (the commencement of pre-construction activity), through the anticipated occupancy of the Project by the City. The Developer will also receive one-third of any unused Project Contingency as part of the Final Payment as an incentive fee, which will be calculated as provided in the Development Agreement.

### **Insurance During Construction**

Under the Development Agreement, the Developer is required to maintain the following insurance during construction: (i) Commercial General Liability, with a limit of not less than \$2,000,000 per occurrence; (ii) Automobile Liability Coverage with a limit of not less than \$1,000,000 limit per occurrence; and (iii) Workers' Compensation coverage, as required by the Labor Code of the State, and employers liability coverage in an amount not less than \$1,000,000.

Under the Development Agreement, the Issuer is required to maintain, or cause to be maintained, Builder's All Risk Coverage covering all work to be done on the Project for the full 100% replacement cost of all such improvements. Coverage will be provided for: (i) the perils of earth movement and flood; (ii) resultant damage from errors in design, plans, specifications, faulty workmanship, materials and construction; (iii) "extra expense;" (iv) all materials to be stored offsite and while in transit to the jobsite; (v) "cold testing" of all building systems; (vi) the Issuer's and Developer's loss of use of the Project due to delays in completion of the Project caused by covered peril losses, including loss of income and rents and soft costs such as interest on the Bonds, real estate taxes and insurance premiums; (vii) the increased cost of construction, debris removal and demolition due to the operation of building laws and code upgrades; and (viii) direct physical damage to the Project and loss of use caused by an off premises power interruption.

### **Payment and Performance Bonds**

The Development Agreement requires the Construction Management Agreement to contain a provision for payment and performance bonds issued by a surety that is reasonably acceptable to the Issuer pursuant to which the Issuer and Trustee must be named as obligees pursuant to a rider.

### **Griffin**

Griffin and the Construction Manager will jointly manage the design, permitting and construction of the Project as Developer. Griffin, a wholly owned independent affiliate of Griffin Holdings, Inc., a California corporation, is a California-based, award-winning, development, program, design and construction management organization providing strategic project delivery solutions to its public, non-profit and private sector clients since 1981. Griffin maintains offices in both Irvine and Santa Clara.

For almost four decades, Griffin has worked in partnership with counties and cities to plan, design, build and finance over \$1.5 billion in public facilities. Griffin manages the planning, design, development and

construction of projects from entitlements through post-occupancy. Several of the firm's professionals are certified program and construction managers and Leadership in Energy and Environmental Design ("LEED")-certified.

Griffin has successfully completed over 155 projects for the public sector. Griffin's experience in the public sector includes administration complexes, police, fire and public safety facilities, city halls, libraries, community/senior centers, parking structures, corporation yards, parks and trail systems, zoos, non-profit facilities, commercial buildings and related infrastructure.

In addition to its current portfolio of public projects (including San Bernardino County Civic Center, Lake Gregory Dam restoration, Buena Park main police facility and the \$180 million Anaheim Convention Center expansion), Griffin, in partnership with the Construction Manager, recently completed the Quartz Hill Library, the first public/private partnership project delivered for the County of Los Angeles. Griffin, the Architect and Construction Manager are also teamed on the \$188 million County of Orange Administrative Building, another public/private partnership. This is the first phase of a three-phase, \$500 million public/private partnership to be undertaken by the team on behalf of the County of Orange.

Griffin is also serving as development manager and owner's representative for the Anaheim NHL Ducks' new \$103 million facility, which is presently under construction at the Great Park in Irvine, California. The Architect and the Construction Manager are also working on this project.

Many of Griffin's projects have won awards, including government campuses for the County of San Bernardino, the City of Hesperia and the City of Fullerton, city hall projects for Rancho Santa Margarita, San Dimas and Santa Ana, community centers for Cypress, Delhi, Fullerton (LEED NC), Huntington Beach, Laguna Beach, Lawndale (LEED Silver), Rancho Santa Margarita and San Dimas, and educational facilities for the Environmental Nature Center in Newport Beach (LEED Platinum), the Fullerton Main Library (LEED NC), the Hesperia Public Library and the Tustin Main Library. Griffin also successfully delivered the City of West Hollywood City Hall in 1991, which is widely considered to be the first public/private partnership for a municipal building in the State.

### **Construction Manager**

Swinerton Builders, a California corporation, is the Construction Manager for the Project. The Construction Manager will provide a guaranteed maximum price contract for construction of the Project. The Construction Manager was originally founded in 1888 in Los Angeles, California, and undertakes projects throughout the United States. The Construction Manager currently has the oldest active general contractor's license (#92) in the State. For the last three years, the Construction Manager has been ranked as the largest general contractor in the State by the Engineering News Record. The Construction Manager completed approximately \$6 billion in "put in place" construction in 2017. The Construction Manager currently employs approximately 2,400 professionals throughout 18 offices across the United States, including Irvine, Los Angeles, San Diego, San Francisco, Sacramento, Santa Clara, Denver, Austin, Hawaii, Portland, Bend, Seattle and Atlanta. The Construction Manager has an aggregate bonding limit of over \$2.5 billion, available bonding capacity of \$1.6 billion and a maximum bonding limit of \$500 million per project.

Representative projects completed by the Construction Manager in the State include the following: Delta Airlines Sky Club, Bank of New York Mellon, High Desert Health System Multi-Service Ambulatory Care Center, Turner Riverwalk, UCSD Charles David Keeling Apartments, the Carlyle, Sunroad Centrum, a LEED-certified office structure, and NASA Jet Propulsion Laboratory Flight Projects Center. Other notable projects completed by the Construction Manager in its history include Ghirardelli Square, the Fairmont Hotel and The Gap corporate headquarters in San Francisco, California. The Construction Manager has completed more than 200 LEED projects valued at more than \$4.2 billion. The Construction Manager's experience includes civic infrastructure projects, many of them in its long term collaboration with Griffin.

## Architect

LPA, Inc., a California corporation, is the architect for the Project (the “**Architect**”). The Architect has been in business for over 50 years and currently has approximately 400 employees, 70% of whom are LEED-accredited professionals and 47% of whom are other licensed professionals (e.g., architects, professional engineers, certified interior decorators). As one of the largest integrated design firms in the State, the Architect provides architecture, planning, landscape architecture, interior design, engineering and graphic/signage services from early program development to project closeout.

Representative projects completed by the Architect include the following: NASA Jet Propulsion Laboratory Flight Projects Center, Capital Group Companies, Premier Automotive Group, 200 Spectrum Center, 520 Newport Center, Santa Clara Gateway, Edwards Lifescience, Brentwood Civic Center, Hesperia Civic Center and San Bernardino County Public Safety Operations Center. The Architect has won more than 700 major design awards and has completed over 50 LEED-certified projects in the State. The Architect maintains multiple offices throughout the State, including offices in Irvine and San Jose.

## Permits and Approvals

The City’s Planning Commission approved a conditional use permit and notice of exemption from the California Environmental Quality Act for the Project on February 7, 2018. The Developer has received all necessary preliminary land use approvals required for the development of the Project. Demolition of the current structures on the Land is underway and is expected to be completed by June 30, 2018. Schematic designs of the building shells have been completed and design and development drawings are currently [50%] completed [UPDATE PRIOR TO POSTING] for the interior improvements. Permits are expected to be granted in phases. The Developer anticipates that the overall building permits will be issued by June 30, 2018, for the Project.

## Construction Schedule

The Developer currently anticipates that construction of the Project will occur on the following schedule:

### Project Construction Schedule

Demolition of Existing Structures on Premises	_____ 2018
Groundbreaking	_____
Building Structure Complete	_____
Temporary Certificate of Occupancy Issued	_____
Substantial Completion/Developer Obligation Date	_____

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Sources: Developer; Issuer.

## Project Costs

Under the Development Agreement, Project Costs are defined to include all costs for the completion of the development, design, permitting and construction of the Project, including, without limitation, all permit fees, all costs of the Buildings, Parking, HVAC, electrical and other building systems, all costs of Tenant Improvements, all costs of fixtures, furnishing and equipment described in the Construction Documents, all costs of architectural services provided by the Architect under the Architect’s Agreement, all other professional design and other services provided by Contractors or other professionals engaged by the Developer or Construction Manager, all amounts paid to the Construction Manager under the Construction Management Agreement, including all labor, material, and equipment used or incorporated in such design and

construction, all amounts paid to other Contractors and subcontractors, if any, under any other Construction Contract or subcontract entered into by the Issuer upon the written approval of the Developer or by the Developer on behalf of and acting as the Issuer's agent in connection with the Project, including all labor, material, equipment used or incorporated in such design and construction, services provided by engineers, environmental consultants, surveyors and other professionals and consultants retained by the Developer in connection with the Project, Developer's Overhead Allowance, Developer's Fee, insurance (other than Bond insurance), bonds (other than the Bonds), applicable state and local retail sales, business and occupation and other taxes, plus the Project Contingency.

Project Costs exclude: (a) the Tenant's Personal Property and any related taxes (which will be paid by the City at its sole cost and expense); (b) Financing Costs; (c) costs for art or similar enhancements that are not included in the Project Requirements and not paid from the Tenant's Contingency; (d) costs of acquiring certain light, view or other easements or property interests benefiting the Project; (e) costs of removing or remediating any Hazardous Substances in, on or emanating from the Premises in excess of the amount specifically set forth in the Project Budgets for environmental remediation; (f) costs of any offsite improvements; (g) real property taxes and assessments with respect to the Premises; (h) maintenance or operation of the Premises after Substantial Completion; (i) costs associated with the City vacating the site during constructions, including temporary parking arrangements for City workers or visitors; and (j) certain salary and overhead costs relating to the Developer's officers and principal offices.

### **Project Budget and Sources of Funds**

The proceeds of the Bonds will be used by the Issuer to pay Project Costs up to the amount of the Fixed Price for the Project and other approved costs related to the financing and development of the Project. Project Costs also include an amount for Tenant Improvements (as such term is defined in the Project Lease). Bond proceeds will also be used to pay costs of issuance in connection with the issuance of the Bonds and provide for the payment of interest on the Bonds through \_\_\_\_\_, 20\_\_, which is approximately [six] months after the estimated date of Substantial Completion of the Project. The Issuer and the Developer expect that the proceeds of the Bonds, together with related earnings and other available funds, will be sufficient to pay the costs of the Project, including interest on the Bonds during construction, although the Issuer cannot guarantee that such proceeds will be sufficient. See the caption "BOND OWNERS' RISKS—Construction and Completion Risk." The Issuer does not have any obligation to pay Project Costs in excess of the Fixed Price, and the City, whose only payment obligation under the Project Lease is the payment of Rent, has no obligation to pay Project Costs. See Appendix A.

The following is an estimate of Project Costs.

### **Project Costs Budget**

	<i><b>Bonds</b></i>	<i><b>City Contribution</b></i>
Sitework	\$[	
Office Building Shell and Core		
Offsite Improvements		
Financed FF&E Allowance		
Tenant Improvements		
Soft Costs and Insurance		
Developer's Fee		
Developer's Overhead Allowance		
Contingency		
Project Total	\$	



## Estimated Sources and Uses of Proceeds

The following table shows the estimated sources and uses of the Bond proceeds.

<i>Sources</i> <sup>(1)</sup>	<i>Bonds</i>
Principal Amount	\$
City Contribution	
Plus/Less Original Issue Premium/Discount	
<b><i>Total Sources</i></b>	<b>\$</b> _____
 <i>Uses</i> <sup>(1)</sup>	
Deposit to Project Account	\$
Deposit to Reserve Fund	
Costs of Issuance <sup>(2)</sup>	
Deposit to Capitalized Interest Fund <sup>(3)</sup>	
<b><i>Total Uses</i></b>	<b>\$</b> _____

(1) Rounded to the nearest dollar. Totals may not add due to rounding.

(2) Includes certain fees of the Issuer, Bond Counsel, Disclosure Counsel, the Municipal Advisor, S&P and the Trustee, Underwriter's discount, printing costs and other miscellaneous costs of issuance.

(3) Represents a portion of the interest due on the Bonds capitalized through \_\_\_\_\_, 20\_\_.

## THE BONDS

### Description

The Bonds are dated and bear interest from the date of their initial delivery. Interest on the Bonds is payable semiannually on \_\_\_\_\_ and \_\_\_\_\_, commencing on \_\_\_\_\_, 20\_\_ (each, an “**Interest Payment Date**”). Interest will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The Bonds will bear interest at the rates and mature on \_\_\_\_\_ in the years and in the amounts that are set forth on the inside front cover page of this Official Statement (each a “**Principal Payment Date**”). The Bonds will be fully registered as to both principal and interest, and will be in denominations of integral multiples of \$5,000. Initially, individual purchases of the Bonds may be made in book-entry form only. Purchasers will not receive certificates representing their interest in the Bonds purchased. When issued, the Bonds will be registered in the name of Cede & Co. as Registered Owner and nominee of The Depository Trust Company, New York, New York (“**DTC**”). So long as Cede & Co. is the Registered Owner of the Bonds, references to the Owners, Registered Owners or Bond Owners will mean Cede & Co. and will not mean the Beneficial Owners of the Bonds. In this Official Statement, the term “**Beneficial Owner**” will mean the person for whom a DTC participant acquires an interest in the Bonds.

Principal of and interest on the Bonds are payable by the Trustee. So long as Cede & Co. is the Registered Owner of the Bonds and the Bonds are in fully immobilized form, principal of and interest on the Bonds are payable by wire transfer by the Trustee to DTC, which, in turn, is obligated to remit such principal and interest to DTC participants for subsequent disbursement to the Beneficial Owners of the Bonds, as further described under the caption “—Book-Entry System” and in Appendix F.

If the Bonds are no longer in fully immobilized form, interest on the Bonds will be paid by the Trustee by check mailed on each Interest Payment Date to the Owners as of the close of business on the applicable Record Date, all as defined in the Indenture, at the address in the books for registration of the Bonds kept for the Issuer by the Trustee (the “**Bond Register**”), or at such other address as is furnished in writing by Owners to the Trustee (provided, however, that the Trustee will, at the request of any Owner of \$1,000,000 or more in aggregate principal amount of Bonds, make payments of interest on such Bonds by wire transfer to the account at any bank in the United States designated by such Owner in writing on or before the Record Date), and the principal of the Bonds is payable in lawful money of the United States of America upon surrender thereof at

the principal corporate trust office of the Trustee. No payment of principal will be made on any certificated Bond unless and until such Bond is surrendered to the Trustee for payment.

### **Redemption of the Bonds**

***Optional Redemption.*** The Bonds are subject to redemption prior to their stated maturity as described below: (i) upon the written direction of the City (so long as no Project Lease Default Event has occurred and is continuing) given to the Issuer and the Trustee; and (ii) otherwise upon the written direction of the Issuer, in either case as a whole or in part (and if in part with maturities to be selected by the City, so long as no Project Lease Default Event has occurred and is continuing, and otherwise by the Issuer).

The Bonds maturing on and prior to \_\_\_\_\_, 20\_\_, are not subject to optional redemption prior to their scheduled maturity. The Bonds maturing on and after \_\_\_\_\_, 20\_\_, are subject to redemption, in whole or in part, on any date on and after \_\_\_\_\_, 20\_\_, at a price of par plus accrued interest to the date of redemption.

***Mandatory Sinking Fund Redemption.*** The Bonds maturing on \_\_\_\_\_, 20\_\_, are term Bonds subject to mandatory sinking fund redemption (in such a manner as DTC or the Trustee, as applicable, determines) at a price of 100% of the principal amount of the Bonds to be redeemed plus accrued interest to the date of redemption on \_\_\_\_\_ in the years and amounts as follows:

<b><i>Redemption Years</i></b>	<b><i>Redemption Amounts</i></b>
	\$

\*

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\* Maturity.

The principal amount of any term Bonds that are optionally redeemed will be credited against the scheduled redemptions of such Bonds in the manner designated by an Authorized Representative of the Issuer or the City, as applicable.

***Extraordinary Optional Redemption.*** The Bonds are subject to extraordinary optional redemption in whole, and not in part, upon the receipt by the Trustee of certain insurance proceeds or condemnation proceeds under the circumstances set forth in the Project Lease on any Interest Payment Date (and will be redeemed on the first regularly scheduled Interest Payment Date for which notice may reasonably be given by the Trustee), at a price of par plus accrued interest to the date of redemption. Upon receipt of notice from the City of the occurrence of the events described in the Project Lease and setting a redemption date, the Trustee will call Bonds for extraordinary redemption on the first regularly scheduled Interest Payment Date for which notice may reasonably be given and on which the redemption price is or will be available.

***Redemption from City Contribution.*** The Bonds are also subject to extraordinary optional redemption in part, upon completion of Project construction and the delivery of a certificate of occupancy, in a principal amount not to exceed \$\_\_\_\_\_, on \_\_\_\_\_, 20\_\_ or any date thereafter for which at least 30 days' notice may be given by the Trustee, at a price of par plus accrued interest to the date of redemption, upon the receipt by the Trustee of \_\_\_\_\_. Upon receipt of notice from the City of the occurrence of circumstances described in the Project Lease and setting a redemption date, the Trustee will call Bonds for extraordinary redemption on that date.

***Partial Redemption of Bonds.*** For so long as the Bonds are held in fully immobilized form, the selection of particular Bonds within a maturity to be redeemed, whether by optional or mandatory redemption,

will be made in accordance with the operational arrangements then in effect at DTC. If the Bonds are no longer held in book-entry form, the selection of particular Bonds within a maturity to be redeemed will be made by the Trustee by lot.

***Notice of Redemption.*** As long as the Bonds are held in book-entry only form, notice of redemption (which may be conditional) will be given by DTC solely in accordance with the operational arrangements of DTC as then set forth. If the Bonds are no longer held in book-entry form, notice of redemption will be given as provided in the Indenture. The Trustee will give notice of redemption by first class mail, postage prepaid, mailed no fewer than 20 nor more than 60 days prior to the redemption date to each Owner of Bonds to be redeemed at the address of such Owner appearing in the Bond Register. Any notice of redemption may be conditional and may be revocable at any time prior to the conditions set forth therein being satisfied in full.

Neither the failure of any Owner to receive notice mailed as provided in the Indenture nor any defect in notice so mailed will affect the validity of the proceedings for redemption in accordance with the Indenture.

All notices of redemption will state: (a) the redemption date and the conditions, if any, of redemption; (b) the redemption price; (c) the amount of accrued interest payable on the redemption date (if such amount can be calculated at the time the notice is mailed); (d) the designation of the Bonds to be redeemed, the principal amount of Bonds to be redeemed, and, if less than all Outstanding Bonds are to be redeemed, the identification (and, in the case of partial redemption, the principal amounts) of the Bonds to be redeemed; (e) that (unless the notice of redemption is a conditional notice, in which case the notice will state that interest will cease to accrue from the date fixed for redemption if and to the extent that the applicable conditions have been met and funds have been provided to the Trustee for the redemption of Bonds) on the redemption date the redemption price of each such Bond will become due and payable and that interest on each such Bond will cease to accrue on and after such date; (f) the place or places where such Bonds must be surrendered for payment of the redemption price thereof; and (g) such additional information as the Issuer may deem appropriate.

Notice of redemption having been given to the Owners as described above and if the notice of redemption is conditional and the conditions stated in the notice of redemption have been met, such Bonds to be redeemed will become due and payable on the redemption date at the redemption price specified, and on and after such date (unless the Issuer defaults in the payment of the redemption price) such Bonds will cease to bear interest. Upon surrender of any such Bond for redemption in accordance with such notice, such Bond will be paid at the redemption price thereof, to the extent of funds on deposit with the Trustee and available therefor. To the extent possible, each check or other transfer of funds issued for the payment of the redemption price of Bonds being redeemed will bear the CUSIP number identifying, by maturity, the Bonds being redeemed with the proceeds of such check or other transfer.

If any Bond called for redemption is not so paid upon surrender thereof for redemption, the redemption price and, to the extent lawful, interest thereon will, until paid, bear interest from the redemption date at the rate borne by the Bond immediately before the redemption date.

***Effect of Redemption.*** Notice of redemption having been duly given as described under the caption “—Notice of Redemption,” and money for payment of the redemption price of, together with interest accrued to the date fixed for redemption on, the Bonds (or portions thereof) so called for redemption being held by the Trustee, on the redemption date designated in such notice, the Bonds (or portions thereof) so called for redemption will become due and payable, interest on the Bonds so called for redemption will cease to accrue on the redemption date, said Bonds (or portions thereof) will cease to be entitled to any benefit or security under the Indenture, and the Owners of said Bonds will have no rights in respect thereof except to receive payment of said principal and interest accrued to the date fixed for redemption. All Bonds redeemed pursuant to the provisions of the Indenture will be cancelled by the Trustee upon surrender thereof.

**Purchase in Lieu of Redemption**

At the written direction of the City, so long as no Project Lease Default Event has occurred and is continuing, and otherwise at the written direction of the Issuer, and with the sources of funds specified by the City and/or the Issuer, the Trustee will purchase Bonds at prices deemed acceptable to the City or the Issuer, as applicable. The principal amount of any Term Bonds so purchased will be credited against the scheduled redemptions of those Bonds in the manner designated by the City or the Issuer, as applicable.

**Book-Entry System**

The Bonds will be registered initially in the name of Cede & Co., as nominee of DTC. DTC will act as securities depository for the Bonds. Individual purchases may be made in book-entry form only. Purchasers will not receive certificates representing their interest in the Bonds purchased. So long as Cede & Co. is the Registered Owner of the Bonds, as nominee of DTC, references herein to the Registered Owners, Owners or Bond Owners will mean Cede & Co. and will not mean the “Beneficial Owners” of the Bonds. See Appendix F for additional information.

*Neither the Issuer, the City, the Municipal Advisor nor the Underwriter makes any representation as to the accuracy or completeness of the information in Appendix F provided by DTC.*

## Summary of Debt Service Requirements for the Bonds

### ESTIMATED DEBT SERVICE SCHEDULE

The table below displays estimated debt service payments for the Bonds on an annual basis, assuming no optional redemptions.

<i>Period Ending</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i> <sup>(1)</sup>
— —			
2019	\$	\$	\$
2020			
2021			
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
2037			
2038			
2039			
2040			
2041			
2042			
2043			
2044			
2045			
2046			
2047			
2048			
<b>TOTAL</b> <sup>(1)</sup>			

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

## SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

### Pledge of Revenues

The Bonds are payable from and secured by the Revenues pledged under the Indenture. “**Revenues**” are defined under the Indenture to mean all amounts received by the Issuer or by the Trustee for the account of the Issuer pursuant to the Project Lease (or any other lease by the Issuer of the Premises) or otherwise with respect to the Premises, including, without limiting the generality of the foregoing, all Rent (including both timely and delinquent payments and any late charges, paid from any source), prepayments, any payments received under any policy of title insurance with respect to the Premises, and all interest, profits or other income derived from the investment of amounts in any fund or account established pursuant to the Indenture (except as otherwise provided in the Indenture), but not including: (i) Administrative Fees and Expenses; (ii) Rebatale Arbitrage; (iii) money deposited in the Capital Repairs Fund; and (iv) any and all revenue, income, and receipts of the Issuer not derived from or received with respect to the Project Lease, the Premises or any fund or account established pursuant to the Indenture.

Rent will be paid by the City from any and all legally available funds. See the caption “THE CITY,” “CITY FINANCIAL INFORMATION” and “BOND OWNERS’ RISKS.” The City has covenanted in the Project Lease to take such action as may be necessary to include the payment of all Rent due under the Project Lease in its annual budget and to make the necessary annual appropriations for the payment of Rent, subject to the provisions of the Project Lease. Such covenants are deemed to be duties imposed by law, and it is the duty of each and every public official of the City to take such action and do such things as are required by law in the performance of the official duty of such official to enable the City to carry out and perform such covenants.

The obligation of the City to pay Rent when due is a general fund obligation of the City and does not constitute a debt of the City for which the City is obligated to pledge or levy any form of taxation or for which the City has levied or pledged any form of taxation.

The Issuer may issue Future Bonds payable from the Revenues on a parity with the Bonds. See the caption “— Future Bonds and Other City Obligations—Future Bonds.”

In consideration of the purchase and acceptance of any and all of the Bonds authorized to be issued under the Indenture by the Owners from time to time: (a) the Indenture will be deemed to be and will constitute a contract among the Issuer, the Trustee, and the Owners, from time to time, of the Bonds; (b) the pledge made in the Indenture and duties, covenants, obligations and agreements set forth therein to be observed and performed by or on behalf of the Issuer will be for the equal and ratable benefit, protection and security of the Owners of any and all of the Bonds, all of which, regardless of the time or times of their issue or maturity, will be of equal rank without preference, priority or distinction as to lien or otherwise, except as expressly provided therein or permitted thereby; (c) the Issuer, as security for the payment of the principal of, premium, if any, and interest on, the Bonds and as security for the observance and performance of any other duty, covenant, obligation or agreement of the Issuer under the Indenture, all in accordance with the provisions thereof, has granted, bargained, sold, conveyed, pledged, assigned and confirmed to the Trustee the Trust Estate; (d) the pledge made by the Indenture is valid and binding from the time the pledge is made, the Trust Estate will immediately be subject to the lien of such pledge without any physical delivery thereof or further act, and the lien of such pledge will be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the Issuer irrespective of whether such parties have notice thereof; (e) the Bonds will be special, limited obligations of the Issuer payable solely from and secured solely by a pledge of the Trust Estate as provided by the Indenture; (f) no revenue, income, receipts, donations, earnings, property or assets of the Issuer other than the Trust Estate will ever be subject to any lien or claim for the payment of the Bonds or the performance of any other obligation of the Issuer under the Indenture; and (g) wherever in the Indenture provision is made that the Issuer will pay or cause to be paid any amount necessary to pay the principal of, premium, if any, or interest on the Bonds or any other amounts required to be paid under the Indenture or the Deed of Trust, such amounts will be payable solely from and be secured by the Trust Estate,

and the Issuer will have no legal, moral or other obligation to pay such amounts from any other source whatsoever.

## **Measure E**

Proceeds of a one-half cent transactions and use tax (Measure E) that is imposed on certain sales in the City to support enhanced City services are not pledged as security for the Bonds. However, Measure E proceeds are available to pay Rent under the Project Lease, and the City currently expects to pay all or a portion of Rent under the Project Lease through 2048 from Measure E proceeds. Measure E does not have a termination date. Notwithstanding the foregoing, the City makes no assurances regarding the amount of Measure E revenues or the availability of Measure E revenues to pay Rent under the Project Lease. See the caption “CITY FINANCIAL INFORMATION—Measure E Taxes.”

## **Limited Obligations**

**The Bonds are special, limited obligations of the Issuer payable solely from and secured solely by a pledge of the Trust Estate as provided in the Indenture. No revenue, income, receipts, donations, earnings, property or assets of the Issuer, other than the Trust Estate, will be subject to any lien or claim for the payment of the Bonds or the performance of any other obligation of the Issuer under the Indenture. The Issuer is a limited-purpose entity, not a governmental unit, and has no taxing power. The Issuer has no source of funds available to pay debt service on the Bonds other than the Trust Estate. The primary source of Revenues that is anticipated to be received by the Issuer and included within the Trust Estate is Base Rent to be received from the City under the Project Lease.**

**Neither the City nor any other municipal corporation, subdivision or agency of the State is obligated to pay debt service on the Bonds. The Bonds are not an obligation of the City, moral or otherwise. The City’s sole obligations with respect to this financing, including the obligation to pay Base Rent, are those set forth in the Project Lease. The City is obligated to pay Base Rent and Additional Rent under the Project Lease from its general revenues, consisting of all revenues and receipts of the City, if and to the extent that such funds are not restricted in their use by law, regulation or contract.**

## **Base Rent**

Base Rent will be paid by the City to the Issuer under the Project Lease for and in consideration of the right to use and occupy the Premises and in consideration of the continued right to the quiet use and enjoyment thereof during each rental period for which such Base Rent is to be paid. The Base Rent is due and payable on \_\_\_\_ and \_\_\_\_ in the amounts set forth in the Project Lease and is for the use and occupancy of the Premises during the six-month period ending on the \_\_\_\_th day of each \_\_\_\_ and \_\_, respectively.

***Revenue Fund.*** The Trustee will establish a Revenue Fund under the Indenture into which the Trustee will deposit: (1) the Base Rent described in the Project Lease; (2) all net earnings on investments of money in the Revenue Fund; and (3) all other money (including without limitation Additional Rent received for deposit to the Revenue Fund) received by the Trustee with written instructions by the Issuer, with a copy to the City, to deposit it in the Revenue Fund.

All Base Rent determined in accordance with the Project Lease will be paid directly to the Trustee for deposit in the Revenue Fund. Following the Rent Commencement Date, the Trustee will notify the Issuer and the City by the close of business on the \_\_\_\_ day of each \_\_\_\_ and \_\_\_\_ (or the preceding Business Day, if the \_\_\_\_ day of the month is not a Business Day) if Base Rent has not been received by the \_\_\_\_ day of that month.

The money and investments in the Revenue Fund are irrevocably pledged and will be used and transferred by the Trustee, as follows and in the following order of priority: (1) on or prior to each Interest

Payment Date, the amount necessary to pay the interest on the Bonds coming due on the Interest Payment Date to the Interest Account; (2) on or prior to each Principal Payment Date, the amount necessary to pay the regularly scheduled principal of the Bonds maturing on such Principal Payment Date to the Principal Account; (3) on or prior to each day on which Bonds will be subject to redemption prior to scheduled maturity, the redemption price of Bonds to be redeemed to the Redemption Account; and (4) to pay Administrative Fees and Expenses, but only upon the written direction of an Authorized Representative of the Issuer; provided that such written direction will not be required if an Event of Default has occurred and is continuing.

Upon the occurrence and continuation of an Event of Default and acceleration of all Bonds for maturity pursuant to the Indenture, and subject to the lien of all Bonds, all money in the Revenue Fund and all funds that are then on deposit with the Trustee pursuant to the Indenture (other than funds on deposit in the Rebate Fund and Capital Repairs Fund) will be transferred to the Principal Account.

**Bond Fund.** There has been created and established with the Trustee a trust fund under the Indenture in the name of the Issuer to be designated “Bond Fund.” The Bond Fund will include three accounts: (1) an Interest Account; (2) a Principal Account; and (3) a Redemption Account. The Bond Fund will be in the custody of the Trustee (or any of its affiliates satisfying the requirements of the Indenture) but in the name of the Issuer, and the Issuer has authorized and directed the Trustee to withdraw money from the Bond Fund sufficient to pay the principal of and interest on the Bonds as the same become due and payable.

The Trustee will deposit the following sums into the Bond Fund: (1) on each Interest Payment Date, to the Interest Account an amount that, together with any other money then available for such purpose in the Interest Account, will be equal to the interest on all of the Bonds then Outstanding to become due and payable on that Interest Payment Date; (2) on each Principal Payment Date for as long as any of the Bonds are Outstanding and unpaid, to the Principal Account an amount that, together with any other money available for such purpose in the Principal Account, will be equal to the principal (including mandatory redemption amounts pursuant to the Indenture) of the Bonds to become due and payable on that Principal Payment Date; (3) on each date on which the Bonds are subject to redemption prior to maturity, whether by optional redemption or acceleration prior to maturity, to the Redemption Account the redemption price of the Bonds to be redeemed; (4) as received, all investment earnings on the Bond Fund to the respective account; and (5) all other money directed in writing by the Issuer or the City, with a copy to the Issuer or the City, as applicable, to be deposited therein.

Following the Date of Issue of the Bonds and until the Rent Commencement Date, the deposits to the Interest Account will be made from funds on hand in the Capitalized Interest Fund.

Following the Rent Commencement Date, the deposits to the Bond Fund are expected to be made from the following sources (not identified in order of priority): (i) transfers made from the Bond Proceeds Account and/or Non-Bond Proceeds Account in the Project Fund; (ii) transfers made from the Capitalized Interest Fund; and (iii) money on hand in the Revenue Fund. Notwithstanding the foregoing, the Trustee may accept deposits from any source, with written instructions from the Issuer or the City, as applicable, with a copy to the other, to deposit the same into the Bond Fund.

Except as otherwise provided in the Indenture, money in the Bond Fund will be used solely for the payment of the principal of and interest on the Bonds as the same become due and payable at maturity, upon redemption or acceleration or otherwise, and the lien of the Owners of Bonds on such money will be first and prior to the lien of any other Person thereon.

### **Additional Rent**

For the right to use and occupy the Premises, the Project Lease requires the City to pay Additional Rent in addition to the Base Rent. “**Additional Rent**” means the Operating Costs, including Taxes and



Utilities (each as defined below), together with Capital Expenditures, payable by the City under the provisions of the Project Lease.

The City will pay as Additional Rent amounts sufficient to pay or reimburse the Issuer for all Operating Costs incurred by the Issuer with respect to the Premises pursuant to an Annual Operating Budget approved by the City pursuant to the Project Lease. In consideration of the City's payment of the Operating Costs, the Issuer will be responsible for all operations and all property management for the Premises which result in the Operating Costs as set forth in the Project Lease. The Issuer will at all times use its best efforts to operate the Premises in an economically reasonable manner and control such Operating Costs in accordance with reasonable commercial standards prevailing in the market place for comparable premises. Operating Costs means any and all costs and expenses directly related to ownership, operation and maintenance of the Premises in connection with the following, in each case excluding certain costs as provided in the Project Lease:

(a) the repair, replacement (other than capital repairs and replacement), operation, and maintenance of the Premises, including, without limitation, interior and exterior maintenance, all exterior doors and windows, elevators, sidewalks, driveways, dock or pier, interior perimeter and interior partition walls and finishes (including periodic painting thereof), exterior wall finishes, broken glass in exterior and interior doors and windows, roof, floor covering, window frames, gutters and downspouts, HVAC system, electrical system, plumbing system, pest control, landscaping and all other areas used in connection with the Premises;

(b) the asset management fee payable to the Issuer pursuant to the Project Lease;

(c) the commercially reasonable property management fees paid to the entity managing the Premises under any property management contract entered into pursuant to, and terminable in accordance with, the Project Lease;

(d) the auditing fees incurred by the Issuer in connection with the preparation of the financial statements required under the Project Lease;

(e) all costs of services provided by third parties (i.e., service providers other than the Issuer) and benefiting the Premises, including parking management services; provided, however, that the Issuer is required to obtain services at rates generally competitive in the marketplace. Such services include janitorial, security, gardening, together with related costs and expenses, licenses, permits, and inspection fees, the cost of supplies, materials, equipment and tools used in connection therewith;

(f) utilities and services furnished to the Premises, after the Substantial Completion Date including without limitation, gas, electricity, water and sewer (collectively "**Utilities**") until such time as the account for any such Utility is established in the name of the City with Tenant's Concurrence pursuant to the Project Lease, and security /fire alarm monitoring fees and related costs;

(g) all real and personal property taxes and assessments (including assessments for special assessment district improvements), supplemental assessments, license and permit fees, leasehold excise taxes, other excise taxes, levies, sales, use and occupancy taxes, any tax or charge assessed against the Rent or fair market value of the Premises and any taxes levied or assessed in addition to or in lieu of, in whole or in part, such taxes, assessments or other charges and all other governmental impositions and charges of every kind and nature, general and special, ordinary and extraordinary, foreseen and unforeseen of every character which at any time from and after the Substantial Completion Date may be imposed, levied upon or assessed against or which arise with respect to or constitute a lien upon the Land, the Premises (or any part thereof), the leasehold estate created by the Project Lease or any part thereof, or any estate, right or interest therein, or any occupancy, use or possession of or activity conducted on the Premises or any part thereof (collectively, "**Taxes**"). Taxes do not include any tax computed on the basis of the Issuer's net income;

(h) any damage to the Premises (but not to Tenant's Personal Property) caused by breaking and entering or other criminal act or any other event not covered by insurance;

(i) all costs of compliance with governmental laws or the board of fire underwriters (or similar organization) now or hereafter constituted as applicable to the Premises;

(j) all insurance premiums for insurance required to be carried under the Project Lease (including loss of rent insurance);

(k) amounts necessary to fund or restore any operating or maintenance reserve provided for in the Annual Operating Budget for the Premises or as may otherwise be agreed by the City and the Issuer;

(l) the amount of any deductible payable under any insurance policy described in the Project Lease as a result of repairs or replacements attributable to fire or other casualty;

(m) following Final Acceptance of the Premises, all attorneys' fees and other costs incurred by the Issuer in efforts to enforce the provisions of the Development Agreement or Construction Management Agreement as approved by the City, to enforce product or workmanship warranties given by the Developer, the Construction Manager or other subcontractors or suppliers of equipment or materials (unless the City desires that the Issuer instead assign such warranties to the City in accordance with the Project Lease), but only to the extent that such costs have not been paid from the Project Contingency or reimbursed by or recovered from the Developer, the Construction Manager, any other subcontractor or any other party who may be obligated to the Issuer;

(n) Administrative Fees and Expenses, any Rebatable Arbitrage (as such terms are defined in the Indenture) payable with respect to the Bonds, and costs payable in connection with any prepayment of Base Rent and any defeasance or redemption of such Bonds;

(o) all other costs reasonably incurred by the Issuer in connection with the ownership, maintenance and upkeep of the Premises in order to: (i) prevent any dangerous or unsafe condition on the Premises that could result in liability to the Issuer or its officers, employees, directors or other agents or (ii) comply fully with and to avoid or to cure any default under the Indenture, Leasehold Mortgage and other documents relating to the Bonds and all laws;

(p) all costs of compliance with federal, state or local laws, regulations or permits pertaining to storm water pollution, prevention plans and all National Pollution Discharge Elimination System laws or regulations adopted or to be adopted by the United States Environmental Protection Agency;

(q) the costs for a day porter for the Premises on such schedule as is mutually agreed by the Issuer and the City;

(r) the costs for Building engineers for the Premises on such schedule as is mutually agreed by Issuer and the City; and

(s) the costs for security for the Premises on such schedule as is mutually agreed by the Issuer and the City.

See Appendix A for a description of certain exclusions from Operating Costs and provisions of the Project Lease that govern the timing of payments of Additional Rent.

## **Abatement**

If: (a) the Premises are damaged or destroyed by fire, earthquake or other casualty following the Rent Commencement Date resulting in substantial interference with the City's right to the use and occupancy of the Premises; or (b) a defect in the Issuer's title occurs, other than a defect that results from the City's ownership of the Land, resulting in substantial interference with the City's right to the use and occupancy of the Premises, the Project Lease will not terminate (except as provided therein), but the Rent otherwise payable by the City thereunder (other than Additional Rent for payment of Operating Costs) will be subject to Abatement during the period of such interference.

**"Abatement"** means a reduction in the Rent payable by the City under the Project Lease (other than Additional Rent for current Operating Costs) as a result of damage, destruction or partial condemnation of the Premises or a defect in the Issuer's title to the Premises not resulting from the City's ownership of all or a portion of the Land, any of which results in substantial interference with the City's right to use and occupancy of the Premises. The amount by which Rent is abated during any period will be the amount necessary to cause the resulting Rent payable by the City (other than Additional Rent for current Operating Costs) not to exceed the fair rental value for the portions of the Premises with respect to which there is no substantial interference.

## **Reserve Fund**

A debt service reserve fund has been created with respect to the Bonds. [PROVISIONS TO COME]

## **Removal of Property**

The Issuer and the City have the right to amend the Ground Lease, Project Lease and Deed of Trust from time to time to exclude portions of the real property from the Land originally demised thereunder:

(a) as may be necessary to comply with permitting requirements or to complete the Project as long as such amendment does not reduce or otherwise adversely affect the City's obligation to pay Base Rent under the Project Lease; or

(b) upon satisfaction of the following conditions: (1) the Issuer and the City receive, and provide to the Trustee a copy of, a survey certified by a licensed California surveyor delineating the boundaries and legal description of the remaining Land that will continue to be demised thereunder; (2) the Issuer, the Trustee and the City receive an opinion of counsel or other evidence reasonably satisfactory to the Issuer that the remaining Land: (i) is assessed as a separate tax parcel; and (ii) will be in compliance with, and not in violation of, any applicable covenants, restrictions, statutes, laws, ordinances, rules and/or regulations pertaining to the use and development of the remaining Land, including but not limited to those pertaining to subdivision and platting; (3) the City as the owner of the remaining Land provides such easements and reciprocal agreements as may be necessary to provide comparable pedestrian, vehicular access and other uses, amenities and operations to the Land (including public utilities) as existed prior to the release of such property from the Land originally demised thereunder; (4) the Issuer receives an appraisal prepared by a disinterested appraiser that the remaining Premises has a fair market value which is not less than the principal balance outstanding under the Bonds; (5) such exclusion will not affect payment to the Issuer of Base Rent required under the Project Lease; and (6) the Issuer and the Trustee receive an opinion of Bond Counsel satisfactory to the Issuer, the City and the Trustee that such exclusion will not adversely affect the tax-exempt status of interest payable on the Bonds and that all conditions to any amendment of the Ground Lease, Project Lease or Deed of Trust to exclude portions of the real property from the Land set forth in the Project Lease and in the document to be amended have been complied with.

Upon satisfaction of the conditions set forth under clauses (a) or (b) above, the Trustee will be fully protected in consenting to any such amendment of the Ground Lease or Project Lease and executing any partial

reconveyance of, or amendment to, the Deed of Trust, if required under the terms of the Project Lease or the Deed of Trust.

Before the Issuer enters into any other modification, alteration, amendment or supplement to the Other Documents, there must be delivered to the Issuer and the Trustee: (i) an Opinion of Bond Counsel stating that such modification, alteration, amendment or supplement is authorized or permitted by the Indenture and complies with its terms, that it will, upon the execution and delivery thereof, be valid and binding upon the Issuer in accordance with its terms, and that it will not adversely affect the exemption from federal income taxation of interest on Bonds; and (ii) any title insurance endorsements required by the Deed of Trust.

### **Future Bonds and Other City Obligations**

***Future Bonds.*** The Issuer may not issue any series of obligations payable from Revenues other than the Bonds, except that the Issuer reserves the right, at the direction of an Authorized Representative of the City, to issue future obligations only for the purpose of refunding all or a portion of the Bonds or for the purpose of financing the repair or replacement of tenant improvements to the Premises, with a lien and charge on the Trust Estate equal to the lien of the Bonds (“**Future Bonds**”) upon compliance with the following conditions:

- (a) the Ground Lease and Project Lease are in effect and no Project Lease Default Event has occurred and is then continuing as evidenced to the Trustee by a certificate of the City;
- (b) the City and the Issuer enter into and approve an amendment to or restatement of the Project Lease providing for Base Rent payments sufficient to pay all payments of principal of, interest and premium, if any, on all Outstanding Bonds and Future Bonds;
- (c) the amendment or restatement of the Project Lease or a memorandum thereof must be recorded;
- (d) appropriate title insurance endorsements, as necessary, are delivered to the Trustee; provided, that the Trustee has no duty to request or examine any such endorsements or to determine the adequacy or sufficiency of any such endorsements;
- (e) the Issuer and the Trustee enter into a Supplemental Indenture providing for the creation of a bond fund for the payment of principal of and interest on the Future Bonds and other funds required to effect the refunding of all or a portion of the Bonds;
- (f) the Other Documents, as applicable, are amended as necessary to provide that such Other Documents secure the principal of and interest on all Outstanding Bonds and Future Bonds; and
- (g) the Issuer and the Trustee receive an opinion of Bond Counsel to the effect that the issuance of such Future Bonds is authorized under the Indenture, will not adversely affect the tax-exempt status of other Bonds originally issued on a tax-exempt basis, and that all conditions to the issuance of such Future Bonds set forth in the Indenture and the Other Documents have been complied with.

***Other City Obligations.*** See the caption “CITY FINANCIAL INFORMATION—Other Indebtedness—General-Fund Supported Obligations” for a description of outstanding City obligations that are payable from general revenues of the City as are the Bonds. In addition, the City may issue other obligations payable from its general revenues at any time. See the caption “BOND OWNERS’ RISKS—Special Obligations of the Issuer.”

## **Action on Default**

If the City commits an Event of Default under the Project Lease and fails to cure such default within the time period provided therein (in lieu of statutory requirements), then the Issuer (or the Trustee on its behalf) has the right to pursue any and all remedies available at law or in equity, including without limitation, the right to: (i) terminate the Project Lease or, after consultation with and approval from nationally recognized bond counsel, to keep the Project Lease in full force and effect and, in either event, to re-enter the Premises, eject all parties in possession therefrom and re-let the Premises as the agent and for the account of the City upon such terms and conditions as the Issuer may deem advisable, in which event the rents received on such re-letting will be applied first to the expenses of re-letting and collection, including expenses necessary for repair or restoration of the Premises to its condition as of the Rent Commencement Date (taking into account normal wear and tear), reasonable attorneys' fees and any real estate commissions actually paid, and second to the Revenue Fund for the payment of Base Rent and to the Issuer for the payment of Additional Rent, both in accordance with the Project Lease and the Indenture; or (ii) in lieu of the above, so long as the Issuer or its assignee does not terminate the City's right to possession, the Project Lease will continue in effect and the Issuer or its assignee will have the right to enforce all of its rights and remedies under the Project Lease, including the right to recover Base Rent payments as they become due pursuant to Section 1951.4 of the California Civil Code.

Notwithstanding the foregoing, in no event does the Issuer have the right to accelerate any payments owing by the City under the Project Lease.

Notwithstanding anything to the contrary in the Project Lease, if the City commits an Event of Default with respect to the obligation to make an Annual Capital Repair Reserve Payment and fails to cure such default within the time period provided in the Project Lease, the Issuer has no right to cancel and terminate the Project Lease or evict the City and re-enter the Premises through an unlawful detainer action or otherwise.

## **Deed of Trust and Other Security Documents**

The Deed of Trust grants a lien in favor of the Trustee on the Issuer's interest in the Premises and grants to the Trustee certain remedies following a monetary Event of Default under the Indenture, including *inter alia* the right to foreclose the Issuer's interest in the Premises. By exercising the foregoing remedy, the Trustee would have the right to take possession of the Premises. Under the Indenture, the Issuer and City may from time to time amend the Project Lease and release from the lien of the Deed of Trust portions of the real property from the Land originally demised under the Project Lease as may be necessary to comply with permitting requirements or to complete the Project so long as such amendment does not reduce or otherwise affect the City's obligation to pay Base Rent under the Project Lease. All other amendments to the Project Lease or reconveyances of the lien of the Deed of Trust must satisfy the following conditions: (i) the Issuer and the City must receive a survey delineating the boundaries and legal description of the remaining Land that will continue to be demised under the Project Lease; (ii) the Issuer and City must receive an opinion of counsel or other evidence reasonably satisfactory to Issuer that the remaining Land is assessed as a separate tax parcel and will be in compliance with, and not in violation of, any applicable covenants, restrictions, statutes, laws, ordinances, rules and/or regulations pertaining to the use and development of the remaining Land; (iii) the City as the owner of the remaining Land must provide any easements and reciprocal agreements necessary to provide comparable pedestrian, vehicular access and other uses, amenities and operations to the Land (including public utilities) as existed prior to the release of such property from the Land; (iv) the Issuer and the City must receive an appraisal prepared by a disinterested appraiser that the remaining Land has a fair market value not less than the principal balance outstanding under the Bonds; (v) the exclusion will not affect payment to the Issuer of Base Rent required under the Project Lease; and (vi) the Issuer must receive an opinion of Bond Counsel satisfactory to the Issuer and City and the Trustee that such exclusion will not adversely affect the tax exempt status of interest payable on the Bonds.

The Issuer, the City, and the Trustee will also enter into the Nondisturbance Agreement, under which the City subordinates all of its lessee's right, title and interest under the Project Lease to the right, title and interest of the Trustee under the Deed of Trust and agrees to accept a subsequent landlord under the Project Lease following a foreclosure under the Deed of Trust, subject to further limitations as described in the Nondisturbance Agreement. Further, the Trustee agrees not to terminate the interest of the City, as lessee under the Project Lease, as long as the City is not in default under the Project Lease, subject to further limitations as described in the Nondisturbance Agreement.

The Issuer and the Trustee also will enter into the Assignment of Leases under which the Issuer will assign to the Trustee: (i) all existing and future leases upon all or relating to any part of the Premises, including the Project Lease; (ii) any and all guaranties of any tenants' performance under any and all leases of the Premises; and; (iii) the right to collect and receive all of the rents, income, receipts, revenues, issues, profits, and other income of any nature pertaining to or arising from any lease of the Premises, including the Project Lease (other than the Capital Repair Reserve Payments to be paid under the Project Lease).

### **Developer's Limited Obligation for Carrying Costs**

In the Development Agreement, the Developer has warranted the construction and completion of the Project (to the extent of "Project Costs" as defined in the Development Agreement) for the Fixed Price. If Substantial Completion of the Project fails to occur by the Developer Obligation Date (as such date may be extended), the Developer may be obligated, under certain circumstances, to pay to the Trustee "Monthly Carrying Costs" in an amount up to that portion of the Developer's Fee already paid to the Developer. Any further obligation of the Developer to pay Monthly Carrying Costs may result in a forfeiture of some or all of the remainder of the Developer's Fee, which may then be used to pay debt service on the Bonds. The Developer may also be required, under certain circumstances, to advance funds to the Trustee to the extent that the Project is not "in balance" under the terms of the Development Agreement, subject to the limitations set forth in the Development Agreement. See the caption "THE PROJECT AND THE FINANCING PLAN—Development Agreement."

### **Construction Manager's Obligations for Costs**

If the Construction Manager does not achieve substantial completion of the work described in the Construction Management Agreement by \_\_\_\_ \_\_, 20\_\_, a liquidated damages clause in the Construction Management Agreement provides that the Construction Manager will pay the Issuer as reimbursement for the Issuer's additional costs \$\_\_\_\_ per day for each day beyond the date described above, until substantial completion of such work is achieved.

### **Insurance**

**City.** Until the existing El Gabilan Library is fully demolished, the City is required under the Ground Lease to maintain the existing insurance coverage on the Premises. After the Substantial Completion Date of the Project, the City will have the right to self-insure under the Project Lease or, at its sole cost and expense, obtain and keep in force throughout the Term a Commercial General Liability insurance policy on an occurrence basis insuring the City against claims for injuries to persons and property damage liability. "Commercial General Liability" insurance means Insurance Services Office form number (CG00 001) with a limit of not less than \$1,000,000 combined single limit per occurrence, \$2,000,000 aggregate with an additional \$5,000,000 umbrella policy. The City has agreed to add the Issuer and the Trustee as additional insureds to any Commercial General Liability insurance policy.

Notwithstanding anything in the Project Lease to the contrary, the City may self-insure for general liability coverage. Upon request by the Issuer or the Trustee (the Trustee having no obligation to make such request) to the City's Risk Manager, the City will provide the Issuer and the Trustee with at least 30 days' prior written notice of any change in the City's self-insured status and will provide the Issuer and the Trustee

with a certificate of self-insurance as adequate proof of insurance. If the City elects to self-insure a Project as set forth in the Project Lease, the City acknowledges and agrees that the Issuer will have no liability for such losses or damage which would otherwise have been covered by the general liability insurance which the City could have provided in accordance with the Project Lease, nor will Tenant's failure to obtain commercial general liability insurance have any effect on the City's obligations under the Project Lease.

The City is self-insured for all of its workers' compensation liability exposure. The City will, at its own expense, maintain through its self-insurance program coverage for its workers' compensation liability exposure for the duration of the Term. The City will provide the Issuer and the Trustee with at least 30 days' prior written notice of any change in the City's self-insured status and will provide the Issuer and the Trustee with a certificate of self-insurance as adequate proof of insurance.

The City does not currently maintain earthquake insurance. A full description of insurance coverages maintained by the City is set forth under the caption "THE CITY—Risk Management."

**Issuer.** From and after the Substantial Completion Date of the Project, the Issuer will cause the Premises to be insured for fire and other perils currently covered by a special causes of loss commercial property insurance form. Such coverage must include 24 months of rental interruption coverage for the costs of Base Rent and Additional Rent, with Extra Expense coverage, and will name the Trustee and the City as loss payee as each of their interests may appear. The Issuer will further cause the Premises to be insured against the perils of earth movement and flood in the amount of \$10,000,000, either as part of the aforementioned commercial property policy, or under a separate policy or policies. Such earth movement and flood insurance will include 24 months of rental interruption coverage and will name the Trustee as loss payee as its interests may appear. The Issuer will cause coverage to be maintained against loss arising from earth movement and flood so long as such coverage is available at a commercially reasonable cost and in coverage amounts which are commercially available, but will not be in default under the Project Lease if coverage is no longer written, is unavailable for properties comparable to the Premises or is not available at commercially reasonable premium amounts. The Issuer will provide the City and the Trustee with 30 days' prior written notification of material changes in coverage. The Issuer will, upon request, furnish the City and the Trustee with satisfactory evidence that such coverage is in effect. The Issuer has no obligation to insure any of Tenant's Personal Property.

The Issuer will maintain the following coverages for the Premises:

(a) All-Risk real property insurance coverage, including earthquake and flood in the amount of \$10,000,000, as and to the extent provided in the Project Lease, for the full replacement cost value of buildings, structures, fixtures, all improvements therein, and building systems on the Premises as the same exists at each early anniversary of the term. The policies will include Business Interruption, Extra Expense, and Expediting Expense coverage as well as coverage for off-premises power failure. The policies will name the City as a Loss Payee as its interests may appear.

(b) Boiler and Machinery insurance providing coverage for at least, but not limited to, all high voltage electrical and rotating mechanical equipment on a full replacement cost value basis. The policies will provide Business Interruption, Extra Expense, and Expediting Expense coverage as well as coverage for off-premises power failure. The policies will name the City as a Loss Payee as its interests may appear.

(c) During such time, prior to the commencement of the Project Lease while the Issuer is preparing the Premises for occupancy, the Issuer will keep or require the Construction Manager to keep in full force and effect, a policy of Course of Construction Insurance covering loss or damage to the Premises for the full replacement value of such work. The named insureds will include the Issuer, City and the Construction Manager as their interests appear. The Issuer or the Construction Manager will be responsible for any deductible payments that result from a loss at the Premises under such coverage. If, at the time of any loss to

the Premises, it is determined that the insurance has not been carried or the insurance does not cover the loss of property being installed, the Issuer will be responsible to pay the loss without contribution from the City.

(d) Commercial General Liability Insurance coverage, including but not limited to, premises liability, contractual liability, products/completed operations, personal and advertising injury, and cross liability coverage covering bodily injury, property damage, and personal injury arising out of or relating, directly or indirectly, to the maintenance, repair, alteration and ownership of the Premises and all areas appurtenant thereto including claims which may arise from or out of the Issuer's operations, use, and management of the Premises, or the performance of its obligations under the Project Lease. The policies will name the City and its required parties as Additional Insureds. The policy limits will not be less than \$1,000,000 per occurrence. If such insurance contains a general aggregate limit, it will apply separately to the Lease or be no less than two times the occurrence limit.

The Premises are not in a designated flood zone.

## **THE CITY**

### **General**

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 162,470.

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

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

### **Government and Administration**

The City had approximately 723 full and part-time employees as of June 30, 2017. City employees are represented by 11 labor unions and associations, which represent approximately 499 employees as of June 30, 2017. Relations between the City and the employee bargaining units are governed by memoranda of understanding (each, an "MOU"). The MOU with the International Association of Firefighters ("IAFF") expired on January 2, 2017 and relations between the City and the IAFF are governed by the expired MOU while a new MOU is being negotiated. The MOU with the Salinas Police Officers Association expires on December 31, 2018. MOUs with all other employee bargaining units expire on December 31, 2019. A total of approximately 36 management and confidential employees are exempt from collective bargaining. Salaries for exempt employees are set by the City Council. The City has never experienced a strike, slowdown or work stoppage.

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



<i>Name</i>	<i>Office</i>	<i>Term Expires</i>
Joe Gunter	Mayor	November 2018
Scott Davis	Council Member	November 2020
Tony Barrera	Council Member	December 2018
Steve McShane	Council Member	December 2018
Gloria De La Rosa	Council Member	November 2020
Kimbley Craig	Council Member	December 2018
John “Tony” Villegas	Council Member	November 2020

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

Ray E. Corpuz, Jr. serves as the City Manager. Mr. Corpuz was appointed City Manager in 2012. Mr. Corpuz has over 37 years of local government management experience. Prior to his appointment as City Manager, Mr. Corpuz served as City Manager for the Cities of Tacoma, Washington, and Seaside, California. Mr. Corpuz has a Bachelor of Arts degree in Business Administration from Saint Martin’s University in Lacey, Washington.

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

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.

Don Reynolds is the acting Public Works Director of the City. Mr. Reynolds was appointed acting Public Works Director in 2017. Prior to his appointment as acting Public Works Director, Mr. Reynolds served as the City’s Assistant Public Works Director. Mr. Reynolds has a Bachelor of Arts degree in Political Science and a Master of Public Administration degree, both from California State University, Northridge.

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

## **Risk Management**

The City is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions, injuries to employees and natural disasters. The City has a self-insurance program and carries excess insurance for catastrophic losses. Allied World Assurance Co. 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 Public Insurance Placement 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 \$270,000,000 aggregate limit. Certain property, such as vehicles and equipment, will be insured at established cash values beginning July 1, 2018. The City does not maintain earthquake insurance.

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

No assurance can be given as to the adequacy of the insurance maintained now or in the future by the City to fund necessary repairs or replacement of any portion of the Premises. Significant damage to any of the Premises could cause Rent to be abated. See the captions "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Abatement" and "BOND OWNERS' RISKS—Natural Disasters."

## **CITY FINANCIAL INFORMATION**

### **Accounting and Financial Reporting**

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

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

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

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

See the caption "—City Financial Statements" for a discussion of the City's audited financial statements for Fiscal Year 2017.

The General Fund is the general operating fund of the City. It is used to account for all financial resources except those that are required to be accounted for in another fund. It is expected that Rent will be paid for from amounts in the General Fund. Tables 1 through 3 below set forth certain historical and current Fiscal Year budget information for the General Fund. Information on the remaining governmental funds of the City as of June 30, 2017, is set forth in Appendix B.

### **General Economic Condition and Outlook of the City**

As of June 30, 2017, the General Fund (including the Measure E funds that are discussed under the caption "INTRODUCTION—Measure E") had a year-end surplus (revenues in excess of expenditures) of approximately \$24.9 million, exceeding the anticipated year-end surplus of approximately \$15.6 million that was set forth in the Fiscal Year 2017 budget. The additional approximately \$9.3 million surplus was primarily

due to actual revenues (and in particular, Measure E and other sales tax revenues, as well as property tax revenues), exceeding budgeted revenues by approximately \$7.2 million, along with expenditures coming in under budget by approximately \$2.1 million.

For Fiscal Year 2018, the adopted General Fund (including the Measure E funds) operating budget projects revenues of approximately \$127.3 million, which is approximately \$2.6 million (2.0%) below Fiscal Year 2017 audited revenues. The reduction is primarily a result of moving the Community Development Department's Permitting Division out of the General Fund and into a separate enterprise fund. In addition, the adopted Fiscal Year 2018 General Fund operating budget projects expenditures of approximately \$114.0 million, an increase of approximately \$9.0 million (8.6%) over Fiscal Year 2017 audited expenditures, as discussed further below.

Sales taxes (including those that are imposed pursuant to Measures G and E) and property taxes constitute the City's two largest General Fund revenue sources. The City, together with HdL Coren Cone, the City's sales tax consultant, projects that sales taxes will continue to grow in Fiscal Year 2018, increasing by approximately 1.1% over the Fiscal Year 2017 actual amount. The City also projects that property taxes will continue to grow in Fiscal Year 2018, increasing by approximately 3.8% over the Fiscal Year 2017 amount. See the captions "—Sales Taxes" and "—Property Taxes."

The City is projecting increased General Fund expenditures beginning in Fiscal Year 2018 in order to address significantly higher required pension contributions resulting from the California Public Employees Retirement System ("CalPERS") lowering the discount rate attributable to pension investments. Based on preliminary information from CalPERS, during the seven year phase-in period relating to the reduction in the discount rate (Fiscal Years 2019 through 2025), the City expects to contribute an additional amount of approximately \$16.7 million above its base contribution, with payments increasing from approximately \$18.3 million in Fiscal Year 2018 to approximately \$35.0 million in Fiscal Year 2025. The City currently projects that, primarily as a result of such increased pension contributions, it will have a General Fund structural deficit (meaning that expenditures and transfers out exceed revenues and transfers in) of approximately \$19.6 million in Fiscal Year 2025.

During the next ten Fiscal Years, the General Fund's total expenditures are projected to increase by an average of approximately \$5.5 million (or approximately 4.3%) per Fiscal Year, including projected salary increases of an average of approximately \$1.5 million per Fiscal Year and projected CalPERS cost increases of average of approximately \$1.5 million per Fiscal Year. General Fund revenues, on the other hand, are projected to increase by an average of approximately \$2.3 million (or approximately 2.2%) per Fiscal Year. The structural deficit is projected to grow by an average of approximately \$2.6 million per year, or by approximately 29.3% for the full ten-Fiscal Year period. The largest drivers of the increased costs are salaries, pension costs, health insurance costs and workers compensation costs.

To address the structural deficit, the City developed a Sustainability Plan that was approved by the City Council in August 2016. The City began implementing the Sustainability Plan in February 2017. The Sustainability Plan serves as a tool to manage the structural deficit and work toward eliminating it. The Sustainability Plan has 17 revenue-generating components and 55 cost cutting elements that are currently being developed or implemented. Major elements of the Sustainability Plan are described below; such elements are subject to further refinement as they are implemented:

- Establish an irrevocable pension trust under Section 115 of the Internal Revenue Code to stabilize the future impacts of the CalPERS discount rate changes. This trust has been established, although the City has not yet deposited any funds into it. The City expects to begin making contributions into the trust in Fiscal Year 2019, although the timing and amount of such contributions has not yet been determined.

- Conduct a study of police and fire deployment service calls and overtime with the goal of becoming more efficient and reducing cost. The study is currently being conducted by the Center for Public Management.
- Conduct a comprehensive City-wide organizational and financial study to review all City departments and costs, develop a ten-year model for the General Fund, Measure E Fund and Measure G Fund and develop recommendations on balancing the structural deficit. The study is currently being conducted by the National Resource Network.
- Develop and levy a new stormwater management fee. The City believes that such a fee has the potential to generate approximately \$2 million in revenue. Such a fee would be subject to the notice, hearing and majority protest provisions of Proposition 218. See the caption “CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS—Proposition 218.” A study to support a stormwater management fee is expected to be undertaken in Fiscal Year 2019.
- Develop and levy a cannabis business and regulatory tax. In November 2016, City residents approved such a tax in the amount of \$25 per square foot and 10% of annual gross receipts on marijuana dispensaries, manufacturers and delivery operations. Permits have been issued to 20 businesses, three of which have opened, and collections to date in 2018 total approximately \$418,000. The City believes that the tax has the potential to generate up to approximately \$3 million per year in the future. However, marijuana remains an illegal substance under federal law and there can be no assurance that future federal regulatory or enforcement actions will not cause the businesses that pay the tax to shut down.
- Continue to use the Priority-Based Budgeting tool to help focus General Fund expenditures where most needed.

The City expects to approve a balanced budget for Fiscal Year 2018-19 and will be managing its budget in successive years under the auspices of the Sustainability Plan with the goal of balancing the budget in future Fiscal Years.

See the caption “—Budget Procedure, Current Budget and Historical Budget Information” for additional information relating to the adopted budget for Fiscal Year 2018.

### **Budget Procedure, Current Budget and Historical Budget Information**

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

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

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

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

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

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

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

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

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

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

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

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

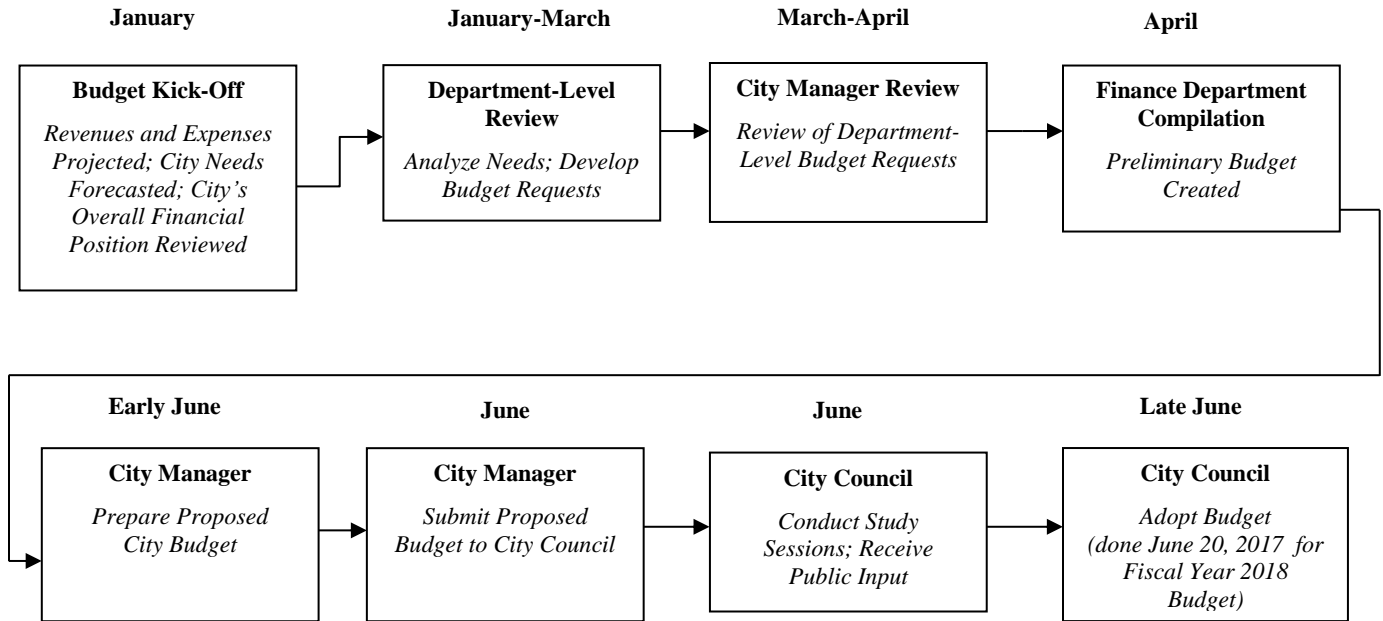
After the City Council reviews the proposed budget and receives public comment, the City Council may revise the proposed budget. Then, on or before June 30, the City Council votes to adopt the budget, including any amendments to the proposed budget that may occur, by an affirmative vote of the majority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

City Council. At any meeting after the adoption of the budget, the City Council may amend or supplement the budget by a majority vote of the City Council.

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

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

### CITY OF SALINAS BUDGET PROCESS



Source: City.

***Fiscal Year 2018 Budget.*** The City Council adopted a balanced budget for Fiscal Year 2018 on June 20, 2017. The budgeted expenditures for all funds totaled approximately \$150.2 million for Fiscal Year 2018 and the budgeted expenditures for the General Fund totaled approximately \$114.0 million for Fiscal Year 2018, an increase of approximately \$9.0 million (8.6%) over Fiscal Year 2017 audited expenditures. The Fiscal Year 2018 General Fund operating budget projects a decrease in revenues of approximately \$2.6 million (2.0%) below Fiscal Year 2017 audited revenues.

Based on actual Fiscal Year 2018 results to date, the City reports that the General Fund is on track to exceed budgeted revenues and come in under budgeted expenditures for Fiscal Year 2018.

[EDIT BASED ON TIMING] ***Fiscal Year 2019 Budget.*** The City Council is expected to consider the Fiscal Year 2019 budget on June 5, 2018.

Set forth in the table below are the General Fund budgets for Fiscal Years 2015 through 2018 and the audited General Fund results for Fiscal Years 2015 through 2018. During the course of each Fiscal Year, the budget is amended and revised as necessary by the City Council; budgeted amounts shown below reflect such amendments and revisions in certain Fiscal Years.

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

	<i>Adopted Fiscal Year 2015 Budget</i>	<i>Audited Fiscal Year 2015 Results</i>	<i>Adopted Fiscal Year 2016 Budget</i>	<i>Audited Fiscal Year 2016 Results</i>	<i>Adopted Fiscal Year 2017 Budget</i>	<i>Audited Fiscal Year 2017 Results</i>	<i>Adopted Fiscal Year 2018 Budget</i>
<b>Revenues</b>							
Property Tax <sup>(1)</sup>	\$ 24,089,600	\$ 24,391,201	\$ 25,536,900	\$ 26,048,198	\$ 25,950,100	\$ 27,115,352	\$ 28,029,000
Sales Tax	24,766,000	24,838,500	26,467,500	27,305,758	27,342,000	28,054,681	28,637,500
Measure E Tax	11,030,000	11,167,324	11,388,000	11,569,533	11,690,000	12,167,850	12,285,100
Measure G Tax <sup>(2)</sup>	-	5,373,916	22,020,500	23,082,954	22,860,500	24,356,989	24,406,700
Utility Users Tax	9,277,000	9,668,414	12,370,000	12,060,151	12,494,000	11,669,515	12,200,000
Franchise Fees	8,199,100	8,466,675	8,465,100	8,432,048	8,580,000	8,822,611	8,689,000
Business License Tax	4,692,000	4,588,158	4,600,000	4,826,100	4,720,000	5,031,411	4,900,000
Transient Occupancy Tax	2,015,000	2,432,258	2,000,000	2,687,214	2,550,000	2,730,456	2,450,000
Plan Check/Building Permit	1,173,200	1,470,145	1,250,000	1,591,305	1,350,000	1,610,967	-
Other Revenue <sup>(3)</sup>	4,287,300	6,562,871	4,870,500	6,680,115	5,253,400	8,357,451	5,689,900
<b>Total Revenues</b>	<b>\$ 89,529,200</b>	<b>\$ 98,959,462</b>	<b>\$ 118,968,500</b>	<b>\$ 124,283,377</b>	<b>\$ 122,790,000</b>	<b>\$ 129,917,283</b>	<b>\$ 127,287,200</b>
<b>Expenditures</b>							
Current:							
General Government	\$ 16,474,800	\$ 16,096,574	\$ 19,904,000	\$ 18,525,311	\$ 21,498,022	\$ 19,263,512	\$ 20,936,883
Public Safety	52,940,800	52,982,137	62,330,600	60,792,599	65,100,264	66,319,568	71,788,954
Public Works	9,329,000	11,815,626	11,844,800	11,594,567	12,629,472	11,664,665	12,685,790
Recreation	1,586,900	1,615,001	2,413,600	1,930,449	2,727,668	2,471,488	2,890,730
Library	4,317,200	3,556,485	4,774,700	3,977,832	4,930,611	4,358,793	5,218,140
Capital Outlay	55,000	205,689	204,000	1,662,023	463,803	924,645	482,753
<b>Total Expenditures</b>	<b>\$ 84,703,700</b>	<b>\$ 86,271,512</b>	<b>\$ 101,471,700</b>	<b>\$ 98,482,781</b>	<b>\$ 107,349,840</b>	<b>\$ 105,002,671</b>	<b>\$ 114,003,250</b>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<b>\$ 4,825,500</b>	<b>\$ 12,687,950</b>	<b>\$ 17,496,800</b>	<b>\$ 25,800,596</b>	<b>\$ 15,440,160</b>	<b>\$ 24,914,612</b>	<b>\$ 13,283,950</b>

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

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

<sup>(3)</sup> Includes intergovernmental transfers, interest income, rental income, fines and forfeitures and other miscellaneous income.

Sources: Adopted budgets of the City for Fiscal Years 2015 through 2018; audited financial statements of the City for Fiscal Years 2015 through 2017.



## Change in Fund Balance of the City General Fund

Set forth in the table below are the City's audited General Fund statements of revenues, expenditures and changes in fund balance for Fiscal Years 2013 through 2017.

**TABLE 2**  
**CITY OF SALINAS**  
**GENERAL FUND STATEMENT OF**  
**REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**(FISCAL YEARS 2013 THROUGH 2017)**

	<i>Fiscal Year Ended June 30,</i>				
	<i>2013</i>	<i>2014</i>	<i>2015</i>	<i>2016</i>	<i>2017</i>
<b>Revenues</b>					
Taxes <sup>(1)</sup>	\$ 79,513,847	\$ 82,614,953	\$ 91,443,865	\$ 115,987,206	\$ 114,892,539
Licenses and Permits	1,268,394	1,143,747	1,469,919	1,591,305	6,642,379 <sup>(3)</sup>
Intergovernmental	583,347	453,653	1,196,114	1,201,899	1,272,017
Charges for Services	3,780,976	3,896,044	3,859,668	4,427,695	5,548,867 <sup>(4)</sup>
Interest	91,298	248,088	137,041	304,982	330,709
Rental Income	117,356	174,933	340,695	380,900	316,854
Fines and Forfeitures	46,066	34,854	289,055	60,235	273,723
Miscellaneous	93,019	860,750	223,105	329,155	640,195
<b>Total Revenues</b>	<u>\$ 85,494,303</u>	<u>\$ 89,427,022</u>	<u>\$ 98,959,462</u>	<u>\$ 124,283,377</u>	<u>\$ 129,917,283</u>
<b>Expenditures</b>					
Current:					
General government	\$ 17,804,301	\$ 12,850,584	\$ 16,096,574	\$ 18,525,311	\$ 19,263,512
Public Safety <sup>(2)</sup>	49,162,853	52,476,672	52,982,137	60,792,599	66,319,568
Public Works	11,538,077	11,742,158	11,815,626	11,594,567	11,664,665
Recreation	1,327,783	1,396,365	1,615,001	1,930,449	2,471,488
Library	3,820,141	3,684,767	3,556,485	3,977,832	4,358,793
Capital Outlay	130,234	209,633	205,689	1,662,023	924,645
<b>Total Expenditures</b>	<u>\$ 83,783,389</u>	<u>\$ 82,360,179</u>	<u>\$ 86,271,512</u>	<u>\$ 98,482,781</u>	<u>\$ 105,002,671</u>
<b>Excess (Deficiency) of Revenues</b>					
<b>Over (Under) Expenditures</b>	<u>\$ 1,710,914</u>	<u>\$ 7,066,843</u>	<u>\$ 12,687,950</u>	<u>\$ 25,800,596</u>	<u>\$ 24,914,612</u>
<b>Other Financing Sources (Uses)</b>					
Operating Transfers In	\$ 2,000,001	\$ 4,123,012	\$ 2,151,766	\$ 3,907,000	\$ 3,973,600
Operating Transfers Out	(4,935,478)	(6,294,520)	(8,243,937)	(14,551,850)	(19,250,242)
<b>Total Other Financing Sources</b>					
<b>(Uses)</b>	<u>\$ (2,935,477)</u>	<u>\$ (2,171,508)</u>	<u>\$ (6,092,171)</u>	<u>\$ (10,644,850)</u>	<u>\$ (15,276,642)</u>
<b>Net Change in Fund Balances</b>	\$ (1,224,563)	\$ 4,895,335	\$ 6,595,779	\$ 15,155,746	\$ 9,637,970
<b>Fund Balance, Beginning of Year</b>	<u>7,833,408</u>	<u>6,608,845</u>	<u>11,504,180</u>	<u>18,099,959</u>	<u>33,255,705</u>
<b>Fund Balances, End of Year</b>	<u>\$ 6,608,845</u>	<u>\$ 11,504,180</u>	<u>\$ 18,099,959</u>	<u>\$ 33,255,705</u>	<u>\$ 42,893,675</u>

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

<sup>(2)</sup> Increases in Fiscal Years 2015 through 2017 reflect hiring of police and fire personnel with Measure G and Measure E tax proceeds. See the captions "—Measure G Taxes" and "—Measure E Taxes."

<sup>(3)</sup> Increase in Fiscal Year 2017 reflects reclassification of business licenses from Taxes to Licenses and Permits in Fiscal Year 2017.

<sup>(4)</sup> Increase in Fiscal Year 2017 reflects increases in component revenues, including administrative service revenues.

Source: Audited financial statements of the City for Fiscal Years 2013 through 2017.

## General Fund Balance Sheets of the City

Set forth in the Table below are the City's audited General Fund balance sheets for Fiscal Years for Fiscal Years 2013 through 2017.

**TABLE 3**  
**CITY OF SALINAS**  
**GENERAL FUND BALANCE SHEET SUMMARY**  
**(FISCAL YEARS 2013 THROUGH 2017)**

	<i>Fiscal Year Ended June 30,</i>				
	<i>2013</i>	<i>2014</i>	<i>2015</i>	<i>2016</i>	<i>2017</i>
<b>Assets</b>					
Cash and Investments	\$ 13,285,202	\$ 19,708,931	\$ 19,825,905	\$ 32,887,811	\$ 45,021,445
Receivables, Net:					
Taxes	9,757,662	9,584,091	14,097,504	18,343,479	14,800,748
Accounts	125,132	143,930	119,781	146,606	184,810
Accrued Interest	12,662	38,527	47,852	76,112	136,050
Due from Outside Agencies	67,006	-	75,000	75,000	126,867
Due from Successor Agency	1,090,288	-	-	-	-
Due from Other Funds	2,878,298	2,638,709	5,059,134	3,681,038	2,572,668
Advances to Successor Agency	-	70,629	-	-	-
Inventory	14,874	16,588	16,133	16,413	13,443
Advances to Other Funds	<u>2,335,000</u>	<u>3,035,000</u>	<u>3,585,000</u>	<u>4,210,000</u>	<u>4,835,000</u>
<b>Total Assets</b>	<u>\$ 29,566,124</u>	<u>\$ 35,236,405</u>	<u>\$ 42,826,309</u>	<u>\$ 59,436,459</u>	<u>\$ 67,691,031</u>
<b>Liabilities</b>					
Accounts Payable	\$ 6,338,896	\$ 6,710,547	\$ 6,156,381	\$ 6,358,165	\$ 6,399,157
Deposits	-	-	-	8,915	156
Due to Other Funds	<u>16,618,383</u>	<u>17,021,678</u>	<u>18,569,969</u>	<u>19,813,674</u>	<u>18,398,043</u>
<b>Total Liabilities</b>	<u>\$ 22,957,279</u>	<u>\$ 23,732,225</u>	<u>\$ 24,726,350</u>	<u>\$ 26,180,754</u>	<u>\$ 24,797,356</u>
<b>Deferred Inflows of Resources</b>	-	-	-	-	-
<b>Fund Balances</b>					
Nonspendable	\$ 2,349,874	\$ 3,122,217	\$ 3,676,133	\$ 4,226,413	\$ 4,975,310
Restricted	-	-	-	-	-
Committed <sup>(1)</sup>	2,382,000	1,293,400	1,213,900	12,819,700	15,177,339
Assigned <sup>(2)</sup>	831,549	3,599,747	4,089,713	13,169,516	6,439,802
Unassigned <sup>(2)</sup>	<u>1,045,422</u>	<u>3,488,816</u>	<u>9,120,213</u>	<u>3,040,076</u>	<u>16,301,224</u>
<b>Total Fund Balances</b>	<u>\$ 6,608,845</u>	<u>\$ 11,504,180</u>	<u>\$ 18,099,959</u>	<u>\$ 33,255,705</u>	<u>\$ 42,893,675</u>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<u>\$ 29,566,124</u>	<u>\$ 35,236,405</u>	<u>\$ 42,826,309</u>	<u>\$ 59,436,459</u>	<u>\$ 67,691,031</u>

<sup>(1)</sup> Increases in Fiscal Years 2016 and 2017 reflect reclassification of certain funds as Committed on the advice of the City's auditors.

<sup>(2)</sup> Changes between Fiscal Years 2015 and 2017 reflect classification of certain funds as Assigned or Unassigned on the advice of the City's auditors.

Source: Audited financial statements of the City for Fiscal Years 2013 through 2017.

## Tax Revenues of the City

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

**CITY OF SALINAS**  
**GENERAL GOVERNMENT MAJOR TAX REVENUES BY SOURCE**

	<i>Fiscal Year Ended June 30,</i>					<i>% of Total General Fund Revenues<sup>(3)</sup></i>
	<i>2013</i>	<i>2014</i>	<i>2015</i>	<i>2016</i>	<i>2017</i>	
Sales Tax	\$ 23,466,648	\$24,881,978	\$ 24,838,500	\$ 27,305,758	\$ 28,054,681	21.59%
Property Tax <sup>(1)</sup>	21,979,224	22,820,163	24,391,201	26,048,198	27,115,352	20.87
Measure G Tax <sup>(2)</sup>	-	-	5,373,916	23,082,954	24,356,989	18.75
Measure E Tax	10,507,630	10,793,705	11,167,324	11,569,533	12,167,850	9.37
Utility Users Tax	9,051,780	9,206,424	9,668,414	12,060,151	11,669,515	8.98
Franchise Fees	7,600,533	8,168,409	8,466,675	8,432,048	8,822,611	6.84
Business License Tax	4,602,282	4,926,079	4,588,158	4,826,100	5,031,411	3.87
Transient Occupancy Tax	<u>1,725,575</u>	<u>1,852,292</u>	<u>2,432,258</u>	<u>2,687,214</u>	<u>2,730,456</u>	<u>2.10</u>
<b>TOTAL</b>	<b>\$78,933,672</b>	<b>\$82,649,050</b>	<b>\$90,926,446</b>	<b>\$116,011,956</b>	<b>\$119,948,865</b>	<b>92.33%</b>

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

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

(3) Reflects percentage of total Fiscal Year 2017 General Fund revenues of \$129,917,283.

Source: Audited financial statements of the City for Fiscal Years 2013 through 2017.

### **Sales Taxes**

Receipts of sales taxes other than those imposed pursuant to Measures G and E (as discussed under the captions “—Measure G” and “—Measure E” below) totaled \$28,054,681 in Fiscal Year 2017. Such sales taxes provided the largest tax revenue source for the City in Fiscal Year 2017, contributing approximately 24% of General Fund tax revenues and approximately 22% of total General Fund revenues during Fiscal Year 2017. Automobile sales along Auto Center Circle in the northern part of the City and retail sales at the nearby Northridge Mall contribute significantly to such receipts.

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

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

**CITY OF SALINAS**  
**TAXABLE TRANSACTIONS HISTORICAL SUMMARY<sup>(1)</sup>**

<i>Fiscal Year</i>	<i>Permits</i>	<i>Taxable Transactions</i>
2008	3,214	\$2,133,627,500
2009	3,166	1,966,264,000
2010	3,060	1,754,277,500
2011	3,092	1,822,757,500
2012	3,142	2,029,431,400
2013	3,157	2,153,268,800
2014	3,172	2,207,374,900
2015	3,182	2,270,913,100
2016	3,313	2,407,253,000
2017	3,314	2,488,162,500

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

Source: HdL Companies.

**Measure G Taxes**

On November 4, 2014, the voters of the City approved Measure G, an ordinance imposing a one cent general transactions and use tax, with proceeds devoted to general City services. Measure G came into effect on April 1, 2015 and expires in 2030. The City Council has established a Citizens Oversight Committee to oversee expenditures of Measure G tax proceeds.

Measure G tax proceeds are not specifically pledged as security for the Bonds. Although Measure G proceeds are available to pay Rent, the City currently expects to pay all or a portion of the rent that is payable under the lease agreement which secures the Police Bonds from Measure G proceeds. See the caption “INTRODUCTION—General.” The City makes no assurances regarding the amount of Measure G revenues or the availability of Measure G revenues to pay Rent under the Project Lease.

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

**CITY OF SALINAS**  
**MEASURE G TAX COLLECTIONS**

<i>Fiscal Year</i>	<i>Amount Collected</i>	<i>Percentage Change</i>
2016	\$23,082,954	N/A
2017	24,356,989	5.5%

Source: Audited financial statements of the City for Fiscal Years 2016 and 2017.

**Measure E Taxes**

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

Measure E tax proceeds are not specifically pledged as security for the Bonds. However, Measure E proceeds are available to pay Rent, and the City currently expects to pay all or a portion of Rent under the

Project Lease through 2048 from Measure E proceeds. Notwithstanding the foregoing, the City makes no assurances regarding the amount of Measure E revenues or the availability of Measure E revenues to pay Rent under the Project Lease.

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

**CITY OF SALINAS  
MEASURE E TAX COLLECTIONS**

<i>Fiscal Year</i>	<i>Amount Collected</i>	<i>Percentage Increase/(Decrease)</i>
2008	\$10,054,855	N/A
2009	8,894,251	(11.5)%
2010	8,819,583	(0.8)
2011	9,288,073	5.3
2012	9,918,717	6.8
2013	10,507,630	5.9
2014	10,793,705	2.7
2015	11,167,324	3.5
2016	11,569,533	3.6
2017	12,167,850	5.2

Source: Audited financial statements of the City for Fiscal Years 2008 through 2017.

**Property Taxes**

Property tax receipts of \$27,115,352 provided the second largest tax revenue source of the City in Fiscal Year 2017, contributing approximately 24% of General Fund tax revenues and approximately 21% of total General Fund revenues during Fiscal Year 2017. Property in the State which is subject to *ad valorem* taxes is classified as “secured” or “unsecured.” The secured classification includes property on which any property tax levied by a county becomes a lien on that property. A tax levied on unsecured property may become a lien on certain other property owned by the taxpayer. Every tax which becomes a lien on secured property has priority over all other liens, arising pursuant to State law, on the secured property, regardless of the time of the creation of other liens.

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

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

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

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

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

Under Proposition 1A, which was adopted in 2004, the State may not: (i) reduce local sales tax rates or alter the method of allocating the revenue generated by such taxes; (ii) shift property taxes from local governments to schools or community colleges; (iii) change how property tax revenues are shared among local governments without two-thirds approval of both houses of the State Legislature; or (iv) decrease Vehicle License Fee revenues without providing local governments with equal replacement funding. The State may shift to schools and community colleges a limited amount of local government property tax revenue upon: (a) a proclamation by the Governor that the shift is needed due to a severe financial hardship of the State; and (b) approval of the shift by the State Legislature with a two-thirds vote of both houses. The State must repay local governments for their property tax losses, with interest, within three years. See the caption “CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS—Proposition 1A.”

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

Set forth in the table below are the secured and unsecured assessed valuations for property in the City for the Fiscal Years 2013 through 2017.

**TABLE 4**  
**CITY OF SALINAS**  
**ASSESSED VALUATION HISTORY<sup>(1)</sup>**

<i><b>Fiscal Year</b></i>	<i><b>Secured Value</b></i>	<i><b>Unsecured Value</b></i>	<i><b>Total Assessed Value</b></i>	<i><b>Less Exemptions</b></i>	<i><b>Total Taxable Assessed Value</b></i>	<i><b>% Increase</b></i>
2014	\$ 8,386,144,759	\$620,890,442	\$ 9,007,035,201	\$409,199,012	\$ 8,597,836,189	N/A%
2015	9,188,668,621	629,294,089	9,817,962,710	461,784,713	9,356,177,997	8.82
2016	9,771,094,947	655,852,031	10,426,946,978	463,164,356	9,963,782,622	6.49
2017	10,257,930,345	653,729,856	10,911,660,201	489,138,624	10,422,521,577	4.60
2018	10,803,300,724	671,972,501	11,475,273,225	563,157,776	10,912,115,449	4.70

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

Set forth in the table below are property tax collections (including amounts that do not constitute General Fund money) and delinquencies in the City as of June 30 for Fiscal Years 2013 through 2017. The City does not participate in the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (known as the Teeter Plan), as provided for in Section 4701 *et seq.* of the Revenue and Taxation Code of the State, and is therefore exposed to the risk of delinquencies in the payment of property taxes. However, the City also receives penalties and interest when property taxes are paid late. The City also receives supplemental taxes throughout the year.

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

<i>Fiscal Year</i>	<i>Total Tax Levy</i>	<i>Collections within the Fiscal Year of Levy<sup>(1)</sup></i>	<i>Percent of Levy Collected within the Fiscal Year of Levy</i>	<i>Collections in Subsequent Years</i>	<i>Percent of Levy Collected to Date</i>
2013	\$11,451,375	\$11,251,775	98.26%	\$275,447	100.66%
2014	11,738,350	11,598,069	98.80	269,726	101.10
2015	12,754,461	12,610,665	98.87	220,889	100.60
2016	13,587,862	13,433,448	98.86	232,676	100.58
2017	14,323,708	14,171,312	98.94	237,429	100.59

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

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

The ten largest secured and unsecured taxpayers in the City as shown on the Fiscal Year 2018 tax roll, the assessed valuation and the percentage of the City’s total property tax revenues attributable to each are set forth in the table below.

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

<i>Rank</i>	<i>Property Owner</i>	<i>Type of Business</i>	<i>Fiscal Year 2018 Assessed Valuation</i>	<i>% of Total<sup>(1)</sup></i>
1.	Taylor Farms	Produce	\$ 132,175,875	1.15%
2.	Northridge Owner LP	Retail Mall	128,013,161	1.12
3.	CMP-1 LLC	Apartments	79,914,222	0.70
4.	Harden Ranch Plaza Associates LLC et al.	Retail Mall	79,312,421	0.69
5.	The Uni-Kool Partners	Agricultural Services	60,177,248	0.52
6.	California Water Service Company	Retail Water Service	50,091,035	0.44
7.	Mann Packing Company Inc.	Produce	48,209,249	0.42
8.	Chiquita Brands International Inc.	Produce	46,134,968	0.40
9.	Fresh Express Inc.	Produce	45,989,589	0.40
10.	Growers Ice Company	Agricultural Services	<u>45,503,139</u>	<u>0.40</u>
<b>TOTAL</b>			<b>\$ 715,520,907</b>	<b>6.24%</b>

<sup>(1)</sup> Fiscal Year 2018 Taxable Assessed Value: \$11,475,273,225.

Sources: Monterey County Assessor’s Office; MuniServices, LLC; compiled by Willdan Financial Services.

### Utility Users Taxes

Utility users taxes of \$11,669,515 contributed approximately 10% of General Fund tax revenues and approximately 9% of total General Fund revenues during Fiscal Year 2017. The utility users tax is imposed upon utility users in the City, including users of telecommunications, gas, water and certain television services, at the rate of between 5% and 6%. Exemptions are available for residents over age 65. Proceeds of the utility users tax are used to fund activities funded by the General Fund. The utility users tax does not have a sunset provision.

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

**CITY OF SALINAS  
UTILITY USERS TAX COLLECTIONS**

<i>Fiscal Year</i>	<i>Amount Collected</i>	<i>Percentage Change</i>
2013	\$ 9,051,780	N/A
2014	9,206,424	1.71%
2015	9,668,414	5.02
2016 <sup>(1)</sup>	12,060,151	24.74
2017	11,669,515	(3.24)

<sup>(1)</sup> Increase in Fiscal Year 2016 reflects the expansion of a federal program granting temporary work visas to foreign guest workers. Such visaholders work on farms in and around the City and pay utility users taxes as part of their lodging rates at City hotels.

Source: City.

**Other Taxes**

Transient occupancy taxes, business license taxes and franchise fees provided approximately 14% of General Fund tax revenues and 13% of total General Fund revenues during Fiscal Year 2017.

Transient occupancy taxes, which are levied on users of hotels in the City, are currently imposed at the rate of 10%.

**State of California Motor Vehicle In-Lieu Payments**

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

As set forth in the Table below, for Fiscal Year 2017, the City received \$11,850,635 (based on unaudited actual results) in total VLF revenues, all of which was distributed from property tax receipts.

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

<i>Source</i>	<i>Fiscal Year</i>				
	<i>2013</i>	<i>2014</i>	<i>2015</i>	<i>2016</i>	<i>2017</i>
Motor Vehicle In-Lieu Payments	\$9,513,153	\$9,772,067	\$10,663,100	\$11,324,565	\$11,850,635

Source: City.

**Other Indebtedness**

**General Fund-Supported Obligations.** The below-listed obligations are payable from general revenues of the City as is the Project Lease. As discussed under the caption “INTRODUCTION—General,”



the City expects to issue the Police Bonds in the initial aggregate principal amount of \_\_\_\_\* on or about the date of issuance of the Bonds, which Police Bonds, if issued, will also be payable from general revenues of the City. The City may issue other obligations payable from its general revenues at any time. See the caption “BOND OWNERS’ RISKS—Special Obligations of the Issuer.”

**CITY OF SALINAS**  
**SUMMARY OF GENERAL FUND-SUPPORTED OBLIGATIONS**

<i>Obligation</i>	<i>Outstanding Amount<sup>(1)</sup></i>	<i>Year of Maturity</i>
2015 Private Placement Obligation – 2005 Refunding	\$ 5,970,000	2027
2014 Private Placement Obligation – Energy Improvements	20,902,586	2032
2014 Private Placement Obligation – Animal Shelter	2,248,000	2032
2008 Certificates of Participation – Fairways Golf Course	4,430,000	2038
2011 Fire Safety Vehicle Purchase	711,645	2019
2014 Fire Safety Vehicle Purchase	455,328	2021
2014 Fire Safety Vehicle Purchase	873,936	2024
2015 Fire Safety Vehicle Purchase	1,674,088	2025
2016 Street Sweeper Purchase	357,342	2023
2017 Street Sweeper Purchase	411,418	2024
<b>TOTAL</b>	<b>\$ 38,034,343</b>	

<sup>(1)</sup> As of June 30, 2017.

Source: City.

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

*2015 Private Placement Obligation – 2005 Refunding.* In 2015, the City and Authority entered into a lease arrangement (the “**2015 Private Placement Obligation – 2005 Refunding**”) pursuant to which: (i) the City leased certain real property to the Authority in exchange for a lump sum payment; and (ii) the Authority subleased such property back to the City in exchange for lease payments payable through September 2027. Proceeds of the 2015 Private Placement Obligation – 2005 Refunding were applied to refund certain prior obligations of the City. The lease payments bear interest at an average rate of 2.53%. As of June 30, 2017, the 2015 Private Placement Obligation – 2005 Refunding was outstanding in the principal amount of \$5,970,000.

The City has covenanted in the 2015 Private Placement Obligation – 2005 Refunding documents to budget and appropriate money annually for the lease payments payable thereunder from legally available funds, including the General Fund, on a basis that is substantially similar to the Project Lease in connection with the Bonds. See the caption “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Pledge of Revenues.”

*2014 Private Placement Obligation – Energy Improvements.* In 2014, the City and Authority entered into a lease arrangement (the “**2014 Private Placement Obligation – Energy Improvements**”) pursuant to which: (i) the City leased certain real property to the Authority in exchange for a lump sum payment; and (ii) the Authority subleased such property back to the City in exchange for lease payments payable through November 2032. Proceeds of the 2014 Private Placement Obligation – Energy Improvements were applied to finance certain capital improvements of the City. The lease payments bear interest at an average rate of 3.03%. As of June 30, 2017, the 2014 Private Placement Obligation – Energy Improvements was outstanding in the principal amount of \$20,902,586.50.

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\*Preliminary; subject to change.

The City has covenanted in the 2014 Private Placement Obligation – Energy Improvements documents to budget and appropriate money annually for the lease payments payable thereunder from legally available funds, including the General Fund, on a basis that is substantially similar to the Project Lease in connection with the Bonds. See the caption “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Pledge of Revenues.”

*2014 Private Placement Obligation – Animal Shelter.* In 2014, the City and the Authority entered into a lease arrangement (the “**2014 Private Placement Obligation – Animal Shelter**”) pursuant to which: (i) the City leased certain real property to the Authority in exchange for a lump sum payment; and (ii) the Authority subleased such property back to the City in exchange for lease payments payable through September 2032. Proceeds of the 2014 Private Placement Obligation – Animal Shelter were applied to refund certain prior obligations of the City and to finance certain capital improvements of the City. The lease payments bear interest at an average rate of 4.02%. As of June 30, 2017, the 2014 Private Placement Obligation – Animal Shelter was outstanding in the principal amount of \$2,248,000.

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

*2008 Certificates of Participation – Fairways Golf Course.* In 2008, the City and the Salinas Facilities Financing Authority (the “**Authority**”) entered into a lease arrangement (the “**2008 Certificates of Participation – Fairways Golf Course**”) pursuant to which: (i) the City leased certain real property to the Authority in exchange for a lump sum payment; and (ii) the Authority subleased such property back to the City in exchange for lease payments payable through September 2038. Proceeds of the 2008 Certificates of Participation – Fairways Golf Course were applied to refund certain prior obligations of the City. The lease payments bear interest at a weekly variable rate. As of June 30, 2017, the 2008 Certificates of Participation – Fairways Golf Course were outstanding in the principal amount of \$4,430,000.

The City has covenanted in the 2008 Certificates of Participation – Fairways Golf Course documents to budget and appropriate money annually for the lease payments payable thereunder from legally available funds, including the General Fund, on a basis that is substantially similar to the Project Lease in connection with the Bonds. See the caption “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Pledge of Revenues.”

*Fire Safety Vehicle Financings.* In 2011, the City purchased two fire pumpers and refinanced the 2007 purchase of another fire vehicle pursuant to a lease/purchase arrangement. Under this arrangement, the City is obligated to make annual payments of \$237,215 through October 2019 at an interest rate of 4.11%.

In 2014, the City purchased two fire engines pursuant to a lease/purchase arrangement. Under this arrangement, the City is obligated to make annual payments of \$113,832 through March 2021 at an interest rate of 2.02% from legally available funds, including the General Fund. The City expects that 50% of the payments with respect to one of the fire engines will be made from money in its Airport Fund.

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

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

*Street Sweeper Financings.* In 2016, the City purchased a street sweeper pursuant to a lease/purchase arrangement. Under this arrangement, the City is obligated to make annual payments of \$59,557 through 2023 at an interest rate of 2.87% from legally available funds, including the General Fund.

In 2017, the City purchased another street sweeper pursuant to a lease/purchase arrangement. Under this arrangement, the City is obligated to make annual payments of \$58,774 through 2024 at an interest rate of 2.57% from legally available funds, including the General Fund.

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

***Other Long Term Debt.*** As of June 30, 2017, the following outstanding obligations were payable from sources other than the City's general fund:

*2012 Sewer Revenue Bonds.* In 2012, the City issued bonds (the "**2012 Sewer Revenue Bonds**") that are payable semiannually through August 2042. Proceeds of the 2012 Sewer Revenue Bonds were applied to refund certain prior obligations of the City and to finance certain capital improvements of the City's sewer system. The 2012 Sewer Revenue Bonds bear interest at rates between 3% and 5%. As of June 30, 2017, the 2012 Sewer Revenue Bonds were outstanding in the principal amount of \$15,860,000. The City has pledged revenues of its sewer system to the repayment of the 2012 Sewer Revenue Bonds. The General Fund of the City is not pledged to or available for the repayment of the 2012 Sewer Revenue Bonds.

*2015 HUD Loan.* In 2015, the City entered into a loan contract (the "**HUD Loan**") with the United States Department of Housing and Urban Development ("**HUD**") in the maximum principal amount of \$9,390,000. Proceeds of loan amounts will be applied to finance affordable housing within the City. The HUD Loan bears interest at a rate of 20 basis points above an applicable London Interbank Offered Rate. As of June 30, 2017, the HUD Loan was outstanding in the principal amount of \$3,622,000. The City has pledged Community Development Block Grant money (funds granted to the City pursuant to certain HUD programs) to the repayment of the HUD Loan. The General Fund of the City is not pledged to or available for the repayment of the HUD Loan.

*2016 Assessment District Bonds.* In 2016, the City issued bonds (the "**2016 Assessment District Bonds**") that are payable semiannually through September 2025. Proceeds of the 2016 Assessment District Bonds were applied to refund certain prior obligations of the City. The 2016 Assessment District Bonds bear interest at rates between 2.3% and 2.7%. As of June 30, 2017, the 2016 Assessment District Bonds were outstanding in the principal amount of \$3,775,000. The 2016 Assessment District Bonds are payable solely from special assessments that are imposed on certain landowners in the City and constitute a lien against such landowners' real property. No funds of the City are pledged to or available for the repayment of the 2016 Assessment District Bonds.

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

***Estimated Direct and Overlapping Bonded Debt.*** The estimated direct and overlapping bonded debt of the City as of December 31, 2017, is set forth in the table below. The information in the table below has been derived from data assembled and reported to the City by California Municipal Statistics, Inc. Neither the City nor the Issuer have independently verified the information in the table below and the City and the Issuer do not guarantee its accuracy.

**TABLE 8**  
**CITY OF SALINAS**  
**ESTIMATED DIRECT AND OVERLAPPING BONDED DEBT AS OF DECEMBER 31, 2017**

Fiscal Year 2017-18 Assessed Valuation: \$10,912,115,449

<u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 12/31/17</u>
Hartnell Joint Community College District	40.465%	\$ 86,634,216
Salinas Union High School District	67.883	67,637,432
Salinas Union High School District School Facilities Improvement District	95.814	4,267,487
Alisal Union School District	90.808	58,038,268
Salinas City School District	97.977	22,877,630
Santa Rita Union School District	71.919	14,985,179
Spreckels Union School District	2.286	226,429
Monterey County Water Resources Agency, Zone No. 2C	38.443	10,679,465
California Statewide Communities Development Authority		
Community Facilities District No. 97-1	100.000	2,312,542
City of Salinas 1915 Act Bonds	100.000	<u>3,775,000</u>
<b>TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT</b>		<b>\$271,433,648</b>

<u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u>		
Monterey County General Fund Obligations	17.392%	\$28,740,280
Monterey County Board of Education Certificates of Participation	17.392	260,010
Alisal Union School District Qualified Zone Academy Bonds	90.808	5,064,362
Salinas Union School District Certificates of Participation	97.977	16,420,401
<b>City of Salinas General Fund Obligations</b>	<b>100.000</b>	<b>48,426,586</b>
Monterey County Regional Fire Protection District Pension Obligation Bonds	0.108	<u>7,106</u>
<b>TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT</b>		<b>\$98,918,745</b>
Less: Monterey County obligations supported by medical center revenues		<u>6,916,798</u>
<b>TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT</b>		<b>\$92,001,947</b>

<u>OVERLAPPING TAX INCREMENT DEBT:</u>		
Successor Agency Salinas Redevelopment Agency Central City Project Area	100.000%	<u>\$2,901,351</u>
<b>TOTAL OVERLAPPING TAX INCREMENT DEBT</b>		<b>\$2,901,351</b>

<b>GROSS COMBINED TOTAL DEBT</b>	<b>\$373,253,744<sup>(1)</sup></b>
<b>NET COMBINED TOTAL DEBT</b>	<b>\$366,336,946</b>

Ratios to Fiscal Year 2017-18 Assessed Valuation:

Total Overlapping Tax and Assessment Debt .....	2.49%
<b>Combined Direct Debt (\$48,426,586) .....</b>	<b>0.44%</b>
Gross Combined Total Debt .....	3.42%
Net Combined Total Debt .....	3.36%

Ratios to Successor Agency Redevelopment Incremental Valuation (\$705,925,378):

Total Overlapping Tax Increment Debt .....	0.41%
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<sup>(1)</sup> Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations.  
Source: California Municipal Statistics, Inc.

### City Investment Policy

The City invests its funds in accordance with the City's investment policy (the "**Investment Policy**"), which was most recently amended in June 2017. In accordance with Section 53600 *et seq.* of the California Government Code, idle cash management and investment transactions are the responsibility of the City Treasurer. The City's Investment Policy sets forth the policies and procedures applicable to the investment of City funds and designates eligible investments. The Investment Policy sets forth a stated objective, among others, of insuring the safety of invested funds by limiting credit and market risks. Eligible investments are generally limited to the Local Agency Investment Fund which is operated by the California State Treasurer, local agency bonds, United States Treasury bills and notes, obligations issued by United States Government

agencies, FDIC-insured or negotiable certificates of deposit, repurchase agreements, banker's acceptances, guaranteed investment contract and commercial paper. Funds are invested in the following order of priority:

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

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

A summary of the City's cash and investments as of June 30, 2017 is set forth in the below table. Approximately \$29.2 million (22%) of the total investment portfolio as of June 30, 2017, was attributed to the General Fund.

**CITY OF SALINAS**  
**SUMMARY OF CASH AND INVESTMENTS AS OF JUNE 30, 2017<sup>(1)</sup>**

Cash	
Demand accounts at banks	\$ 6,488,177
Money market	2,655,498
Deposits held in trust by fiscal agent	1,660,016
Money market held in trust by fiscal agent	1,647,731
Petty cash and revolving fund	<u>21,573</u>
	<u>12,472,995</u>
Investments	
State local agency investment fund (LAIF)	96,817,364
Investments held in trust by fiscal agent	14,309,244
Deferred compensation	
State local agency investment fund (LAIF)	1,155,990
Trust deeds and properties	<u>9,462,283</u>
	<u>121,744,881</u>
Total cash and investments	<u>\$ 134,217,876</u>

	<i>Investment Maturities</i>			<i>Total</i>
	<i>0-12 months</i>	<i>1-5 years</i>	<i>over 5 years</i>	
Local Agency				
Investment Fund	\$ 97,973,354	\$ -	\$ -	\$ 97,973,354
Investment Agreements	4,999,137	8,334,640	975,467	14,309,244
Trust Deeds-Deferred	<u>-</u>	<u>9,462,283</u>	<u>-</u>	<u>9,462,283</u>
Compensation				
Total	<u>\$ 102,972,491</u>	<u>\$ 17,796,923</u>	<u>\$ 975,467</u>	<u>\$ 121,744,881</u>

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

Source: City.

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

### City Reserve Policies

The City's financial policies provide that the City strive to maintain an 8% General Fund Operating Reserve pursuant to which the amount held in reserve is equal to at least 8% of budgeted General Fund

operating expenditures. Five percent of the Operating Reserve is required primarily for cash flow purposes. Reserves above the 5% level are characterized as “rainy day” funds to guard against economic uncertainties.

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

As a result of such deposits, the Operating Reserve contained approximately \$9.6 million as of June 30, 2017, which is slightly above the target of 8% of budgeted General Fund expenditures (\$114,003,250 for Fiscal Year 2018). The amount of the Operating Reserve that was allocated to Measure E (\$938,600) in Fiscal Year 2017 was approximately 8% of the Fiscal Year 2017 Measure E sales tax proceeds of \$12,167,850 and will function both as an operating reserve and a capital reserve.

A summary of budgeted Operating Reserves for Fiscal Year 2018 is set forth below.

**CITY OF SALINAS  
FISCAL YEAR 2018 BUDGETED GENERAL FUND RESERVES**

<i><b>Fund Balance Reserves</b></i>	<i><b>General Fund</b></i>	<i><b>Measure E</b></i>	<i><b>Measure G</b></i>	<i><b>Total</b></i>
Operating Reserve <sup>(1)</sup>	\$ 6,830,000	\$ 938,600	\$ 1,760,000	\$ 9,528,600
Proposed Increase <sup>(2)</sup>	-	23,400	-	23,400
Total	<u>\$ 6,830,000</u>	<u>\$ 962,000</u>	<u>\$ 1,760,000</u>	<u>\$ 9,552,000</u>

<sup>(1)</sup> Amount held as of June 30, 2017.

<sup>(2)</sup> Amount proposed to be deposited in Fiscal Year 2018.

Source: City.

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

### **Retirement Contributions**

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

*This caption contains certain information relating to CalPERS. The information is primarily derived from information produced by CalPERS, its independent accountants and its actuaries. Neither the City nor the Issuer have independently verified the information provided by CalPERS and make no representations nor express any opinion 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](http://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. Neither the City nor the Issuer can 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 (the “**ARC**”) for pensions and the annual pension expense are different. GASB 68 governs accounting reporting and disclosure requirements, but it does not change the City’s pension plan funding obligations. See the caption “—City Financial Statements—Prior Period Adjustment” for a discussion of a prior period adjustment to the City’s audited financial statements relating to the implementation of GASB 68.

Under GASB 68, which was implemented beginning in Fiscal Year 2015, the City’s pension plans had an aggregate net pension liability of \$132,828,943 as of June 30, 2015. The City had an aggregate net pension liability in the amount of approximately \$159,897,246 as of June 30, 2017. The net pension liability is the difference between total pension liability and the fair market value of pension assets.

**CalPERS.** The City contributes to CalPERS, an agent multiple-employer public employee defined benefit pension plan, on behalf of permanent and probationary City employees. CalPERS provides retirement, disability and death benefits and annual cost of living adjustments to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State, including the City.

CalPERS plan benefit provisions and all other requirements are established by State statute and the City Council. Participants in the City’s CalPERS plans contribute the full amount of the required employee contribution, which is up to 9.027% of their annual covered salary, depending on benefit level.

Employer contribution rates for all public employers are determined on an annual basis by the CalPERS actuary and are effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount, expressed as a percentage of payroll, that is necessary to finance the costs of benefits that are earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The City’s contribution rates for Fiscal Year 2017 and 2018 and projected normal cost rates for Fiscal Year 2019 are set forth in the below table. The total projected unfunded accrued liability for all of the City’s CalPERS plans for Fiscal Year 2018 is approximately \$183,139,821.

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

<i><b>Fiscal Year</b></i>	<i><b>Miscellaneous Plan</b></i>	<i><b>Police Safety Plan</b></i>	<i><b>Fire Safety Plan – Tier 1</b></i>	<i><b>Fire Safety Plan – Tier 2</b></i>
2017	19.9%	45.6%	70.6%	11.9%
2018	17.7	48.0	70.6	12.7
2019 <sup>(1)</sup>	17.4	52.5	83.4	12.8

<sup>(1)</sup> Projected. Subject to change.  
Source: City.

For Fiscal Years 2016 and 2017, the City made pension contributions of \$13,831,161 and \$16,163,175, respectively. The City plans to make a pension contribution of \$18,300,000 for Fiscal Year 2018.

A summary of principal assumptions and methods used to determine the total pension liability for the City's CalPERS plans for Fiscal Year 2017 is shown below.

**CITY OF SALINAS**  
**CALPERS PLANS ACTUARIAL ASSUMPTIONS**

Actuarial Cost Method	Entry Age Normal in accordance with the requirements of GASB 68
Asset Valuation Method	Market Value of Assets
Actuarial Assumptions:	
Discount Rate <sup>(1)</sup>	7.65%
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 <sup>(2)</sup>	Derived using CalPERS' experience study

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

<sup>(2)</sup> The mortality table used was developed based on CalPERS-specific data. The table includes 5 years of mortality improvements using Society of Actuaries Scale AA (for the Miscellaneous and Police Safety plans) and 20 years of mortality improvements using Society of Actuaries Scale BB (for the Fire Safety plans).

Source: City.



**CITY OF SALINAS**  
**CALPERS PLANS BENEFITS SUMMARY**

	<i>Miscellaneous</i>	
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%	6.984%
Required employer contribution rates	15.957%	15.957%

	<i>Police</i>	
Hire Date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	3.0% @ 50	2.7% @ 57
Benefit vesting schedule	5 years of service	5 years of service
Benefit Payments	monthly for life	monthly for life
Retirement age	50	52-57
Monthly benefits, as a % of eligible compensation	3.00%	2.0% to 2.7%
Required employee contribution rates	9.00%	9.027%
Required employer contribution rates	40.235%	40.235%

	<i>Fire Tier 1</i>	
Hire Date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	3.0% @ 50	2.7% @ 57
Benefit vesting schedule	5 years of service	5 years of service
Benefit Payments	monthly for life	monthly for life
Retirement age	50	52-57
Monthly benefits, as a % of eligible compensation	3.00%	2.0% to 2.7%
Required employee contribution rates	9.00%	9.00%
Required employer contribution rates	54.240%	12.250%

	<i>Fire Tier 2</i>	
Hire Date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	3.0% @ 55	2.5% @ 57
Benefit vesting schedule	5 years of service	5 years of service
Benefit Payments	monthly for life	monthly for life
Retirement age	55	52-57
Monthly benefits, as a % of eligible compensation	3.00%	2.0% to 2.7%
Required employee contribution rates	9.00%	9.00%
Required employer contribution rates	17.295%	12.250%

Source: City.

The Schedules of Funding Progress below shows the recent history of the actuarial value of assets, actuarial accrued liability, their relationship, and the relationship of the unfunded accrued liability to payroll for the City's CalPERS plans.

**CITY OF SALINAS**  
**CALPERS PLANS SCHEDULES OF FUNDING PROGRESS**

<i><b>Reporting Period</b></i>	<i><b>Valuation Date</b></i>	<i><b>Accrued Liability</b></i>	<i><b>Market Value of Assets</b></i>	<i><b>Unfunded Liability</b></i>	<i><b>Funded Ratio</b></i>	<i><b>Annual Covered Payroll</b></i>
<i><b>Miscellaneous Plan</b></i>						
06/30/13	06/30/12	\$74,147,233	\$49,521,119	\$24,626,114	66.8%	\$15,975,147
06/30/14	06/30/13	78,754,147	56,558,464	22,195,683	71.8	15,370,657
06/30/15	06/30/14	86,248,004	66,760,913	19,487,091	77.4	15,061,631
06/30/16	06/30/15	91,156,739	68,412,806	22,743,933	75.0	14,854,778
06/30/17	06/30/16	99,152,740	69,553,065	29,599,675	70.1	18,076,015
<i><b>Police Safety Plan</b></i>						
06/30/13	06/30/12	\$209,153,100	\$134,903,853	\$74,249,247	64.5%	\$16,250,660
06/30/14	06/30/13	219,553,709	148,614,202	70,939,507	67.7	16,106,619
06/30/15	06/30/14	236,343,711	170,077,403	66,266,308	72.0	15,043,025
06/30/16	06/30/15	242,643,545	169,144,103	73,499,442	69.7	15,257,314
06/30/17	06/30/16	257,305,352	165,835,254	91,470,098	64.5	15,742,155
<i><b>Fire Safety Plan – Tier 1</b></i>						
06/30/13	06/30/12	\$128,448,168	\$83,134,539	\$45,313,629	64.7%	\$8,414,028
06/30/14	06/30/13	132,573,681	90,986,078	41,587,603	68.6	8,000,478
06/30/15	06/30/14	142,838,444	102,710,383	40,128,061	71.9	7,554,581
06/30/16	06/30/15	148,965,327	102,790,655	46,174,672	69.0	6,869,970
06/30/17	06/30/16	155,009,665	100,133,244	54,876,421	64.6	6,343,770
<i><b>Fire Safety Plan – Tier 2</b></i>						
06/30/13	06/30/12	\$ 126,640	\$ 95,989	\$ 30,651	75.8%	\$ 832,196
06/30/14	06/30/13	479,008	386,024	92,984	80.6	1,253,828
06/30/15	06/30/14	933,502	936,940	(3,438)	100.4	1,391,852
06/30/16	06/30/15	1,449,713	1,442,018	7,695	99.5	2,388,009
06/30/17	06/30/16	2,259,321	2,072,405	186,916	91.7	2,863,956

Source: City.

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

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

	<i>Increase (Decrease)</i>		
	<i>Total Pension Liability</i>	<i>Plan Fiduciary Net Position</i>	<i>Net Pension Liability / (Asset)</i>
	<i>Miscellaneous Plan</i>		
Balance at June 30, 2015	\$ 90,401,500	\$ 68,514,982	\$ 21,886,518
Changes <sup>(1)</sup>	<u>4,824,294</u>	<u>1,192,985</u>	<u>3,631,309</u>
Balance at June 30, 2016	\$ 95,225,794	\$ 69,707,967	\$ 25,517,827
	<i>Police Safety Plan</i>		
Balance at June 30, 2015	\$ 242,440,215	\$ 169,417,801	\$ 73,022,414
Changes <sup>(1)</sup>	<u>6,205,598</u>	<u>(3,199,511)</u>	<u>9,405,109</u>
Balance at June 30, 2016	\$ 248,645,813	\$ 166,218,290	\$ 82,427,523
	<i>Fire Safety Plan – Tier 1</i>		
Balance at June 30, 2015	\$ 148,965,327	\$ 102,790,655	\$ 46,174,672
Changes <sup>(1)</sup>	<u>6,044,338</u>	<u>(2,657,411)</u>	<u>8,701,749</u>
Balance at June 30, 2016	\$ 155,009,665	\$ 100,133,244	\$ 54,876,421
	<i>Fire Safety Plan – Tier 2</i>		
Balance at June 30, 2015	\$ 1,449,713	\$ 1,442,018	\$ 7,695
Changes <sup>(1)</sup>	<u>809,608</u>	<u>(630,387)</u>	<u>179,221</u>
Balance at June 30, 2016	\$ 2,259,321	\$ 2,072,405	\$ 186,916

<sup>(1)</sup> 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: City.

The following table presents the net pension liability of the City's CalPERS plans, calculated using the discount rate of 7.65%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.65%) or 1 percentage point higher (8.65%) than the current rate.

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

	<i>Discount Rate – 1% (6.65%)</i>	<i>Current Discount Rate (7.65%)</i>	<i>Discount Rate + 1% (8.65%)</i>
<i>Miscellaneous Plan</i>			
Plan's Net Pension Liability/(Asset)	\$ 39,058,436	\$25,517,827	\$14,353,800
<i>Police Safety Plan</i>			
Plan's Net Pension Liability/(Asset)	116,683,458	82,427,523	54,402,799
<i>Fire Safety Plan – Tiers 1 and 2</i>			
Plan's Net Pension Liability/(Asset)	72,915,318	51,951,899	34,743,080

Source: City.

CalPERS earnings reports for Fiscal Years 2010 through 2017 report investment gains in excess of 13.0%, 21.7%, 1%, 12.5%, 18.4%, 2.4%, 0.61% and 11.2%, respectively. Future earnings performance may increase or decrease future contribution rates for plan participants, including the City. No assurance can be provided that the City's CalPERS plan expenses will not increase significantly in the future.

**New York Life.** In addition to the City's CalPERS plans, certain non-safety employees hired prior to June 19, 1995, participate in a closed single-employer defined benefit pension plan offered by New York Life (the "**New York Life Plan**"). The New York Life Plan benefit offers a formula of 2% at age 60 for vested employees. The New York Life Plan was established on September 1, 1954 and has been amended and restated from time to time since that date. As of the most recent valuation date of September 1, 2015, there are 83 participants in the New York Life Plan. The total covered payroll for employees participating in the New York Life Plan for Fiscal Year 2017 was \$1,796,000.

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, 2016, the total pension liability under the New York Life Plan was \$20,404,000 and the fiduciary net position of \$5,026,000, for a net pension liability of \$15,378,000 and a funded ratio of 24.6%. In Fiscal Year 2017, the City made an employer contribution of \$1,571,000 to the New York Life Plan. The City also contributed \$17,440 on behalf of employees represented by the SEIU Blue

Collar bargaining group. Employees contributed 4.5% of the employee retirement contribution, as described in the prior paragraph.

For the year ended June 30, 2017, the City recognized a pension benefit of \$185,000 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 2017 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	2.84%
Inflation	2.25%
Salary Increases	2.25%
Cost of Living Adjustment	1.75%
Investment Rate of Return	3.40%
Mortality Rate Table	Derived using CalPERS' experience study

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, 2015	\$ 18,969,000	\$ 3,547,000	\$ 15,422,000
Changes <sup>(1)</sup>	<u>1,435,000</u>	<u>1,479,000</u>	<u>(44,000)</u>
Balance at August 31, 2016	\$ 20,404,000	\$ 5,026,000	\$ 15,378,000

<sup>(1)</sup> 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 2.84%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (1.84%) or 1 percentage point higher (3.84%) than the current rate:

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

	<i>Discount Rate – 1%</i> <i>(1.84%)</i>	<i>Current Discount</i> <i>Rate (2.84%)</i>	<i>Discount Rate + 1%</i> <i>(3.84%)</i>
	<i>Miscellaneous Plan</i>		
Plan's Net Pension Liability/(Asset)	\$16,457,000	\$15,378,000	\$14,460,000

Source: City.

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

In Fiscal Year 2017, the City’s contribution to the ICMA Plan was \$48,006 and participant contributions totaled \$5,927, or 4.5% of the participants’ salaries, as required by the ICMA Plan. Participants direct their investments, without restriction, among various investments options available under the ICMA Plan. As of June 30, 2017, the total market value of the ICMA Plan was \$2,060,587, consisting of \$1,379,428 of earnings and employer contributions, \$210,644 of mandatory employee contributions, \$4,717 in rollover from another qualified plan and \$465,798 after-tax voluntary employee contributions.

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

#### **Other Post-Employment Benefits**

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

Under the PEMHCA plan, the City pays 25% of retiree and spouse health insurance premiums up to a 2017 amount of \$108.80 per month. Certain safety employees received no more than \$100 per month in 2017, with benefits paid only until Medicare eligibility. There were 493 active plan members as of the most recent actuarial valuation date of June 30, 2016, including 374 retirees with an average age of 66.2.

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 2015, 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 7.25% discount rate was \$10,935,376 as of June 30, 2017. The consultant’s report also concluded that the

City's annual required contribution is \$2,486,000 as of June 30, 2017, representing the sum of the normal cost (\$1,048,000) and the unfunded accrued actuarial liability (\$1,438,000). 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 4.00% 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 2017 implied subsidy represents \$635,000 of the total \$2,486,000 annual required contribution. The City intends to continue to pay the full annual required contribution without consideration of the impact of the implied subsidy.

Beginning in Fiscal Year 2018, new accounting rules will require the PEMHCA plan's funding status to be reflected in the City's annual Statement of Net Position. The City expects to have a net OPEB liability in the amount of approximately \$22 million as of June 30, 2018, which will comprise the total OPEB liability.

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 are incurred. In 2008, the City entered into a contract with the California Employer's Benefit Retirement Trust ("CERBT") pursuant to which the City deposits funds toward the City's accrued actuarial liability in addition to current year normal costs. In Fiscal Years 2015, 2016 and 2017, the City deposited \$225,000, \$250,000 and \$250,000 into the CERBT trust fund. As of June 30, 2017, the City's CERBT trust fund held \$1,898,038 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.

The below table shows the components of the City's annual OPEB costs and net OPEB obligation for Fiscal Year 2017.

**CITY OF SALINAS**  
**SUMMARY OF ANNUAL OPEB COSTS AND NET OPEB OBLIGATION AS OF JUNE 30, 2017**

Annual required contribution	\$ 2,486,000
Interest on net OPEB obligation	473,000
Adjustment to annual required contribution	<u>(909,000)</u>
Annual OPEB cost (expense)	<u>2,050,000</u>
Contributions made to CERBT trust	(250,000)
Contributions under "pay-as-you-go"	
Payment to retirees	(82,456)
Payment to CalPERS	(143,893)
Implied subsidy adjustment	<u>(635,000)</u>
Subtotal	<u>(1,111,349)</u>
Change in net OPEB obligation	938,651
Net OPEB obligation – beginning of the year	<u>9,996,725</u>
Net OPEB obligation – end of the year	<u>\$ 10,935,376</u>

Source: City.

Historical trend information for the City's PEMHCA plan is set forth below.

**CITY OF SALINAS  
HISTORICAL NET OPEB OBLIGATION**

<i>Fiscal Year</i>	<i>Annual OPEB Cost</i>	<i>Actual Contribution</i>	<i>Percentage of Annual OPEB Cost Contributed</i>	<i>Net OPEB Obligation</i>
2013	\$1,469,000	\$ 686,537	46.7%	\$ 6,826,167
2014	1,411,000	419,453	29.7	7,817,714
2015	1,540,000	496,174	32.2	8,861,540
2016	1,794,000	658,815	36.7	9,996,725
2017	2,050,000	1,111,349	54.2	10,935,376

Source: City.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress below presents multi-year trend information about whether the actuarial value of OPEB plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**CITY OF SALINAS  
OPEB SCHEDULE OF FUNDING PROGRESS**

<i>Actuarial Valuation Date</i>	<i>Present Value of Benefits</i>	<i>Unfunded Actuarial Accrued Liability</i>	<i>Annual Required Contribution</i>	<i>Covered Payroll</i>	<i>Annual Required Contribution as % of Covered Payroll</i>
06/30/15	\$30,968,000	\$18,498,000	\$2,155,000	\$45,104,000	4.8%
06/30/13	24,464,000	14,233,000	1,823,000	42,039,000	4.3
06/30/11	20,387,000	12,166,000	1,587,000	39,434,000	4.0

Source: City.

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

**City Financial Statements**

**General.** A copy of the most recent audited financial statements of the City (the “**Financial Statements**”) for the Fiscal Year ended June 30, 2017, prepared by McGilloway, Ray, Brown & Kaufman, Salinas, California (the “**Auditor**”), are included as Appendix B to this Official Statement. The Auditor's letter dated December 19, 2017, is set forth therein. The Financial Statements are public documents and are included within this Official Statement without the prior approval of the Auditor. Accordingly, the Auditor has not performed any post-audit analysis of the financial condition of the City, nor has the Auditor reviewed or audited this Official Statement.

Certain financial information that is set forth in this Official Statement is derived from the Financial Statements and the City's audited financial statements for prior years (excluding certain non-cash items and after certain other adjustments) and are qualified in their entirety by reference to such statements, including the



notes thereto. The Auditor has not reviewed or audited such financial information or any other portion of this Official Statement.

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

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

**Prior Period Adjustment.** For Fiscal Year 2015, the City implemented the provisions of GASB 68, as discussed under the caption "—Retirement Contributions." After the implementation, 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.

## STATE OF CALIFORNIA BUDGET INFORMATION

### General

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

### Budget for State Fiscal Year 2017-18

On June 27, 2017, the Governor signed into law the State budget for fiscal year 2017-18 (the "**2017-18 Budget**"). The following information is drawn from the DOF's summary of the 2017-18 Budget.

The 2017-18 Budget projects, for State fiscal year 2016-17, total general fund revenues and transfers of approximately \$118.5 billion and total expenditures of approximately \$121.4 billion, such revenues and expenditures being approximately \$1.8 billion and \$1.1 billion lower than the amounts in the State fiscal year 2016-17 budget, respectively. The State is projected to end fiscal year 2016-17 with total available reserves of approximately \$7.4 billion, including \$642 million in the traditional general fund reserve and \$6.7 billion in the Budget Stabilization Account (the "**BSA**"), the State's basic reserve account. For State fiscal year 2017-18, the 2017-18 Budget projects growth in State general fund revenues to approximately \$125.9 billion, and authorizes expenditures of approximately \$125.1 billion. The State is projected to end State fiscal year

2017-18 with total available reserves of approximately \$9.9 billion, including \$1.4 billion in the traditional general fund reserve and \$8.5 billion in the BSA.

After accounting for expenditures that are controlled by State Constitutional funding requirements such as Proposition 2 and Proposition 98, the 2017-18 Budget allocates discretionary funding for various purposes, including additional deposits of approximately \$1.8 billion to the BSA and \$800 million to the State's discretionary budget reserve fund. The 2017-18 Budget also includes a \$6 billion supplemental payment to the California Public Employees Retirement System through a loan from the Surplus Money Investment Fund, which is projected to save \$11 billion in pension costs over the next two decades. The General Fund share of repaying such loan will come from Proposition 2 revenues dedicated to reducing debts and long-term liabilities. Other discretionary allocations include one-time funding for infrastructure, affordable housing, public safety and other purposes.

As required by Proposition 2, the 2017-18 Budget applies \$1.8 billion towards the repayment of existing State liabilities, including loans from special funds, State and University of California pension and retiree health benefits and settle-up payments to K-14 school districts resulting from an underfunding of the Proposition 98 minimum funding guarantee in a prior fiscal year. With respect to education funding, the 2017-18 Budget sets the Proposition 98 minimum funding guarantee at \$74.5 billion, an increase of \$3.1 billion over the revised level from the prior fiscal year.

For additional information regarding the 2017-18 Budget, see the DOF's website at [www.dof.ca.gov](http://www.dof.ca.gov) and the LAO's website at [www.lao.ca.gov](http://www.lao.ca.gov).

### **Budget for State Fiscal Year 2018-19**

[DISCUSSION OF PROPOSED 2018-19 BUDGET TO COME]

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

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

### **Potential Impact of State Financial Condition on the City**

The State has experienced significant financial stress in recent years, with budget shortfalls in the several billions of dollars. There can be no assurance that, as a result of such State financial stress, the State will not significantly reduce revenues to local governments (including the City) or shift financial responsibility for programs to local governments as part of its efforts to address the State financial difficulties. Although the State is not a significant source of City revenues, no prediction can be made by the City as to what measures the State will adopt to respond to the current or potential future financial difficulties. There can be no assurance that State actions to respond to State financial difficulties will not adversely affect the financial condition of the City.

### **Redevelopment Dissolution**

**General.** On December 29, 2011, the State Supreme Court upheld Assembly Bill 1x26 ("**AB 1x26**"), which dissolved redevelopment agencies in the State. The effect of AB 1x26 upon the City is the termination of the redevelopment functions of the Salinas Redevelopment Agency (the "**Former Agency**") and the transfer of such functions to a successor agency (the City, referred to in the capacity of a successor agency, and being referred to in this context as the "**Successor Agency**") tasked with winding down the Former Agency's redevelopment activities. Under AB 1x26, the Successor Agency cannot enter into new redevelopment

projects or obligations and its assets can be used only to pay enforceable obligations, which enforceable obligations are generally limited to obligations in existence in mid-2011, when AB 1x26 was signed by the Governor. In addition, the Successor Agency will receive tax increment revenues in amounts that are sufficient to pay 100% (but no greater amount) of such enforceable obligations until such obligations (including accrued interest, as applicable) are paid in full, at which time the Successor Agency will be dissolved. Certain tax revenues formerly allocable to the Former Agency will continue to be available to the Successor Agency to pay certain obligations, and a portion of such revenues may be redirected to other taxing agencies, such as the County of Monterey, school districts and the City. The Successor Agency's activities are subject to review by an oversight board established under AB 1x26. Under AB 1x26, liabilities of the Successor Agency are not liabilities of the City.

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

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

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

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

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

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

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

### **Future State Budgets**

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

## **CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS**

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

### **Article XIII A of the State Constitution**

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

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

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

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

### **Article XIII B of the State Constitution**

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

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

### **Proposition 62**

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

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

### **Proposition 218**

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

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

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

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

### **Unitary Property**

Some amount of property tax revenue of the City is derived from utility property which is considered part of a utility system with components located in many taxing jurisdictions (“**unitary property**”). Under the State Constitution, such property is assessed by the State Board of Equalization (the “**SBE**”) as part of a “going concern” rather than as individual pieces of real or personal property. State-assessed unitary and

certain other property is allocated to the counties by the SBE, taxed at special county-wide rates, and the tax revenues distributed to taxing jurisdictions (including the City) according to a statutory formula that is generally based on the distribution of taxes in the prior year.

## **Proposition 22**

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

## **Proposition 1A**

As part of former Governor Schwarzenegger's agreement with local jurisdictions, Senate Constitutional Amendment No. 4 was enacted by the State Legislature and subsequently approved by the voters as Proposition 1A ("**Proposition 1A**") at the November 2, 2004 general election. Proposition 1A amended the State Constitution to, among other things, reduce the State Legislature's authority over local government revenue sources by placing restrictions on the State's access to local governments' property, sales, and vehicle license fee revenues as of November 3, 2004. Beginning with Fiscal Year 2009, the State may borrow up to 8% of local property tax revenues, but only if the Governor proclaims that such action is necessary due to a severe State fiscal hardship and two-thirds of both houses of the State Legislature approve the borrowing. The amount borrowed is required to be paid back within three years. The State also will not be able to borrow from local property tax revenues for more than two Fiscal Years within a period of ten Fiscal Years. In addition, the State cannot reduce the local sales tax rate or restrict the authority of local governments to impose or change the distribution of the Statewide local sales tax.

The Fiscal Year 2010 State budget included a Proposition 1A diversion of \$1.935 billion in local property tax revenues from cities, counties, and special districts to the State to offset State general fund spending. Such diverted revenues were required to be repaid, with interest, by no later than June 30, 2013. The City participated in the State of California Proposition 1A Receivables Program to securitize its receivable from the State, and, as a result, received the shifted funds, without interest, in two installments in 2010 from the California Statewide Communities Development Authority. See the caption "CITY FINANCIAL INFORMATION—Property Taxes."

## **Proposition 26**

On November 2, 2010, State voters approved Proposition 26. Proposition 26 amends Article XIII C of the State Constitution to expand the definition of "tax" to include "any levy, charge, or exaction of any kind imposed by a local government" except the following: (a) a charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege; (b) a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product; (c) a charge imposed for the reasonable regulatory costs of a local government for issuing licenses and permits, performing investigations, inspections and audits, enforcing agricultural marketing orders and the administrative enforcement and adjudication thereof; (d) a charge imposed for entrance to or use of local government property, or the purchase, rental or lease of local government property; (e) a fine, penalty or other monetary charge imposed by the judicial branch of government or a local government as a result of a violation of law; (f) a charge imposed as a condition of property development; and (g) assessments and property-related fees imposed in accordance with the provisions of Article XIIID. Proposition 26 provides that

the local government bears the burden of proving by a preponderance of the evidence that a levy, charge, or other exaction is not a tax, that the amount is no more than necessary to cover the reasonable costs of the governmental activity, and that the manner in which those costs are allocated to a payor bear a fair or reasonable relationship to the payor's burdens on, or benefits received from, the governmental activity. The City does not believe that Proposition 26 will adversely affect its General Fund revenues.

### **Future Initiatives**

Articles XIII A and XIII B and Propositions 62, 218, 22, 1A and 26 were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time other initiative measures could be adopted, further affecting the City's current revenues or its ability to raise and expend revenues.

## **THE ISSUER**

### **General**

The Issuer is a California nonprofit public benefit corporation organized in April 2016 under the Nonprofit Public Benefit Corporation Law of the State (Corporations Code Sections 5110 *et seq.*) exclusively to issue the Bonds and the Police Bonds, to enter into and fulfill its obligations under the Development Agreement, the Ground Lease, the Project Lease, the Deed of Trust, the Assignment of Leases and the Indenture and similar documents related to the Public Safety Facility and to engage in other activities that are necessary or desirable in connection with the Project and the Public Safety Facility or incidental to the Project and the Public Safety Facility. The Issuer is a limited-purpose entity whose activities are confined to development and management of the Project and the Public Safety Facility, is not a governmental unit and has no taxing power. The Issuer has no source of funds to pay debt service on the Bonds other than the Trust Estate pledged under the Indenture.

The sole member of the Issuer is Public Facilities Group ("**PFG**"), a 501(c)(3) organization organized under the laws of the State of Washington. PFG's primary purpose is to act as a supporting organization for single- or limited-purpose 501(c)(3) organizations, including the Issuer, that it forms to structure, finance, develop, own and operate specific economic development projects on behalf of governmental entities. However, the Issuer, like the other such organizations supported by PFG, is a distinct entity with its own separate assets and liabilities. The Bonds are issued and all contracts are entered into by the Issuer in its own name and as its own separate obligation. The Issuer has no employees of its own, and has entered into a Services Agreement with PFG under which PFG provides administrative, professional and accounting personnel, office space and supplies, and other overhead and services required by the Issuer. All of the current board members of the Issuer are employees of PFG (although, as discussed below, the Issuer intends to appoint an additional "independent director" for bankruptcy and other limited purposes). Pursuant to an agreement among the Issuer, PFG and the City, the City has the right to cause the organizational documents of the Issuer to be amended to replace the sole member of the Issuer with the City or the City's designee upon the occurrence of certain events.

### **Projects**

Although PFG and the Issuer have only been in existence since 2016 and have not yet completed a project financing, the principals of the Issuer have extensive experience in the structuring, development, financing and management of economic development projects on behalf of a variety of governmental entities. John Finke, the President and a member of the board of directors of the Issuer, was previously a Senior Director at The National Development Council and in that capacity successfully completed over 20 major public projects on behalf of state and municipal governments and universities in the states of Washington, California and Alaska, involving the issuance of tax-exempt and taxable bonds with a principal amount in excess of \$1.5 billion. All of these projects were completed in a timely manner and on budget. These projects include the issuance of \$43,710,000 in tax-exempt bonds on behalf of the Los Angeles County Community



Development Commission to finance the construction of a 120,000 square foot office building in Alhambra, California, to serve as the Commission's headquarters, which project was completed in 2012; and the issuance of \$44,380,000 in tax-exempt bonds on behalf of the County of Riverside, California to finance the construction of an office building of approximately 90,000 square feet to serve as the Riverside County law building, ancillary improvements to accommodate the potential future construction of a building of approximately 5,000 square feet and surface parking, all on a site located in the City of Indio, California leased from the County of Riverside, which project was completed in 2014.

## **Organization and Key Personnel**

The Issuer has a board consisting of three directors. In addition, the Issuer's bylaws provide for, and the Issuer intends to appoint, an "independent director" who will participate only in certain decisions relating to bankruptcy, merger, dissolution and similar events, and whose affirmative vote would be required in connection with any such decisions. The members of the board of directors are elected by the board for one-year terms, subject to ratification by the member. The board has appointed several officers to manage and carry out the business of the Issuer. Under the Issuer's bylaws, regular meetings of the board are held as the board designates from time to time and annual meetings are held on the second Thursday of April unless otherwise determined. Special meetings may be called at any time by the President or at the written request of any two directors. Meetings are held at the registered office of the Issuer, or at another place designated by written notice and may also be held by telephone conference call. Any action required or permitted to be taken at a board of directors meeting may be taken by unanimous written consent in lieu of a meeting. The following are the current officers and directors of the Issuer:

***John Finke, Director and President.*** Mr. Finke is also the President and a director of PFG. Before joining PFG and the Issuer, Mr. Finke worked for over 30 years for The National Development Council ("NDC") and its affiliates. Most recently, Mr. Finke was a Senior Director of NDC and was responsible for NDC's Public-Private Partnership program nationwide. From 1979 to 1983, Mr. Finke worked as the Development Finance Manager for the City of Seattle's Office of Economic Development. He has served on the Board of Directors of the Pike Place Market Preservation and Development Authority since 1989. Mr. Finke received his B.A. from the University of Washington in 1976 and took graduate studies at the University of Illinois School of Urban Planning.

***Erin Birkenkopf, Director, Vice President, Secretary and Treasurer.*** Ms. Birkenkopf is also Vice President, Secretary and Treasurer of PFG. Before joining PFG and the Issuer, Ms. Birkenkopf worked for four years for NDC as Asset Manager with NDC's Public-Private Partnership program. Prior to her work at NDC, Ms. Birkenkopf worked as an administrator for the University of Washington's Department of Housing and Food Services and as a science educator at the Pacific Science Center. Ms. Birkenkopf received her B.A. from the University of Washington.

***Matt Calcavecchia, Director and Vice President.*** Mr. Calcavecchia is also Vice President of PFG. Before joining PFG and the Issuer, Mr. Calcavecchia worked for 14 years for NDC and its affiliates in various roles and responsibilities, including NDC's Public-Private Partnership program, NDC's advocacy efforts, and as NDC's Director of Communications. Mr. Calcavecchia received an undergraduate degree from the University of Washington in 1998.

## **BOND OWNERS' RISKS**

*Prospective purchasers of the Bonds should consider carefully all possible factors that may affect the ability of the Issuer to pay principal of and interest on the Bonds and the ability of the City to pay Rent under the Project Lease. The Bonds may not be a suitable investment for all prospective purchasers.*

*The following factors, along with the other information in this Official Statement, should be considered by potential investors in evaluating the purchase of the Bonds. However, the following does not*

*purport to be an exhaustive listing of risks and other considerations which may be relevant to an investment in the Bonds and there can be no assurance that other risk factors will not become material in the future. In addition, the order in which the following factors are presented is not intended to reflect the relative importance of any such risks.*

### **Special Obligations of the Issuer**

The Bonds are non-recourse revenue obligations of the Issuer, payable solely from the Trust Estate pledged under the Indenture. No other revenue, receipts, donations, earnings, property, or assets of the Issuer other than those included in the Trust Estate are subject to the lien of the Indenture, nor is the Issuer in any other way obligated for the repayment of the Bonds. The Issuer is a limited-purpose entity, is not a governmental unit and has no taxing power. The Issuer has no source of funds available to pay debt service on the Bonds other than the Trust Estate. Neither the faith and credit nor the taxing power of the Issuer, the City, the State, or any political subdivision thereof, is pledged to the payment of the Bonds.

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

Although the Project Lease does not create any pledge, lien or encumbrance upon the funds of the City, the City is obligated under the Project Lease to pay Base Rent and Additional Rent from any source of legally available funds, and the City has covenanted in the Project Lease to take such action as may be necessary to include the payment of all Base Rent in its annual budget and to make the necessary annual appropriations for the payment of Base Rent. The City's obligation to pay Base Rent is subject to abatement in the event of damage to, destruction of or condemnation of the Premises and other provisions of the Project Lease, as more fully described under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Abatement." See also the caption "—Abatement" below.

The City is currently liable on other obligations payable from general revenues. See the caption "CITY FINANCIAL INFORMATION—Other Indebtedness—General Fund-Supported Obligations." The City also has the capacity to enter into other obligations which may constitute additional charges against its revenues, including pension obligations and essential services. See the caption "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Future Bonds and Other City Obligations—Other City Obligations."

To the extent that additional obligations are incurred by the City, the funds available to make Rent payments may be decreased. If the City's revenue sources are less than its total obligations, the City could choose to fund other activities before paying Base Rent and Additional Rent under the Project Lease. The same result could occur if, because of State Constitutional limits on expenditures, the City is not permitted to appropriate and spend all of its available revenues. However, the City's appropriations have never exceeded the limitation on appropriations under Article XIII B of the State Constitution. See the caption "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS—Article XIII B of the State Constitution."

### **Abatement**

In the event of substantial interference with the City's right to use and occupy any portion of the Premises by reason of damage to or destruction or condemnation of the Premises, or any defects in title to the Premises, Base Rent will be subject to partial abatement. See the caption "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Abatement." The amount of abatement will be such that the resulting payments of Base Rent and Additional Rent (other than Additional Rent for payment of Operating Costs) do not exceed the fair rental value for the use and possession of the remaining portions of the Premises as to

which the City has beneficial use and occupancy and as to which such damage or destruction or defect in title do not substantially interfere.

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

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

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

### **Construction and Completion Risk**

The Developer has warranted the delivery of the Project (excluding those portions of the Project that are not paid from Project Costs) for the Fixed Price, constructed in good and workmanlike manner and in substantial accordance with the construction documents on or before the Developer Obligation Date. The Developer is responsible for payment of Project Costs exceeding the Fixed Price, other than costs resulting from changes in plans requested by the City or the Issuer, the cost of tenant improvements in excess of the tenant improvement allowance or other costs that are the obligation of the Issuer or the City. See the caption "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Developer's Limited Obligation for Carrying Costs." However, a number of factors could cause the construction of the Project to be delayed. Some of these delays would not obligate the Developer to pay the additional Project Costs.

The Development Agreement requires the Issuer (or the Construction Manager) to carry builder's risk insurance, which will provide funds for reconstruction costs and the payment of rent under the Project Lease during any period of reconstruction necessitated by an insured peril. The Construction Manager is required to obtain payment and performance bonds to insure its performance under the Construction Management Agreement, and no payments will be made to the Construction Manager under that contract until such payment and performance bonds are in place. Interest on the Bonds is expected to be paid out of amounts in the Capitalized Interest Fund prior to Substantial Completion of the Project. Bond proceeds with expected interest earnings sufficient to pay interest on the Bonds through \_\_\_\_\_, 20\_\_\_\_, will be deposited in the Capitalized Interest Fund.

Notwithstanding the foregoing, the construction of the Project is generally subject to all typical construction-related risks. Such risks include, among others, labor disputes, defective building materials, schedule delays, shortages in various labor trades, fire or other property or casualty damage, unanticipated subsoil conditions and financial difficulties on the part of or disputes with a construction manager, key suppliers, contractors or subcontractors. There can be no assurance that construction problems of the types described above, or other problems, will not frustrate the planned completion of any part of the construction of

the Project. Failure to complete construction of the Project could adversely affect the City's obligations to pay Rent for the Premises because the City's obligations are contingent upon the City having the right to beneficial use of the Premises. See the caption "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Abatement."

See also the caption "—Start-Up Special Purpose Entity" for a discussion of certain risks relating to the fact that the Issuer is also constructing the Public Safety Facility.

### **City Obligations under the Project Lease**

Neither the City nor any municipality or agency of the State is obligated to pay debt service on the Bonds. The Bonds are not an obligation of the City, moral or otherwise. The City's sole obligations with respect to this financing, including the obligation to pay Rent, are those set forth in the Project Lease. The obligation of the City to make Rent payments is not subject to any constitutional or statutory debt limitation or restriction, but is subject to abatement, as described under the caption "—Abatement."

Although the Project Lease does not create a pledge, lien or encumbrance on funds of the City, the City is obligated under the Project Lease to make the payments required thereunder. The City has covenanted in the Project Lease to take such action as may be necessary to include the payment of all Base Rent in its annual budget and to make the necessary annual appropriations for the payment of Base Rent. The City's obligation to pay Base Rent is subject to abatement. Such covenants are deemed to be duties imposed by law, and it is the duty of each and every public official of the City to take such action and do such things as are required by law in the performance of the official duty of such official to enable the City to carry out and perform such covenants.

### **Initiative and Referendum**

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

### **Insurance on the Project**

Under the Project Lease, the Issuer is required to maintain through the term of the Project Lease policies of insurance covering loss or damage to the Premises up to replacement costs and covering title defects. If the Premises are damaged or destroyed, there can be no assurance that the insurance proceeds will be sufficient to repair or restore the Project, or to redeem or defease all of the then Outstanding Bonds. In addition, neither the Issuer nor the City can provide any assurance as to whether the provider of an insurance policy will pay under such policy. See the caption "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Insurance" for a description of the insurance coverages that are required by the Project Lease. See the caption "THE CITY—Risk Management" for a description of the City's current insurance coverages.

### **Condemnation of the Project**

If all or a portion of the Premises were condemned, there can be no assurance that any such award or payment will be sufficient at the time to redeem or defease all of the then Outstanding Bonds. If the award is less than the amounts remaining on such Outstanding Bonds, then the Bondholders will be paid less than the amounts remaining on the Outstanding Bonds.

## **Use of Premises**

[TO COME BASED UPON REVIEW OF PRELIMINARY TITLE REPORT].

## **Start-Up Special Purpose Entity**

Although its management team is experienced in the development of public infrastructure such as the Project (as described under the caption “THE ISSUER—General,”) the Issuer is a limited-purpose entity and engaging in a start-up venture. The construction of the Project may not proceed as currently contemplated or on schedule as a result of unforeseen factors. While the Issuer believes that the assumptions related to the construction schedule are reasonable, no assurance can be given that such plans or projections will be realized, and the failure to meet such projections or plans could adversely affect the City’s obligations to pay Rent for the Premises because the City’s obligations are contingent upon the City having the right to beneficial use of the Premises. See the caption “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Abatement.” In such event, there could be insufficient money available to the Issuer to pay the Bonds.

In addition, the Issuer’s role in construction and operation of the Public Safety Facility will be substantially identical to its role in construction and operation of the Project. There can be no assurance that any construction delays, operational issues or litigation associated with the Public Safety Facility will not impact the Issuer’s ability to undertake its obligations with respect to the Project, which could affect repayment of the Bonds.

## **Value of Property Subject to the Deed of Trust**

In the event that the Trustee forecloses on the Premises pursuant to the Deed of Trust, there can be no assurance that the amounts realized upon any sale of the Premises will provide funds in an amount sufficient to pay the principal of and premium, if any, and interest due on the Bonds.

The Deed of Trust only encumbers the Premises and is subject to its and all other use restrictions applicable to the site. The Project site has not been appraised by the Issuer or the City in connection with the issuance of the Bonds.

## **Management Team**

The Issuer’s management team has extensive experience in the construction and management of public facilities that are similar to the Project. See the caption “THE ISSUER—Organization and Key Personnel.” Should any members of the management team leave the Issuer for any reason, the Issuer may not be able to find comparable replacements, which could adversely affect the Issuer’s ability to construct and manage the Premises in the same manner, which could result in delays in construction or problems in operations. Such delays or problems could adversely affect the City’s obligations to pay Rent for the Premises because the City’s obligations are contingent upon the City having the right to beneficial use of the Premises. See the caption “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Abatement.”

## **No Acceleration of Base Rent**

In the event of a payment-related default under the Indenture, the Trustee may accelerate the Bonds and declare them to be due and payable. Nothing in the Project Lease, however, permits the Issuer or the Trustee to accelerate Base Rent. Upon an acceleration of Bonds, the Trustee will pursue all available remedies, including but not limited to foreclosing on the Deed of Trust, but there can be no assurance that sufficient funds will be available at the time to redeem or defease all of the then-Outstanding Bonds.

## **Natural Disasters**

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

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

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

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

The occurrence of natural disasters in the City could result in substantial damage to the City and the Project which, in turn, could substantially reduce General Fund revenues and affect the ability of the City to make Rent payments or cause an abatement in Rent. Reduced ability to pay Rent could affect the payment of the principal of and interest on the Bonds. The City maintains liability insurance and property casualty insurance (for losses other than from seismic events) for the Premises. See the caption “THE CITY—Risk Management.” However, there can be no assurance that specific losses will be covered by insurance or, if covered, that claims will be paid in full by the applicable insurers.

## **Hazardous Substances**

A condition that may result in the reduction in the assessed value of property, and therefore property tax revenue available to pay Rent, would be the discovery of a hazardous substance that would limit the beneficial use of taxable property within the City. In general, the owners and operators of a property may be required by law to remedy conditions of the property relating to releases or threatened releases of hazardous substances. The Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as “CERCLA” or the “Superfund Act,” is the most well-known and widely applicable of these laws, but State laws with regard to hazardous substances are also stringent and similar in effect. Under many of these laws, the owner or operator may be required to remedy a hazardous substance condition of property whether or not the owner or operator has anything to do with creating or handling the hazardous substance. The effect, therefore, should any of the property within the City be affected by a hazardous substance, could be to reduce the marketability and value of such property by the costs of remedying the condition, because the purchaser, upon becoming owner, will become obligated to remedy the condition just as is the seller.

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

## **Economy of City and State**

A deterioration in the level of economic activity in the City, the State or the United States could have a material adverse effect on the City's general revenues and on the ability of the City to pay Rent under the Project Lease. See the caption "STATE OF CALIFORNIA BUDGET INFORMATION" for information about the State's economy and State budget.

In addition, City expenses could also rise as a result of unforeseen events, including but not limited to a determination that the Successor Agency's payment obligations under various agreements with the City are not enforceable obligations. Such a determination could require the City to make payments that were expected to come from Successor Agency funds from General Fund money or cause money received from the Successor Agency to be lower than budgeted. See the caption "STATE OF CALIFORNIA BUDGET INFORMATION—Redevelopment Dissolution."

## **Tax-Related Issues**

***Tax-Exempt Status of Interest on the Bonds.*** The Code imposes a number of requirements that must be satisfied for interest on state and local obligations, such as the Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of Bond proceeds, limitations on the investment earnings of Bond proceeds prior to expenditure, a requirement that certain investment earnings on Bond proceeds be paid periodically to the United States and a requirement that the issuers file an information report with the Internal Revenue Service (the "IRS"). See the caption "TAX MATTERS." The Issuer and the City have covenanted in certain of the documents that are referred to in this Official Statement to comply with such requirements. Failure by any of the foregoing to comply with the requirements stated in the Code and related regulations, rulings and policies may result in the treatment of interest on the Bonds as taxable retroactively to the date of issuance of the Bonds.

***Maintenance of Tax-Exempt Status.*** The tax-exempt status of the Bonds depends upon the maintenance by the Issuer of its status as an organization that is described in Section 501(c)(3) of the Code. The maintenance of such status is contingent on compliance with general rules promulgated in the Code and related regulations regarding the organization and operation of tax-exempt entities, including operation for charitable purposes and avoidance of transactions that may cause the assets of such entities to inure to the benefit of private individuals. See the caption "—Possible Consequences of Tax Compliance Audit."

***State Income Tax Exemption.*** The loss by the Issuer of federal tax exemption might trigger a challenge to its State income tax exemption. Such event could be adverse and material.

***Unrelated Business Income.*** In recent years, the IRS and state, county and local taxing authorities have been undertaking audits and reviews of the operations of tax-exempt organizations with respect to their exempt activities and the generation of unrelated business taxable income ("UBTI"). The Issuer currently reports no UBTI. The Issuer could, however, participate in activities which generate UBTI in the future. If so, the Issuer believes that such UBTI would be properly accounted for and reported; nevertheless, an investigation or audit could lead to a challenge which could result in taxes, interest and penalties with respect

to unreported UBTI and in some cases could ultimately affect the tax-exempt status of the Issuer, as well as the exclusion from gross income for federal income tax purposes of the interest on the Bonds.

[CONFIRM] *Exemption from Property Taxes.* In recent years, State, county and local taxing authorities have been undertaking audits and reviews of the operations of tax-exempt corporations with respect to their real property tax exemptions. The management of the Issuer believes that the Premises will be exempt from California real property taxation.

### **Additional City Obligations**

The payments of Rent under the Project Lease are payable from funds lawfully available to the City. The City is currently liable for other obligations payable from general revenues of the City. The City has the authority to enter into other obligations that constitute additional claims on such general revenues. To the extent that the City incurs additional obligations, the funds available to make payments of Rent may be decreased. See the captions “CITY FINANCIAL INFORMATION—Other Indebtedness—General Fund-Supported Obligations” and “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Future Bonds and Other City Obligations—Other City Obligations.”

### **Possible Consequence of Tax Compliance Audit**

The IRS has established a general audit program to determine whether issuers of tax-exempt obligations, such as the Bonds, are in compliance with requirements of the Code that must be satisfied in order for the interest on those obligations to be, and continue to be, excluded from gross income for federal income tax purposes. As a result, organizations such as the Issuer are subject to possible scrutiny. The primary penalty available to the IRS under the Code with respect to a tax-exempt entity engaged in unlawful private benefit is the revocation of tax-exempt status. Although the IRS has not frequently revoked the 501(c)(3) tax-exempt status of nonprofit corporations, it could do so in the future. Loss of tax-exempt status by the Issuer could potentially result in loss of tax exemption of interest on the Bonds and defaults in covenants regarding the Bonds and other existing and future tax-exempt debt, if any, would likely be triggered. See the caption “—Tax-Related Issues.”

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

### **Remedies**

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

There are two methods of foreclosing on a deed of trust or mortgage under State law, a nonjudicial sale and a judicial sale. Foreclosure under a deed of trust may be accomplished by a nonjudicial trustee’s sale under the power of sale provision in the deed of trust. Prior to such sale, the trustee must record a notice of default and election to sell and send a copy to the trustor, to any person who has recorded a request for a copy of the notice of default and notice of sale, to any successor in interest of the trustor and to certain other parties discernable from the real property records. The trustee then must wait for the lapse of at least three months after the recording of the notice of default and election to sell before establishing the trustee’s proposed sale



date and giving a notice of sale (in a form mandated by State statutes). The notice of sale must be posted in a public place and published once a week for three consecutive calendar weeks, with the first such publication preceding the trustee's sale by at least 20 days. Such notice of sale must be posted on the property and sent, at least 20 days prior to the trustee's sale, to the trustor, to each person who has requested a copy, to any successor in interest of the trustor, to the beneficiary of any junior deed of trust and to certain other parties discernable from the real property records. In addition, the notice of sale must be recorded with the county recorder at least 14 days prior to the date of sale. The trustor, any successor in interest of the trustor in the trust property, or any person who has a junior lien or encumbrance of record may, during the statutory reinstatement period, which extends to five days prior to the sale date, cure any monetary default by paying any delinquent installments of the debt then due under the terms of the deed of trust and certain other obligations secured thereby (exclusive of principal due by virtue of acceleration upon default) plus costs and expenses actually incurred in enforcing the obligation and certain statutorily limited attorneys' and trustees' fees. Following a nonjudicial sale, neither the trustor nor any junior lienholder has any right of redemption, and the beneficiary may not ordinarily obtain a deficiency judgment against the trustor.

Should foreclosure under a deed of trust be sought in the form of a judicial foreclosure, it is generally subject to most of the delays and expenses of other lawsuits, and may require several years to complete. See the caption "—Limitations on Enforceability." The primary advantage of a judicial foreclosure is that the beneficiary is entitled, subject to other limitations, to obtain a deficiency judgment against the trustor to the extent that the amount of the debt is in excess of the fair market value of the property. Following a judicial foreclosure sale, the trustor or its successors in interest may redeem the property for a period of one year (or a period of only three months if the proceeds of sale are sufficient to satisfy the debt, plus interest and costs). In addition, in order to assure collection of any rents assigned as additional collateral under the Deed of Trust, a receiver for the Premises may be appointed by a court.

#### **Limitation on Trustee's Obligations under the Indenture**

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

#### **Removal of Property; Future Bonds**

The Issuer and the City may amend the Project Lease to release a portion of the Premises upon compliance with all of the conditions set forth in the Indenture. After a release, the portion of the Premises for which the release has been effected will be released from the leasehold encumbrance of the Deed of Trust. Moreover, the Issuer may issue Future Bonds secured by Rent which is increased above current levels. See the captions "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Removal of Property" and "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Future Bonds."

Although the Indenture requires, among other things, that the Premises, as constituted after such release, have an annual fair rental value at least equal to the maximum Base Rent payments coming due in the then-current Fiscal Year or in any subsequent Fiscal Year, it does not require that the Premises have an annual fair rental value equal to the annual fair rental value of the Premises at the time of release. Such a release could have an adverse impact on the security for the Bonds, particularly if an event requiring abatement of Rent were to occur subsequent to such release.

The Indenture requires, among other things, that upon the issuance of Future Bonds, the Ground Lease and Project Lease will be amended, to the extent necessary, so as to increase the Base Rent payable by the City thereunder by an aggregate amount that is sufficient to pay the principal of and interest on such Future Bonds;

provided, however, that no such amendment may be made such that the sum of Base Rent, including any increase in Base Rent as a result of such amendment, plus Additional Rent, in any Fiscal Year is in excess of the annual fair rental value of the Premises after taking into account the use of the proceeds of any Future Bonds issued in connection therewith. See the caption “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Future Bonds” for a full description of the requirements that must be met in order for the Issuer to issue Future Bonds.

### **Limitations on Enforceability**

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

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

Failure by the City to pay Rent or failure to observe and perform any other terms, covenants or conditions of the Project Lease for a period of 30 days after written notice of such failure and request that it be remedied has been given to the City by the Trustee, constitute events of default under the Project Lease and permit the Trustee or the Issuer to pursue the remedies that are described in the Project Lease. In the event of a default, notwithstanding anything in the Project Lease or in the Indenture to the contrary, there is no right under any circumstances to accelerate Base Rent or otherwise declare any Base Rent that is not then in default to be immediately due and payable, nor do the Issuer or the Trustee have any right to re-enter or re-let the Premises, except to the limited extent that is described in the Project Lease. Rather, if the City defaults on its obligation to pay Base Rent with respect to the Premises, the Trustee must sue to recover Base Rent on an annual basis.

Alternatively, the Issuer or the Trustee may terminate the Project Lease, retake possession of the Premises and proceed against the City to recover damages pursuant to the Project Lease. Due to the specialized and limited nature of the Premises, existing encumbrances on the Premises and the restrictions on the use of the Premises, it is unlikely that Bondholders would be able to generate rental income that is sufficient to make all payments of principal of and interest on the Bonds when due. Moreover, the Trustee is not empowered to sell the Premises for the benefit of the Owners of the Bonds. Any suit for money damages would be subject to limitations on legal remedies against cities in the State, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest. See the captions “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS” and “THE PROJECT AND THE FINANCING PLAN.”

**Bankruptcy.** Enforceability of the rights and remedies of the Owners of the Bonds, and the obligations incurred by the City, may become subject to the provisions of Title 11 of the United States Code (the “**Bankruptcy Code**”) and applicable bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting the enforcement of creditors’ rights generally, now or later in effect, equity principles which may limit the specific enforcement under State law of certain remedies, the exercise by the United States of America of the powers delegated to it by the federal Constitution, the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose and the limitations on remedies against cities in the State. Bankruptcy proceedings, or the exercise of powers by the federal or State government, if initiated, could subject the Owners of the Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitation or modification of their rights. Under Chapter 9 of the Bankruptcy Code, which governs the bankruptcy proceedings for public agencies such as the City, involuntary petitions are not permitted. If the City were to file a petition under Chapter 9 of the Bankruptcy Code, the Owners of the Bonds, the Trustee and the Issuer could be prohibited from taking any steps to enforce their rights under the Project Lease or from taking any steps to collect amounts due from the City under the Project Lease.

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

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

If the Issuer were to become a debtor in a bankruptcy case, its revenues and certain of its accounts receivable and other property created or otherwise acquired after the filing of such petition and for up to 90 days prior to the filing of such petition may not be subject to the security interest created under the Indenture for the benefit of the Owners of the Bonds. The filing would operate as an automatic stay of the commencement or continuation of any judicial or other proceeding against the Issuer, and its property, and as

an automatic stay of any act or proceeding to enforce a lien upon or to otherwise exercise control over such property. If the bankruptcy court so ordered, the property of the Issuer, including accounts receivable and proceeds thereof, could be used for the financial rehabilitation of such entity despite the security interest of the Trustee therein. While the Bankruptcy Code requires that the interest of the Bond Owners as lien owner be adequately protected before the collateral may be used by the Issuer, such protection could take the form of a replacement lien on assets acquired or created after the bankruptcy petition is instituted. The rights of the Bond Owners to enforce liens and security interests against the Issuer's assets could be delayed during the pendency of the rehabilitation proceedings.

The Issuer could file an Adjustment Plan that could modify or alter the rights of creditors generally, or any class of them, secured or unsecured. The Adjustment Plan, when confirmed by a court, binds all creditors who had notice or knowledge of the Adjustment Plan and discharges all claims against the debtor provided for in the Adjustment Plan. No Adjustment Plan may be confirmed unless certain conditions are met, among which are that the Adjustment Plan is in the best interests of creditors, is feasible and has been accepted by each class of claims impaired thereunder. Each class of claims has accepted the Adjustment Plan if at least two thirds in dollar amount and more than one half in number of the class cast votes in its favor. Even if the Adjustment Plan is not so accepted, it may be confirmed if the court finds that the Adjustment Plan is fair and equitable with respect to each class of non-accepting creditors impaired thereunder and does not discriminate unfairly.

## **Secondary Market**

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

In addition, the Issuer and the City will each enter into continuing disclosure undertakings pursuant to the Rule in connection with the issuance of the Bonds. Any material failure to comply with such undertakings and the Rule in the future may adversely affect the liquidity of the affected Bonds and their market price in the secondary market.

## **UNDERWRITING**

\_\_\_\_ (the “**Underwriter**”) has agreed, subject to certain conditions, to purchase the Bonds from the Issuer at the price of \$\_\_\_\_ (being the principal amount of the Bonds plus/less net original issue premium/discount of \$\_\_\_\_ and less an Underwriter's discount of \$\_\_\_\_). The Underwriter's obligation is subject to certain conditions precedent, and it will be obligated to purchase all Bonds if any Bonds are purchased.

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

## **CERTAIN LEGAL MATTERS**

### **Litigation**

At the time of delivery of and payment for the Bonds, the Issuer and the City will deliver certificates stating that there is no litigation then pending or threatened to restrain or enjoin the issuance, sale, execution or

delivery of the Bonds, the application of the proceeds of the Bonds as contemplated by the Indenture or the financing and acquisition of the Project, or in any way contesting or affecting the validity of the Bonds, the Project Lease, the Ground Lease, any proceedings of the Issuer or the City taken with respect to the issuance or sale of the Bonds or the approval of the Project Lease and the Ground Lease, the pledge or application of any money or security provided for the payment of the Bonds, the existence or powers of the Issuer or the City or the title of any officers of the Issuer or the City to their respective positions.

### **Legal Opinions**

Legal matters incident to the authorization, issuance and sale of the Bonds by the Issuer are subject to the approving legal opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel. A copy of the opinion of Bond Counsel is attached as Appendix D to this Official Statement. Certain legal matters will be passed upon by Stradling Yocca Carlson & Rauth, a Professional Corporation, as Disclosure Counsel, for the Issuer by Hillis Clark Martin & Peterson P.S. and Glaser Weil Fink Howard Avchen & Shapiro LLP, as counsel to the Issuer, and for the Trustee by its counsel.

### **Conflicts of Interest**

Some or all of the fees of the Underwriter, Bond Counsel, Disclosure Counsel and Issuer's Counsel are contingent on the sale of the Bonds. Furthermore, from time to time Bond Counsel may serve as counsel to the Municipal Advisor, the Underwriter and other parties involved with the Bonds with respect to transactions other than the issuance of the Bonds. None of the directors or other officers of the Issuer have interests in the issuance of the Bonds or the Project that are prohibited by applicable law.

### **CONTINUING DISCLOSURE**

The Issuer and the City have covenanted for the benefit of holders and Beneficial Owners of the Bonds: (1) to provide certain financial information and operating data (each, an “**Annual Report**”) relating to the City and the Project by not later than April 1 after the end of the City's Fiscal Year, commencing April 1, 2019 with the report for Fiscal Year 2018; and (2) to provide notices of the occurrence of certain enumerated events. The Annual Reports will be filed by the Issuer and the City with the Municipal Securities Rulemaking Board's Electronic Municipal Market Access System for municipal securities disclosures, which is maintained on the Internet at <http://emma.msrb.org/> (“**EMMA**”). The notices of enumerated events will also be filed by the Issuer and the City with EMMA. The specific nature of the information to be contained in the Annual Reports and the notices of enumerated events is set forth in the continuing disclosure undertakings of the Issuer and the City. The forms of such continuing disclosure undertakings are set forth in Appendix E. These covenants have been made in order to assist the Underwriter in complying with the Rule.

[DISCLOSURE RE CITY'S COMPLIANCE WITH PRIOR CONTINUING DISCLOSURE UNDERTAKINGS TO COME].

This is the first continuing disclosure undertaking of the Issuer.

### **MUNICIPAL ADVISOR**

The City has retained Stifel, Nicolaus & Company, Incorporated, San Francisco, California (the “**Municipal Advisor**”), as municipal advisor in connection with the sale of the Bonds. The Municipal Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume any responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement.

## **TAX MATTERS**

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals. In the further opinion of Bond Counsel, interest (and original issue discount) on the Bonds is exempt from State of California personal income tax.

Bond Counsel's opinion as to the exclusion from gross income for federal income tax purposes of interest (and original issue discount) on the Bonds is based upon certain representations of fact and certifications made by the Issuer, the City and others and is subject to the condition that the Issuer and the City comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds to assure that interest (and original issue discount) on the Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest (and original issue discount) on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The Issuer and the City have covenanted to comply with all such requirements.

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

The amount by which a Bond Owner's original basis for determining loss on sale or exchange in the applicable Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable bond premium, which must be amortized under Section 171 of the Code; such amortizable bond premium reduces the Bond Owner's basis in the applicable Bond (and the amount of tax-exempt interest received with respect to the Bonds), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of bond premium may result in a Bond Owner realizing a taxable gain when a Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the Bond to the Owner. Purchasers of the Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.

Bond Counsel has relied on the opinions of Hillis Clark Martin & Peterson P.S. and Glaser Weil Fink Howard Avchen & Shapiro LLP, counsel to the Issuer, that the Issuer is an organization that is described in Section 501(c)(3) of the Code and regarding the intended operation of the facilities to be financed by the Bonds and the Police Bonds as substantially related to the Issuer's charitable purpose under Section 513 of the Code and other matters. Neither Bond Counsel nor the Issuer's counsel can give or has given any opinion or assurance about the future activities of the Issuer, or about the effect of future changes in the Code, applicable regulations, the interpretation thereof or the resulting changes in enforcement thereof by the IRS. Failure of the Issuer to be organized and operated in accordance with the IRS's requirements for the maintenance of its status as an organization that is described in Section 501(c)(3) of the Code may result in the interest (and original issue discount) on the Bonds being included in federal gross income, possibly from the date of the original issuance of the Bonds.

The IRS has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the Bonds will be selected for audit by the IRS. It is also possible that the market value of the Bonds might be affected as a result of such an audit of the Bonds (or by an audit of similar municipal obligations). No assurance can be given that in the course of an audit, as a result of an audit, or otherwise, Congress or the IRS might not change the Code (or interpretation thereof) subsequent to the issuance of the Bonds to the extent that it adversely affects the exclusion from gross income of interest (and original issue discount) on the Bonds or their market value.

SUBSEQUENT TO THE ISSUANCE OF THE BONDS THERE MIGHT BE FEDERAL, STATE, OR LOCAL STATUTORY CHANGES (OR JUDICIAL OR REGULATORY CHANGES TO OR INTERPRETATIONS OF FEDERAL, STATE, OR LOCAL LAW) THAT AFFECT THE FEDERAL, STATE, OR LOCAL TAX TREATMENT OF THE BONDS INCLUDING THE IMPOSITION OF ADDITIONAL FEDERAL INCOME OR STATE TAXES BEING IMPOSED ON OWNERS OF TAX-EXEMPT STATE OR LOCAL OBLIGATIONS, SUCH AS THE BONDS. THESE CHANGES COULD ADVERSELY AFFECT THE MARKET VALUE OR LIQUIDITY OF THE BONDS. NO ASSURANCE CAN BE GIVEN THAT SUBSEQUENT TO THE ISSUANCE OF THE BONDS STATUTORY CHANGES WILL NOT BE INTRODUCED OR ENACTED OR JUDICIAL OR REGULATORY INTERPRETATIONS WILL NOT OCCUR HAVING THE EFFECTS DESCRIBED ABOVE. BEFORE PURCHASING ANY OF THE BONDS, ALL POTENTIAL PURCHASERS SHOULD CONSULT THEIR TAX ADVISORS REGARDING POSSIBLE STATUTORY CHANGES OR JUDICIAL OR REGULATORY CHANGES OR INTERPRETATIONS, AND THEIR COLLATERAL TAX CONSEQUENCES RELATING TO THE BONDS.

Bond Counsel's opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Bond Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Indenture and the Tax Certificate relating to the Bonds permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. Bond Counsel expresses no opinion as to the effect on the exclusion from gross income of interest (and original issue discount) for federal income tax purposes with respect to any Bond if any such action is taken or omitted based upon the advice of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

Although Bond Counsel has rendered an opinion that interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes provided that the Issuer and the City continue to comply with certain requirements of the Code, the ownership of the Bonds and the accrual or receipt of interest (and original issue discount) on the Bonds may otherwise affect the tax liability of certain persons. Bond Counsel expresses no opinion regarding any such tax consequences. Accordingly, before purchasing any of the Bonds, all potential purchasers should consult their tax advisors with respect to collateral tax consequences relating to the Bonds.

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

## **RATING**

S&P Global Ratings, a Standard & Poor's Financial Services LLC business ("S&P"), is expected to assign the Bonds the rating of "\_\_\_". Such rating reflects only the views of S&P, and any desired explanation of the significance of such rating may be obtained from S&P. Generally, a rating agency bases its ratings on the information and materials that are furnished to it (which may include information and material from the City or the Issuer that is not included in this Official Statement) and on investigations, studies and assumptions of its own. There is no assurance that such rating will be maintained for any given period of time or that the rating will not be revised downward or withdrawn entirely by S&P, if in its judgment, circumstances so

warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Bonds.



## MISCELLANEOUS

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

SALINAS PUBLIC FACILITIES INC.

By: \_\_\_\_\_  
President

## **APPENDIX A**

### **SUMMARIES OF THE PRINCIPAL DOCUMENTS: THE INDENTURE, THE PROJECT LEASE AND THE DEVELOPMENT AGREEMENT**

*The following is a summary of certain provisions of the Indenture, the Project Lease and the Development Agreement that are not described elsewhere. This summary does not purport to be comprehensive and reference should be made to the applicable document for a full and complete statement of the provisions thereof.*

**APPENDIX B**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

## APPENDIX C

### DEMOGRAPHIC AND ECONOMIC INFORMATION

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

#### General

The City of Salinas (the “City”) is located in the County of Monterey (the “County”) in the Central Coast region of California, 17 miles inland from the Monterey Bay, 325 miles north of Los Angeles and 106 miles south of San Francisco. The City was incorporated as a charter city in 1874. The City has an area of approximately twenty-four square miles.

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

#### Government

The City operates under a Council/Manager form of government. Councilmembers are elected by districts for four year alternating terms and a mayor is elected at large for a two year term. The City Council appoints the City Attorney and the City Manager who is responsible for day-to-day administration of the City under the policy direction of the City Council. The population of the City is estimated to be approximately 161,042.

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

<i>Name</i>	<i>Office</i>	<i>Term Expires</i>
Joe Gunter	Mayor	November 2018
Scott Davis	Council Member	November 2020
Tony Barrera	Council Member	December 2018
Steve McShane	Council Member	December 2018
Gloria De La Rosa	Council Member	November 2020
Kimbley Craig	Council Member	December 2018
John “Tony” Villegas	Council Member	November 2020

## Retail Sales

The table below present taxable sales for the years 2007 through 2016, the latest date for which such information is available, for the County.

### COUNTY OF MONTEREY TAXABLE SALES (DOLLARS IN THOUSANDS)

<i>Year</i>	<i>Permits</i>	<i>Taxable Transactions</i>	<i>Percentage Change</i>
2007	11,161	\$5,680,652	N/A
2008	11,168	5,399,594	(4.9)%
2009	10,125	4,705,845	(12.8)
2010	10,204	4,955,562	5.3
2011	10,268	5,312,732	7.2
2012	10,184	5,637,445	6.1
2013	10,389	5,910,531	4.8
2014	10,535	6,200,747	4.9
2015	11,534	6,406,116	3.3
2016	11,725	6,665,936	3.9

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

The table below present taxable sales for the years 2007 through 2016, the latest date for which such information is available, for the City.

### CITY OF SALINAS TAXABLE SALES (DOLLARS IN THOUSANDS)

<i>Year</i>	<i>Permits</i>	<i>Taxable Transactions</i>	<i>Percentage Change</i>
2007	2,879	\$2,147,060	N/A
2008	2,900	2,014,337	(6.1)%
2009	2,589	1,725,730	(14.3)
2010	2,641	1,791,469	3.8
2011	2,665	1,984,048	10.7
2012	2,661	2,089,040	5.2
2013	2,703	2,174,732	4.1
2014	2,759	2,265,218	4.1
2015	3,030	2,340,849	3.3
2016	3,053	2,458,354	4.8

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

## Population

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

### **SALINAS, COUNTY OF MONTEREY, STATE OF CALIFORNIA POPULATION**

<i>Area</i>	<i>1990</i>	<i>2000</i>	<i>2010</i>	<i>2016</i>	<i>2017</i>
City of Salinas	108,777	142,685	150,441	161,426	162,470
County of Monterey	355,660	401,762	415,057	438,171	442,365
State of California	29,758,213	33,873,086	37,253,956	39,189,035	39,523,613

Source: State of California, Department of Finance *E-4 Historical Population Estimates for City, County and the State, 1991-2000, with 1990 and 2000 Census Counts*, Sacramento, California, August 2007, *E-4 Historical Population Estimates for City, County and the State, 2001-2010, with 2000 and 2010 Census Counts*, Sacramento, California, August 2007 and *E-4 Population Estimates for Cities, Counties and State, 2011-2017, with 2010 Benchmark*, Sacramento, California, May 2017.

## Employment

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

The following table represents the Annual Average Labor Force and Industry Employment for the Metropolitan Division for the years 2013 through 2017.

**SALINAS MSA  
(MONTEREY COUNTY)  
ANNUAL AVERAGE INDUSTRY EMPLOYMENT 2012-2017**

	<i>2013</i>	<i>2014</i>	<i>2015</i>	<i>2016</i>	<i>2017</i>
Total Farm	50,100	52,200	53,000	53,300	52,500
Total Nonfarm	126,600	129,800	133,100	136,200	138,600
Goods Producing	10,000	10,400	11,100	11,400	11,800
Natural Resources and Mining	200	200	300	200	200
Construction	4,500	4,900	5,200	5,800	6,000
Manufacturing	5,300	5,400	5,500	5,400	5,600
Service Providing	116,600	119,400	122,100	124,800	126,800
Trade, Transportation and Utilities	25,400	25,700	26,000	26,100	26,100
Wholesale Trade	5,200	5,400	5,300	5,300	5,700
Retail Trade	16,200	16,200	16,400	16,500	16,400
Transportation, Warehousing and Utilities	4,000	4,000	4,300	4,200	4,100
Information	1,500	1,400	1,300	1,100	1,100
Financial Activities	4,000	4,000	4,100	4,200	4,300
Professional and Business Services	11,300	12,100	12,800	13,400	13,200
Educational and Health Services	17,500	18,000	18,400	18,800	19,600
Leisure and Hospitality	21,900	22,800	23,400	24,300	24,500
Other Services	4,800	4,900	5,000	5,100	5,200
Government	30,200	30,600	31,100	31,900	33,000
Total, All Industries	176,700	182,000	186,100	189,500	191,100

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

Source: State of California, Employment Development Department, Labor Market Information Division, Salinas Metropolitan Division, Industry Employment & Labor Force - by Annual Average, March 2017 Benchmark.

The following table summarizes the labor force, employment and unemployment figures for the years 2012 through 2017 for the City, the County, the State and the nation as a whole.

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

<i>Year and Area</i>	<i>Labor Force<sup>(1)</sup></i>	<i>Employment<sup>(2)</sup></i>	<i>Unemployment<sup>(3)</sup></i>	<i>Unemployment Rate</i>
<b>2012</b>				
Salinas	78,900	69,300	9,600	12.2%
Monterey County	218,100	192,900	25,300	11.6
California	18,523,800	16,602,700	1,921,100	10.4
United States	154,975,000	142,469,000	12,506,000	8.1
<b>2013</b>				
Salinas	78,400	69,900	8,500	10.8%
Monterey County	216,900	194,600	22,400	10.3
California	18,624,300	16,958,700	1,665,600	8.9
United States	155,389,000	143,929,000	11,460,000	7.4
<b>2014</b>				
Salinas	79,000	71,400	7,500	9.5%
Monterey County	219,000	199,200	19,800	9.0
California	18,755,000	17,348,600	1,406,400	7.5
United States	155,922,000	146,305,000	9,617,000	6.2
<b>2015</b>				
Salinas	79,100	72,400	6,700	8.5%
Monterey County	221,400	203,500	17,900	8.1
California	18,893,200	17,723,300	1,169,900	6.2
United States	157,130,000	148,834,000	8,296,000	5.3
<b>2016</b>				
Salinas	79,700	73,400	6,400	8.0%
Monterey County	220,400	203,800	16,700	7.6
California	19,102,700	18,065,000	1,037,700	5.4
United States	159,187,000	151,436,000	7,751,000	4.9
<b>2017<sup>(4)</sup></b>				
Salinas <sup>(5)</sup>	80,500	74,300	6,200	7.6%
Monterey County	223,200	212,900	10,300	4.6
California	19,353,400	18,516,000	837,400	4.3
United States	160,381,000	153,861,000	6,520,000	4.1

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

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

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

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

(5) Data not currently available.

Source: California Employment Development Department, March 2017 Benchmark and U.S. Department of Labor, Bureau of Labor Statistics.



## Largest Employers

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

### CITY OF SALINAS LARGEST EMPLOYERS

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

Source: State of California Employment Development Department.

The following table show the largest industries located in the County as of June 30, 2017.

### COUNTY OF MONTEREY LARGEST INDUSTRIES<sup>(1)</sup>

<i>Rank</i>	<i>Industry</i>	<i>Employees</i>
1.	Agriculture	66,347
2.	Other Services	60,652
3.	Retail Trade	16,356
4.	Construction & Mining	6,067
5.	Wholesale Trade	5,548
6.	Manufacturing	5,529
7.	Transportation & Warehousing	3,817
8.	Finance & Insurance	2,354
9.	Real Estate, Rental & Leasing	1,803
10.	Information	1,126
11.	Utilities	784

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

Source: County of Monterey Comprehensive Annual Financial Report for the year ending June 30, 2017.

## Personal Income

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

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

Total personal income in the County increased by approximately 78% between 2002 and 2016. The following tables summarize personal income for the County for the years 2002 through 2016.

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

<i>Year</i>	<i>Personal Income</i>	<i>Annual Percent Change</i>
2002	\$13,041,166	--
2003	13,743,587	5.4%
2004	14,287,740	4.0
2005	14,856,269	4.0
2006	16,082,793	8.3
2007	16,613,668	3.3
2008	16,836,670	1.3
2009	16,801,573	(0.2)
2010	17,246,851	2.7
2011	17,866,246	3.6
2012	18,651,438	4.4
2013	19,184,163	2.9
2014	20,251,502	5.6
2015	22,142,878	9.3
2016	22,827,059	3.1

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

The following tables summarizes per capita personal income for the County, the State of California and the United States for the years 2001 through 2016. This measure of income is calculated as the personal income of the residents of the area divided by the resident population of the area.

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

<i>Year</i>	<i>Monterey County</i>	<i>California</i>	<i>United States</i>
2001	\$31,554	\$33,671	\$31,540
2002	31,887	33,901	31,815
2003	33,543	35,234	32,692
2004	34,956	37,551	34,316
2005	36,670	39,521	35,904
2006	40,024	42,334	38,144
2007	41,289	43,692	39,821
2008	41,467	44,162	41,082
2009	40,953	42,224	39,376
2010	41,417	43,315	40,277
2011	42,422	45,820	42,453
2012	43,803	48,312	44,267
2013	44,816	48,471	44,462
2014	47,107	50,988	46,414
2015	51,256	53,741	48,112
2016	52,448	56,374	49,246

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

## APPENDIX D

### FORM OF BOND COUNSEL OPINION

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

June \_\_, 2018

City of Salinas  
Salinas, California

Salinas Public Facilities Inc.  
Seattle, Washington

Re:     \$\_\_\_\_\_ *Salinas Public Facilities Inc. 2018 Lease Revenue Bonds, Series B (City of Salinas El Gabilan Library Project)*

Ladies and Gentlemen:

We have acted as Bond Counsel to the City of Salinas (the “City”) in connection with the issuance by Salinas Public Facilities Inc. (the “Issuer”) of the above-captioned obligations (the “Bonds”). In such connection, we have reviewed: (i) an Indenture of Trust, dated as of June 1, 2018 (the “Indenture”), by and between The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”) and the Issuer; (ii) a Project Lease Agreement, dated as of June 1, 2018 (the “Lease Agreement”), by and between the City and the Issuer; (iii) a Ground Lease Agreement, dated as of June 1, 2018 (the “Ground Lease”), by and between the City and the Issuer; (iv) the Tax Certificate of the City and the Issuer, dated as of the date hereof (the “Tax Certificate”); and (v) opinions of counsel to the Issuer, the City and the Trustee, certificates of the Issuer, the City and the Trustee and others and such other documents, opinions and matters to the extent that we deemed necessary to render the opinions set forth herein. Capitalized terms that are used and not otherwise defined herein have the meanings ascribed thereto in the Indenture.

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

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

2.       Under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals.

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

4.       The difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity with respect to such Bonds constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Bond Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Bond Owner will increase the Bond Owner’s basis in the applicable Bond. In the opinion of Bond Counsel, the amount of original issue

discount that accrues to the Owner of the Bond is excluded from the gross income of such Owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals, and is exempt from State personal income tax.

5. The amount by which a Bond Owner's original basis for determining loss on sale or exchange in a Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable bond premium, which must be amortized under Section 171 of the Internal Revenue Code of 1986, as amended (the "Code"); such amortizable bond premium reduces the Bond Owner's basis in the applicable Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of bond premium may result in a Bond Owner realizing a taxable gain when a Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the Bond to the Owner. Purchasers of the Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.

The opinions expressed herein as to the exclusion from gross income of interest on the Bonds are based upon certain representations of fact and certifications made by the City and the Issuer and are subject to the condition that the City and the Issuer comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds to assure that such interest (and original issue discount) on the Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest (and original issue discount) on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The City and the Issuer have covenanted to comply with all such requirements.

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 with respect to the Bonds terminates on the date of their issuance. The Indenture, the Lease Agreement and the Tax Certificate permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. No opinion is expressed herein as to the effect on the exclusion from gross income of interest (and original issue discount) on the Bonds for federal income tax purposes if any such action is taken or omitted based upon the opinion or advice of counsel other than ourselves. Other than as expressly stated herein, we express no other opinion regarding tax consequences with respect to the Bonds.

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

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

The opinions that are expressed herein are based upon our analysis and interpretation of existing statutes, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities. We call attention to the fact that the rights and obligations under the Indenture and the Bonds are subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights, to the application of equitable principles if equitable remedies are sought, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public agencies in the State.

We express no opinion herein as to the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Bonds and expressly disclaim any duty to advise the Owners of the Bonds with respect to matters contained in the Official Statement.

Respectfully submitted,

## **APPENDIX E**

### **FORMS OF CONTINUING DISCLOSURE UNDERTAKINGS OF THE ISSUER AND THE CITY**

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

[TO BE INSERTED]

## APPENDIX F

### BOOK-ENTRY-ONLY SYSTEM

*The information in this section concerning DTC and DTC's book entry only system has been obtained from sources that the City, the Issuer and the Underwriter believe to be reliable, but the City, the Issuer and the Underwriter take 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 Bonds, payment of principal, premium, if any, accreted value, if any, and interest on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the 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 Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond will be issued for each annual maturity of the 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](http://www.dtcc.com).

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

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

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

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Issuer 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 Issuer may decide to discontinue use of the system of book entry only transfers through DTC (or a successor securities depository). In that event, Bonds will be printed and delivered to DTC.

THE TRUSTEE, AS LONG AS A BOOK ENTRY ONLY SYSTEM IS USED FOR THE 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 BONDS CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE.