

NEW ISSUE

RATING

BOOK-ENTRY

S&P: “_”

(See “CONCLUDING INFORMATION - Rating on the Bonds” herein)

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, subject, however to certain qualifications described herein, under existing law, the interest on the Bonds is excludable from gross income of the owners thereof for federal income tax purposes and such interest is not included as an item of tax preference in computing the alternative minimum tax for individuals and corporations under the Internal Revenue Code of 1986, as amended, but is taken into account in computing an adjustment used in determining the federal alternative minimum tax for certain corporations. In the further opinion of Bond Counsel, such interest is exempt from California personal income taxes. See “TAX MATTERS” herein.

SAN DIEGO COUNTY

STATE OF CALIFORNIA

\$33,000,000*

**CHULA VISTA MUNICIPAL FINANCING AUTHORITY
LEASE REVENUE REFUNDING BONDS, SERIES 2016**

Dated: Date of Delivery

Due: As shown on the inside cover page

The cover page contains certain information for quick reference only. It is not a summary of the issue. Potential investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision. See “RISK FACTORS” herein for a discussion of special risk factors that should be considered in evaluating the investment quality of the Bonds.

The Chula Vista Municipal Financing Authority Lease Revenue Refunding Bonds, Series 2016 (the “Bonds”) are being issued to (i) refinance existing leases and certain related outstanding bonds, and (ii) pay the costs incurred in connection with the issuance of the Bonds. The Bonds are payable from the revenues pledged under the Indenture, as defined herein, consisting primarily of Base Rental Payments (the “Base Rental Payments”) to be made by the City of Chula Vista (the “City”) to the Chula Vista Municipal Financing Authority (the “Authority”) as rental for certain City-owned property (the “Leased Property”) pursuant to a Lease Agreement, as defined herein, and from certain funds held under the Indenture and insurance or condemnation awards. The City is required under the Lease Agreement to make Base Rental Payments in each fiscal year in consideration of the use and possession of the Leased Property from any source of available funds in an amount sufficient to pay the annual principal and interest due with respect to the Bonds, subject to abatement, as described herein. See “SOURCES OF PAYMENT FOR THE BONDS” and “RISK FACTORS” herein.

Interest on the Bonds is payable semiannually on November 1 and May 1 of each year, commencing November 1, 2016, until maturity or earlier redemption. See “THE BONDS - General Provisions” and “THE BONDS - Redemption” herein.

THE BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY PAYABLE SOLELY FROM REVENUES AND OTHER FUNDS HELD UNDER THE INDENTURE. THE BONDS ARE NOT A DEBT, OBLIGATION OR LIABILITY OF THE CITY, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS (OTHER THAN THE AUTHORITY), NOR DO THEY CONSTITUTE A PLEDGE OF THE FAITH AND CREDIT OR THE TAXING POWER OF ANY OF THE FOREGOING (INCLUDING THE AUTHORITY AND THE CITY). THE AUTHORITY DOES NOT HAVE ANY TAXING POWER. THE BONDS DO NOT CONSTITUTE AN INDEBTEDNESS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION. THE CITY’S OBLIGATION TO MAKE BASE RENTAL PAYMENTS IS AN OBLIGATION PAYABLE FROM THE CITY’S GENERAL FUND OR ANY OTHER SOURCE OF FUNDS LEGALLY AVAILABLE TO THE CITY TO MAKE BASE RENTAL PAYMENTS. THE OBLIGATION OF THE CITY TO MAKE BASE RENTAL PAYMENTS DOES NOT CONSTITUTE A DEBT OF THE CITY WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMIT OR RESTRICTION OR ANY OBLIGATION FOR WHICH THE CITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION, OR FOR WHICH THE CITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

The Bonds are offered, when, as and if issued, subject to the approval as to their legality by Stradling Yocca Carlson & Rauth, a Professional Corporation, Los Angeles, California, Bond Counsel. Certain legal matters will be passed on for the City and the Authority by the City Attorney, and by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, as Disclosure Counsel and for the Underwriter by Jones Hall, A Professional Law Corporation, San Francisco, California. It is anticipated that the Bonds, in book-entry form, will be available for delivery on or about May 17, 2016 through the facilities of The Depository Trust Company (see “APPENDIX E - THE BOOK-ENTRY SYSTEM” herein).

The date of the Official Statement is _____, 2016.

STIFEL

* Preliminary, subject to change.

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or a solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful under the securities laws of such jurisdiction.

\$33,000,000*
CHULA VISTA MUNICIPAL FINANCING AUTHORITY
LEASE REVENUE REFUNDING BONDS, SERIES 2016

MATURITY SCHEDULE

(Base CUSIP®† _____)

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Reoffering Yield</u>	<u>Reoffering Price</u>	<u>CUSIP®†</u>
May 1, 2017					
May 1, 2018					
May 1, 2019					
May 1, 2020					
May 1, 2021					
May 1, 2022					
May 1, 2023					
May 1, 2024					
May 1, 2025					
May 1, 2026					
May 1, 2027					
May 1, 2028					
May 1, 2029					
May 1, 2030					
May 1, 2031					
May 1, 2032					
May 1, 2033					
May 1, 2034					
May 1, 2035					
May 1, 2036					

* Preliminary, subject to change.

† Copyright 2016, American Bankers Association. CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services Bureau, operated by Standard & Poor's. This data is not intended to create a database and does not serve in any way as a substitute for CUSIP Global Services. CUSIP numbers have been assigned by an independent company not affiliated with the City and are included solely for the convenience of the holders of the Bonds. None of the Authority, the City, the Municipal Advisor or the Underwriter takes any responsibility for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the Bonds or as included herein. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Bonds.

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

Use of Official Statement. This Official Statement is submitted in connection with the offer and sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not to be construed as a contract with the purchasers of the Bonds.

Effective Date. This Official Statement speaks only as of its date, and the information and expressions of opinion contained in this Official Statement are subject to change without notice. Neither the delivery of this Official Statement nor any sale of the Bonds will, under any circumstances, create any implication that there has been no change in the affairs of the City or any other parties described in this Official Statement.

Estimates and Forecasts. When used in this Official Statement and in any continuing disclosure by the City, any press release and any oral statement made with the approval of an authorized officer of the City or any other entity described or referenced herein, the words or phrases “will likely result,” “are expected to,” “will continue,” “is anticipated,” “estimate,” “project,” “forecast,” “expect,” “intend” and similar expressions identify “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material.

Limit of Offering. No dealer, broker, salesperson or other person has been authorized by the Authority or the City to give any information or to make any representations in connection with the offer or sale of the Bonds other than those contained herein and if given or made, such other information or representation must not be relied upon as having been authorized by the Authority, the City, the Municipal Advisor or the Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

Preparation of this Official Statement. The information contained in this Official Statement has been obtained from sources that are believed to be reliable, but this information is not guaranteed as to accuracy or completeness. The information and expressions of opinions herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof. This Official Statement is submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose, unless authorized in writing by the City. All summaries of the Bonds, the Lease Agreement, the Indenture 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. Reference is hereby made to such documents on file with the City Clerk for further information. See “INTRODUCTION - Summaries Not Definitive.”

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.

Bonds are Exempt from Securities Laws Registration. The issuance, sale and delivery of the Bonds has not been registered under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, in reliance upon exemptions for the execution, sale and delivery of municipal securities provided under Section 3(a)(2) of the Securities Act of 1933 and Section 3(a)(12) of the Securities Exchange Act of 1934.

Stabilization of Prices. In connection with this offering, the Underwriter may overallocate or effect transactions which stabilize or maintain the market price of the Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriter may offer and sell the Bonds to certain dealers and others at prices lower than the public offering prices set forth on the inside cover page hereof and said public offering prices may be changed from time to time by the Underwriter.

City Website. The City maintains a website. The information on such website is not part of this Official Statement and is not intended to be relied on by investors with respect to the Bonds unless specifically set forth or incorporated herein.

CITY OF CHULA VISTA, CALIFORNIA

CITY COUNCIL/AUTHORITY BOARD MEMBERS

Mary Casillas Salas, *Mayor*
John McCann, *Council Member*
Patricia Aguilar, *Council Member*
Pamela Bensoussan, *Council Member*
Steve Miesen, *Council Member*

CITY STAFF

Gary Halbert, *City Manager*
Maria Kachadoorian, *Deputy City Manager/Chief Financial Officer*
Kelley Bacon, *Deputy City Manager*
David Bilby, *Director of Finance/Treasurer*
Mike Sylvia, *Finance and Purchasing Manager*
Glen R. Googins, *City Attorney*
Donna Norris, CMC, *City Clerk*

PROFESSIONAL SERVICES

Bond Counsel and Disclosure Counsel

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Newport Beach, California

Municipal Advisor

Harrell & Company Advisors, LLC
Orange, California

Trustee and Escrow Bank

U.S. Bank National Association
Los Angeles, California

Verification Agent

Grant Thornton LLP
Minneapolis, Minnesota

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OFFICIAL STATEMENT

\$33,000,000*

CHULA VISTA MUNICIPAL FINANCING AUTHORITY LEASE REVENUE REFUNDING BONDS, SERIES 2016

This Official Statement which includes the cover page, the inside cover page and appendices (the “Official Statement”), is provided to furnish certain information concerning the sale of the Chula Vista Municipal Financing Authority (the “Authority”) Lease Revenue Refunding Bonds, Series 2016 (the “Bonds”).

INTRODUCTION

The description and summaries of various documents hereinafter set forth do not purport to be comprehensive or definitive, and reference is made to each document for the complete details of all terms and conditions. All statements herein are qualified in their entirety by reference to each document. All capitalized terms used in this Official Statement and not otherwise defined herein have the same meaning as in the Indenture (defined below).

The City and the Authority

Chula Vista is located on San Diego Bay in Southern California, 8 miles south of the City of San Diego and 7 miles north of the Mexico border in an area generally known as “South Bay.” The City encompasses approximately 50 square miles. Based on population, Chula Vista is the second largest city in San Diego County (see “CITY OF CHULA VISTA” herein).

The Authority is a joint exercise of powers authority organized and existing under and by virtue of the Joint Exercise of Powers Act, constituting Articles 1 through 4 (commencing with Section 6500) of Chapter 5, Division 7, Title 1 of the Government Code of the State of California (the “Joint Powers Act”). The City and the Housing Authority of the City of Chula Vista formed the Authority by the execution of a joint exercise of powers agreement (“JPA Agreement”) on June 11, 2013.

Pursuant to the Joint Powers Act, the Authority is authorized to issue lease revenue bonds to provide funds to acquire or construct and to refinance public capital improvements, such revenue bonds to be repaid from the lease payments for such improvements, such as the Base Rental Payments described herein.

The Authority is governed by a five-member Board which consists of all members of the City Council. The Mayor serves as the Chair of the Authority. The City Manager acts as the Executive Director.

Purpose

The Bonds are being issued to (1) refinance a portion of the existing Lease and to current refund all of the City’s outstanding 2006 Certificates of Participation (Civic Center Project – Phase 2) (the “2006 Certificates”), (2) refinance an existing Lease and to advance refund the City’s outstanding 2010 Certificates of Participation (Capital Facilities Refunding Projects) (the “2010 Certificates”) and (3) pay the costs of issuance of the Bonds. See “THE FINANCING PLAN” herein.

* Preliminary, subject to change.

Security and Sources of Repayment

The Bonds are secured under an Indenture, dated as of May 1, 2016, (the “Indenture”), by and between the Authority and U.S. Bank National Association, Los Angeles, California, as trustee (the “Trustee”) (see “APPENDIX A - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS” herein).

The Bonds are payable from the revenues pledged under the Indenture. The revenues consist primarily of Base Rental Payments (the “Base Rental Payments”) to be made by the City to the Authority as the rental for certain city facilities (the “Leased Property”) and from certain funds held under the Indenture and investment earnings thereon, and from net proceeds of insurance or condemnation awards (collectively with the Base Rental Payments, the “Revenues”). See “THE LEASED PROPERTY” herein.

Pursuant to a Site Lease, dated as of May 1, 2016 (the “Site Lease”), by and between the Authority and the City, the City has leased the Leased Property to the Authority. The Authority has subleased the Leased Property back to the City under the Lease Agreement, dated as of May 1, 2016, by and between the City and the Authority (the “Sublease”). The Base Rental Payments are to be made pursuant to the Lease Agreement.

Under the Lease Agreement and, subject to abatement, the City is required to make the Base Rental Payments from legally available funds in amounts calculated to be sufficient to pay principal of and interest on the Bonds when due. The City has covenanted in the Lease Agreement to take such actions as may be necessary to include all Base Rental Payments in its annual budgets and to make the necessary annual appropriations for all such Base Rental Payments subject to complete or partial abatement of such Base Rental Payments resulting from a taking of the Leased Property (either in whole or in part) under the powers of eminent domain or resulting from damage or loss of all or any portion of the Leased Property. All of the Authority’s right, title and interest in and to the Lease Agreement (apart from certain rights to receive Additional Rental, as defined therein, to the extent payable to the Authority and to indemnification), including the right to receive Base Rental Payments under the Lease Agreement, are assigned to the Trustee under the Indenture and under the Assignment Agreement, dated May 1, 2016 (the “Assignment Agreement”), for the benefit of Bondholders.

For a summary of the Indenture and the Lease Agreement, see “APPENDIX A - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS” herein. Certain capitalized terms used in this Official Statement and not otherwise defined have the meanings given them in “APPENDIX A.”

In general, the City is required under the Lease Agreement to pay to the Authority specified amounts for use and possession of the Leased Property which amounts are calculated to be sufficient in both time and amount to pay, when due, the principal of and interest on the Bonds. The City is also required to pay any taxes and assessments levied on the Leased Property and all costs of maintenance and repair of the Leased Property. Except for the Authority’s right, title and interest in and to the Base Rental Payments and otherwise to the Lease Agreement which have been assigned to the Trustee, no funds or properties of the Authority or the City are pledged to or otherwise liable for the obligations of the Authority (see “RISK FACTORS” herein).

In the opinion of Bond Counsel, the Indenture, the Site Lease and the Lease Agreement have been duly approved by the Authority and constitute the legal, valid and binding obligations of the Authority enforceable against the Authority in accordance with their respective terms. In the further opinion of Bond Counsel, the Lease Agreement has been duly approved by the City and constitutes a legal, valid and binding obligation of the City enforceable against the City in accordance with its terms, however, the rights of the owners of the Bonds and the enforceability of the Bonds, the Indenture and the Lease Agreement may be subject to bankruptcy, insolvency, moratorium and other similar laws affecting creditors’ rights heretofore or hereafter enacted and their enforcement may be subject to the exercise of judicial discretion in accordance with general principles of equity and by the limitations on legal remedies against municipalities in the State

of California (see “RISK FACTORS - Limited Recourse on Default; No Acceleration” herein). The form of Bond Counsel’s opinion is attached hereto as “APPENDIX D.”

Limited Obligation

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

No Reserve Fund

The Authority will not fund a reserve fund for the Bonds.

Summaries Not Definitive

The summaries and references contained herein with respect to the Indenture, the Site Lease, the Lease Agreement, the Assignment Agreement, the Bonds and other statutes or documents do not purport to be comprehensive or definitive and are qualified by reference to each such document or statute, and references to the Bonds are qualified in their entirety by reference to the form thereof included in the Indenture. Copies of the documents described herein are available for inspection during the period of initial offering of the Bonds at the offices of the Municipal Advisor. Copies of these documents may be obtained after delivery of the Bonds at the trust office of the Trustee, U.S. Bank National Association, Los Angeles, California or from the City Clerk, City of Chula Vista, 276 Fourth Avenue, Chula Vista, California 91910.

THE FINANCING PLAN

The Refunding Program

On the Delivery Date, the Authority will irrevocably deposit a portion of the proceeds from the Bonds with the Trustee as escrow bank (the “Escrow Bank”), pursuant to two separate Escrow Agreements, each dated as of May 1, 2016 (each, an “Escrow Agreement”) by and between the City and the Escrow Bank. The deposits will be in an amount sufficient to:

- prepay the 2006 Certificates outstanding pursuant to an optional prepayment thereof on June 1, 2016 at a prepayment price equal to 100% of the principal amount thereof together with accrued interest thereon to the date of prepayment,
- pay interest and principal with respect to the 2010 Certificates through and including March 1, 2020, and
- prepay the 2010 Certificates outstanding pursuant to an optional prepayment thereof on March 1, 2020 at a prepayment price equal to 100% of the principal amount thereof together with accrued interest thereon to the date of prepayment.

Bond Counsel will deliver an opinion at closing to the effect that, assuming the sufficiency of the amounts deposited under the Escrow Agreements, the 2006 Certificates and the 2010 Certificates will be discharged and no longer be Outstanding under the trust agreement pursuant to which they were executed and delivered and will not be secured by the Lease or the Lease Payments due thereunder Amounts on deposit with the Escrow Bank are not available to pay debt service on the Bonds.

Verification

Grant Thornton LLP will verify from the information provided to them the mathematical accuracy as of the date of the closing on the Bonds of (1) the computations contained in the provided schedules to determine that the cash listed in the schedules prepared by the Municipal Advisor, to be held in escrow, will be sufficient to pay the prepayment price with respect to all outstanding 2006 Certificates on July 1, 2016, (2) the principal and interest requirements to and including March 1, 2020 and the prepayment price of the 2010 Certificates on March 1, 2020 and (3) the computation of yield on the Bonds contained in the provided schedules used by Bond Counsel in its determination that the interest with respect to the Bonds is exempt from federal taxation. Grant Thornton LLP will express no opinion on the assumptions provided to them, nor as to the exemption from taxation of the interest with respect to the Bonds.

Estimated Sources and Uses of Funds

The proceeds from the sale of the Bonds, together with other available funds, are anticipated to be applied as follows:

Sources of Funds

Par Amount of Bonds
Net Original Issue Premium
Funds from 2006 Certificates Reserve Fund
Funds from 2010 Certificates Reserve Fund
Available Funds

Uses of Funds

Transfer to Escrow Bank
Underwriter's Discount
Costs of Issuance Fund ⁽¹⁾
Total Uses

⁽¹⁾ Expenses include fees and expenses of Bond Counsel, Municipal Advisor, Disclosure Counsel and Trustee, rating fees, costs of printing the Official Statement, and other costs of issuance of the Bonds.

THE LEASED PROPERTY

Description of the Leased Property

Pursuant to the terms of the Site Lease, the City leases the Site to the Authority. Pursuant to the terms of the Lease Agreement, the Authority leases the Site back to the City. The Site consists of (1) approximately 25 acres of improved land and the buildings thereon consisting of the City's Corporation Yard and (2) the City's Fire Station No. 4, Fire Station No. 6 and Fire Station No. 8.

The City's Corporation Yard is located at 1800 Maxwell Road in the City and is improved with buildings and spaces essential to many City operations, such as a 55,745 square foot auto and truck garage, 42,210 square foot administration building, 9,000 square foot receiving building, 6,500 square foot bus washing/fueling buildings and 36,000 square feet of space in an enlarged shops building.

The facilities that comprise the Leased Property are insured for property damage in the amount of \$__ million replacement value. The City estimates the value of the Site to be \$__ million.

Pursuant to the Lease Agreement, the City and the Authority have agreed and determined that the Base Rental Payments required to be made under the Lease Agreement represent fair rental value of the Leased Property. The Leased Property consists of the facilities are insured for property damage in the amount of \$26.5 million replacement value. The facilities are also included in City properties currently insured for earthquake (see "RISK FACTORS - Seismic Considerations"). The Leased Property is not located in a 100-year Flood Plain.

Substitution or Release of Property

Under the terms of the Lease Agreement, the City may substitute other property for the Leased Property, or any portion thereof, and may release portions of the Leased Property provided that certain conditions set forth in the Lease Agreement are met. See "APPENDIX A - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - SUBLEASE - Substitution of Property" and "- Release of Property."

THE BONDS

General Provisions

Payment of the Bonds. Interest on the Bonds is payable at the rates per annum set forth on the inside front cover page hereof, on November 1, 2016 and each May 1 and November 1 thereafter (each, an “Interest Payment Date”) until maturity. The Bonds will be issued in the form of fully registered Bonds in the principal amount of \$5,000 each or any integral multiple thereof. Interest on the Bonds will be computed on the basis of a year consisting of 360 days and twelve 30-day months. Principal on the Bonds is payable on the dates and in the amounts set forth on the inside front cover page hereof.

Interest on the Bonds is payable from the Interest Payment Date next preceding the date of authentication thereof unless (a) a Bond is authenticated on or before an Interest Payment Date and after the close of business on the fifteenth day of the month preceding such Interest Payment Date (a “Record Date”), in which event it will bear interest from such Interest Payment Date, (b) a Bond is authenticated on or before the first Record Date, in which event interest thereon will be payable from the Closing Date, or (c) interest on any Bond is in default as of the date of authentication thereof, in which event interest thereon will be payable from the date to which interest has been paid in full. Interest is payable on each Interest Payment Date to the persons in whose names the ownership of the Bonds is registered on the Registration Books at the close of business on the immediately preceding Record Date, except as provided below. Interest on any Bond which is not punctually paid or duly provided for on any Interest Payment Date is payable to the person in whose name the ownership of such Bond is registered on the Registration Books at the close of business on a special record date for the payment of such defaulted interest to be fixed by the Trustee, notice of which is given to such Owner by first-class mail not less than 10 days prior to such special record date.

Book-Entry System. DTC 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. Interest on and principal of the Bonds will be payable when due by wire of the Trustee to DTC which will in turn remit such interest and principal to DTC Participants (as defined herein), which will in turn remit such interest and principal to Beneficial Owners (as defined herein) of the Bonds (see “APPENDIX E - THE BOOK-ENTRY SYSTEM” herein). As long as DTC is the registered owner of the Bonds and DTC’s book-entry method is used for the Bonds, the Trustee will send any notices to Bond Owners only to DTC.

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

Redemption

Optional Redemption. The Bonds maturing on or before May 1, 2026, are not subject to redemption prior to their respective stated maturities. The Bonds maturing on or after May 1, 2027 shall be subject to redemption prior to their respective maturity dates, as a whole or in part, from prepayments of Base Rental made at the option of the City, on any date on or after May 1, 2026. The Bonds called for redemption pursuant to this provision of the Indenture shall be redeemed at a redemption price equal to 100% of the principal amount of Bonds called for redemption, plus accrued interest thereon to the date of redemption, without premium.

Special Mandatory Redemption From Insurance or Condemnation Proceeds. The Bonds shall be subject to redemption prior to their respective maturity dates, as a whole on any date, from amounts on deposit in the Redemption Fund from Net Proceeds received by the City from insurance payments or condemnation awards with respect to the Leased Property or any portion thereof under the circumstances

and upon the conditions and terms prescribed in the Lease Agreement together with additional money, if any, transferred by the City at its discretion for such purpose. Redemption pursuant to this provision of the Indenture shall be made at a redemption price equal to the sum of the principal of the Bonds to be redeemed plus accrued interest thereon to the date fixed for redemption, without premium.

“Net Proceeds” is defined in the Lease Agreement as any insurance or condemnation proceeds, paid with respect to the portion of the Leased Property remaining after payment therefrom of all expenses in the collection thereof. In accordance with the Lease Agreement, the City will cause the Net Proceeds of any insurance payment (other than the Net Proceeds of rental interruption insurance) or any condemnation award to be applied to the prompt repair, restoration, modification, improvement or replacement of the damaged, destroyed or condemned portion of the Leased Property or cure the defect of title to the Leased Property, and any balance of Net Proceeds remaining after such work or cure of title defect has been completed shall be paid to the City. Notwithstanding the foregoing, if the proceeds of such insurance or condemnation award (together with any other money that the City in its discretion has determined to use for such purpose) are at least sufficient to redeem all of the then outstanding Bonds, then the City may elect not to replace the destroyed, damaged or condemned portion of the Leased Property or cure the defect of title to the Leased Property and thereupon shall cause said proceeds to be used for the prepayment of Base Rental pursuant to the Lease Agreement; provided, that the City shall make a determination on whether to prepay Base Rental within 45 days of the date on which the destruction of the Leased Property occurred, the condemnation proceedings were completed or the leasehold interest in the Leased Property was determined to be materially impaired, whichever is applicable, and in any event in sufficient time to provide the Authority and the Trustee with at least 45 days’ prior written notice in the event the City determines to prepay Base Rental Payments.

See “SOURCES OF PAYMENT FOR THE BONDS - Insurance Relating to the Property.” There can be no assurance that such proceeds will be adequate to redeem all of the Bonds (see “RISK FACTORS - The Base Rental Payments - Insurance” herein).

Notice of Redemption. The Trustee on behalf and at the expense of the Authority shall send by first class mail, or if the Owner of such Bonds is a depository, by such method as acceptable to such depository, notice of any redemption to the respective Owners of any Bonds designated for redemption at their respective addresses appearing on the Registration Books, to the Securities Depositories and to one or more Information Services by such manner of delivery as then acceptable to such entities, at least 30 but not more than 60 days prior to the date fixed for redemption; provided, however, that neither failure to receive any such notice so sent nor any defect therein shall affect the validity of the proceedings for the redemption of such Bonds or the cessation of the accrual of interest thereon. Such notice shall state the date of the notice, the redemption date, the redemption place and the redemption price and shall specify the Series designation, the CUSIP numbers, the Bond numbers and the maturity or maturities (in the event of redemption of all of the Bonds of such maturity or maturities in whole) of the Bonds to be redeemed, and shall require that such Bonds be then surrendered at the Trust Office of the Trustee for redemption at the redemption price, giving notice also that further interest on such Bonds will not accrue from and after the redemption date.

So long as DTC is the registered Owner of the Bonds, all such notices will be provided to DTC as the Owner, without respect to the beneficial ownership of the Bonds. See “APPENDIX E - THE BOOK-ENTRY SYSTEM.”

Rescission of Notice. The Authority may rescind any optional redemption by written notice to the Trustee on or prior to the date fixed for redemption. Any notice of redemption shall be cancelled and annulled if for any reason funds will not be or are not available on the date fixed for redemption for the payment in full of the Bonds then called for redemption, and such cancellation shall not constitute an Event of Default under the Indenture. None of the Authority, the Trustee nor the City shall have any liability to the Owners or any other party related to or arising from such rescission. The Trustee shall send notice of such rescission in the same manner as that for an optional redemption of the Bonds.

Effect of Redemption. From and after the date fixed for redemption, if funds available for the payment of the principal of and interest on the Bonds so called for redemption shall have been duly provided, such Bonds so called shall cease to be entitled to any benefit under the Indenture other than the right to receive payment of the redemption price, and no interest shall accrue thereon from and after the redemption date.

Partial Redemption. In the event only a portion of any Bond is called for redemption, then upon surrender of such Bond, the Authority shall execute and the Trustee shall authenticate and deliver to the Owner thereof, at the expense of the Authority, a new Bond or Bonds of the same Series and maturity date, of authorized denominations in aggregate principal amount equal to the unredeemed portion of the Bond being redeemed. A partial redemption shall be valid upon payment of the amount required to be paid to the Owner, and the Authority and the Trustee shall be released and discharged from all liability to the extent of such payment.

Scheduled Debt Service on the Bonds

The following is a schedule of Base Rental Payments and therefore the total scheduled debt service on the Bonds, assuming no optional or special mandatory redemption prior to maturity.

<u>Period Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Semi-Annual Total</u>	<u>Fiscal Year Total*</u>
November 1, 2016				
May 1, 2017				
November 1, 2017				
May 1, 2018				
November 1, 2018				
May 1, 2019				
November 1, 2019				
May 1, 2020				
November 1, 2020				
May 1, 2021				
November 1, 2021				
May 1, 2022				
November 1, 2022				
May 1, 2023				
November 1, 2023				
May 1, 2024				
November 1, 2024				
May 1, 2025				
November 1, 2025				
May 1, 2026				
November 1, 2026				
May 1, 2027				
November 1, 2027				
May 1, 2028				
November 1, 2028				
May 1, 2029				
November 1, 2029				
May 1, 2030				
November 1, 2030				
May 1, 2031				
November 1, 2031				
May 1, 2032				
November 1, 2032				
May 1, 2033				
November 1, 2033				
May 1, 2034				
November 1, 2034				
May 1, 2035				
November 1, 2035				
May 1, 2036				

* Fiscal Years ending June 30.

SOURCES OF PAYMENT FOR THE BONDS

General

The Bonds are payable from and secured by a pledge of Revenues and certain funds and accounts established and held by the Trustee under the Indenture. Revenues, as defined in the Indenture, mean (a) all Base Rental Payments payable by the City pursuant to the Lease Agreement (including prepayments); (b) any proceeds of Bonds originally deposited with the Trustee and held by the Trustee in the Lease Revenue Fund and the accounts thereof; (c) investment income with respect to any moneys held by the Trustee in the Lease Revenue Fund and the accounts thereof (other than amounts payable to the United States of America pursuant to the rebate requirements of the Indenture); and (d) any insurance proceeds or condemnation awards received by or payable to the Trustee with respect to the Leased Properties, including rental interruption insurance.

As security for the Bonds, the Authority will assign to the Trustee for the payment of the Bonds the Authority's rights, title and interest in the Lease Agreement (with certain exceptions), including the right to receive Base Rental Payments to be made by the City under the Lease Agreement.

THE BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY PAYABLE SOLELY FROM AND SECURED BY A PLEDGE OF REVENUES AND CERTAIN FUNDS AND ACCOUNTS HELD UNDER THE INDENTURE. THE AUTHORITY HAS NO TAXING POWER.

Base Rental Payments; Abatement

The City is required to pay to the Authority specified amounts for use of the Leased Property, which are equal to the principal of and interest due with respect to the Bonds. The Lease Agreement requires the City to make Base Rental Payments to the Authority at least 5 Business Days preceding each Interest Payment Date. Base Rental Payments to be paid by the City are assigned and are to be transmitted directly to the Trustee. The Indenture provides that the Base Rental Payments will be deposited in Payment Fund maintained by the Trustee under the Indenture and applied to pay the principal and interest on the Bonds.

The City has covenanted in the Lease Agreement to take such action as may be necessary to include all Base Rental Payments in its annual budgets and to make annual appropriations for all such Base Rental Payments. The Lease Agreement provides that the several actions required by such covenants are deemed to be and shall be construed to be duties imposed by law and that it is the duty of each and every public official of the City to take such action and do such things as are required by law in the performance of the official duty of such official to enable the City to carry out and perform the covenants in the Lease Agreement agreed to be carried out and performed by the City.

California law requires, and the Lease Agreement provides, that the Base Rental Payments may be abated in whole or in part if portions of the Leased Property are destroyed, damaged or condemned. The obligation of the City to pay Base Rental and Additional Rental shall be abated during any period in which, by reason of any damage, destruction, condemnation or impairment of leasehold interest, there is substantial interference with the use and occupancy of the Leased Property or any portion thereof by the City. Such abatement shall be in an amount agreed upon by the City and the Authority such that the resulting Base Rental in any year during which such interference continues does not exceed the fair rental value of the portions of the Leased Property as to which such damage, destruction, taking or impairment do not substantially interfere with the City's use and right of possession. Such abatement shall continue for the period commencing with the date of such interference and ending with the restoration of the relevant Leased Property to tenantable condition. Upon the cessation of the occurrence of any abatement event during the term of this Sublease, the City shall determine the then current fair rental value of the Leased Property. If such fair rental value is greater than the fair rental value of the Leased Property determined as of the

Commencement Date, the Base Rental shall be increased by the lesser of (i) such incremental value or (ii) the amount needed to recoup all amounts abated during the remaining term of this Sublease.

Notwithstanding the foregoing, there shall be no abatement of Lease Payments under the Lease Agreement by reason of damage, destruction, or unavailability of all or a portion of the Leased Property to the extent that: (i) the fair rental value of the portions of the Leased Property not damaged, destroyed, incomplete or otherwise unavailable for use and occupancy by the City, as determined by the City, is equal to or greater than the unpaid principal component of the Base Rental Payments; or (ii) the proceeds of rental interruption insurance and/or amounts on deposit in the Insurance and Condemnation Fund and/or Revenue Fund are available to pay Base Rental Payments which would otherwise be abated, it being declared that such proceeds and amounts constitute special funds for the payment of the Base Rental Payments.

During any period of abatement of Lease Payments, the Trustee shall pay principal and interest on the Bonds allocable to such portions of the Leased Property from proceeds of insurance or condemnation award (if any) on a pro-rata basis. The reduced Base Rental Payments may not be sufficient to pay principal and interest on the Bonds in the amounts and at the rates set forth therein. The City's reduced Base Rental Payments will constitute the total Base Rental Payments. In the event and to the extent the Base Rental Payments and other amounts available to the Trustee under the Indenture are subject to abatement, there could be insufficient amounts to pay principal of and interest on the Bonds in full, and such insufficiency would not constitute a default by the City under the Indenture, the Lease Agreement or otherwise.

If on May 1, 2036, the Indenture shall not be discharged by its terms, or if the Base Rental Payments shall have been abated at any time and for any reason, then the term of the Lease Agreement shall be extended until the Indenture shall be discharged by its terms, but no later than May 1, 2046.

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

The City may enter into other obligations payable from its general fund without the consent of the Bond Owners. To the extent the City issues such obligations, funds available to pay Base Rental Payments may be reduced. See "RISK FACTORS - The Base Rental Payments - Base Rental Payments are Limited Obligations of the City" herein.

No Reserve Fund

The Authority will not fund a reserve fund for the Bonds.

Insurance Relating to the Property

The Lease Agreement requires the City to maintain comprehensive general public liability and property damage insurance and fire insurance with extended coverage on the Leased Property. The City is also required to maintain rental interruption insurance covering loss of the use of any part of the Leased Property in an amount equal to the Base Rental Payments due for a period of 24 months. The City is required to maintain earthquake insurance only with respect to structures and only to the extent available at reasonable cost from reputable insurers, therefore, although the City currently maintains earthquake insurance with respect to the Leased Property, damage from earthquakes may not be covered in future years. The Lease Agreement also requires the City to insure title to the Site Lease Property in an amount not less than the initial principal amount of the Bonds.

See “APPENDIX A - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - SUBLEASE - Insurance” and “RISK FACTORS - The Base Rental Payments - Insurance” herein.

In accordance with the Lease Agreement, the City will cause the Net Proceeds of any insurance payment (other than the Net Proceeds of rental interruption insurance) or any condemnation award to be applied to the prompt repair, restoration, modification, improvement or replacement of the damaged, destroyed or condemned portion of the Leased Property or cure the defect of title to the Leased Property, and any balance of Net Proceeds remaining after such work or cure of title defect has been completed shall be paid to the City. Notwithstanding the foregoing, if the proceeds of such insurance or condemnation award (together with any other money that the City in its discretion has determined to use for such purpose) are at least sufficient to redeem all of the then outstanding Bonds, then the City may elect not to replace the destroyed, damaged or condemned portion of the Leased Property or cure the defect of title to the Leased Property and thereupon shall cause said proceeds to be used for the prepayment of Base Rental pursuant to the Lease Agreement; provided, that the City shall make a determination on whether to prepay Base Rental within 45 days of the date on which the destruction of the Leased Property occurred, the condemnation proceedings were completed or the leasehold interest in the Leased Property was determined to be materially impaired, whichever is applicable, and in any event in sufficient time to provide the Authority and the Trustee with at least 45 days’ prior written notice in the event the City determines to prepay Base Rental Payments.

If there are not sufficient insurance proceeds to complete repair of the Leased Property, the Lease Payment schedule will be proportionally reduced in accordance with the Lease Agreement. Such reduced Base Rental Payments may not be sufficient to pay principal and interest with respect to the Bonds. Such reduction would not constitute a default under either the Indenture or the Lease Agreement.

Remedies on Default

If the City defaults in performance of its obligations under the Lease Agreement, the Trustee, as assignee of the Authority, may elect not to terminate the Lease Agreement and may re-enter and relet the Leased Property and may enforce the Lease Agreement and hold the City liable for all Base Rental Payments on an annual basis while re-entering and reletting the Leased Property. Such re-entry and reletting shall not effect a surrender of the Lease Agreement. Alternatively, the Trustee may elect to terminate the Lease Agreement and may re-enter and relet the Leased Property and seek to recover all costs, losses or damages caused by the City’s default. See “APPENDIX A - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - SUBLEASE - Events of Default.”

CITY OF CHULA VISTA

General Information

Chula Vista is located on San Diego Bay in Southern California, 8 miles south of the City of San Diego and 7 miles north of the Mexico border, in an area generally known as “South Bay.” Chula Vista’s city limits cover approximately 50 square miles. Neighboring communities include the City of San Diego and National City to the north and the City of Imperial Beach and the communities of San Ysidro and Otay Mesa to the south. With a January 2015 estimated population of 257,989, Chula Vista is the second largest city in the County.

The City maintains an internet website (www.chulavistaca.gov) for various purposes, however, none of the information on that website is intended to assist investors in making any investment decision or to provide any continuing information with respect to the Bonds or any other bonds or obligations of the City.

General Organization

Chula Vista was incorporated as a general law city on March 17, 1911, and operates under the council/manager form of government. It became a charter city in 1949. The City is governed by a five-member council consisting of four members and a Mayor, each elected at large for four-year alternating terms. The City Attorney is also elected at large. Beginning in 2016, City Council members will be elected by geographic districts. The positions of City Manager and City Clerk are filled by appointments of the Council. In Fiscal Year 2014/15, the City had 961 authorized full-time staff positions including sworn officers and fire personnel and has budgeted 966 positions in Fiscal Year 2015/16. Including part-time personnel, the City employs approximately 1,150 staff.

The members of the City Council, the expiration dates of their terms and key administrative personnel are set forth in the charts below.

CITY COUNCIL

<u>City Council Member</u>	<u>Term Expires</u>
Mary Casillas Salas, <i>Mayor</i>	December 2018
John McCann	December 2018
Patricia Aguilar	December 2018
Pamela Bensoussan	December 2016
Steve Miesen	December 2016

CITY STAFF

Gary Halbert, *City Manager*
Maria Kachadoorian, *Deputy City Manager/Chief Financial Officer*
Kelley Bacon, *Deputy City Manager*
David Bilby, *Director of Finance/Treasurer*
Mike Sylvia, *Finance and Purchasing Manager*
Glen R. Googins, *City Attorney*
Donna Norris, CMC, *City Clerk*

Governmental Services

Public Safety and Welfare

For Fiscal Year 2015/16, the City of Chula Vista Police Department has authorized total positions of 323, including sworn officers and non-sworn personnel providing patrol, traffic, animal control and investigations. There are nine fire stations located in and operated by the City, staffed by 27 fire personnel.

Community Services

Services provided by the City include building permit and inspection, planning and zoning, landscape and public infrastructure maintenance, street cleaning, traffic signal maintenance and municipal code compliance.

Public Services

Water is supplied to Chula Vista by the Otay Water District and the Sweetwater Water District. Sewer service is provided by the City. Electric power and natural gas are provided by San Diego Gas and Electric.

The Chula Vista Public Library is comprised of three individual libraries connected by a wide-area network. The Library's circulation was approximately 954,000 in Fiscal Year 2013/14. The Library delivers books in English and Spanish, videos and CDs, and community programming to the City's residents nearly every day of the year. The Library contains an Office of Cultural Arts dedicated to advancing the arts and culture in a manner designed to preserve the diverse cultures of the area.

Culture and Leisure

Chula Vista is the home to a variety of cultural and educational facilities such as the Chula Vista Heritage Museum, Onstage Playhouse, and the San Diego Junior Theater.

The Chula Vista Recreation Department provides citizens with a variety of park and recreational services on a year round basis. Facilities include nine community and recreation centers, including a youth community center and a senior center. The City also has two community pools open year round, 43 community and neighborhood parks, and a Memorial Bowl with seating for 700 at which the City's Summer Concert Series is hosted. The City also has after-school recreation programs throughout the community.

Community Facilities and Services

Public educational instruction for kindergarten through high school is provided by the Chula Vista Elementary School District and Sweetwater Union High School District. These districts administer 42 elementary schools, one junior high school, ten middle schools, 11 senior high schools, one continuation high school, one alternative program school and one charter school. There are also four adult education schools and numerous private schools. In addition to Southwestern College, a two year Community College, there are seven universities or colleges within 30 minutes commuting distance from Chula Vista in the San Diego metropolitan area.

There are two acute-care hospitals, two psychiatric hospitals and three convalescent hospitals in Chula Vista.

Chula Vista is home to the 20,000 seat Sleep Train Amphitheatre, the Living Coast Discovery Center, Aquatica SeaWorld Waterpark, four golf courses, numerous parks and open spaces, and a harbor which includes two marinas, an RV park, and several restaurants.

Chula Vista is the location of a United States Olympic Committee (“USOC”) Training Center. This is one of three training centers in the nation and the only year-round training facility. The center is located on a 150-acre property adjacent to the Otay Lake reservoir. The City and USOC are exploring the City’s takeover of responsibilities for operation of the facility, while remaining as much as possible an elite Olympic training center with events and other activities that would be compatible uses.

Transportation

U.S. Highways 5 (along the coast) and 805 (inland) provide full freeway access from Chula Vista north to San Diego and south to the Mexican border. Commuter rail service is provided by the San Diego Trolley, a light rail system. Eleven bus routes serve Chula Vista.

The City established Chula Vista Express, a three-part commuting program to promote public transportation, carpooling, vanpooling, biking and walking to work as alternatives to driving alone. It offers free bus service from the eastern part of the City to downtown San Diego, and a free shuttle from the eastern part of the City to the H Street Trolley Station to a cash incentive for riding or joining a vanpool or carpool.

Air cargo and passenger flight services are provided at San Diego’s Lindbergh International Airport, 12 miles west, which is served by all major airlines. Cargo shipping is available at the Unified Port of San Diego, which serves as a transshipment facility for the region, which includes San Diego, Orange, Riverside, San Bernardino and Imperial counties, plus northern Baja California, Arizona and points east.

Population

The following table provides a comparison of population growth for Chula Vista and San Diego County between 2011 and 2015.

**TABLE NO. 1
CHANGE IN POPULATION
CHULA VISTA AND SAN DIEGO COUNTY
2011 – 2015**

January 1	<u>CHULA VISTA</u>		<u>SAN DIEGO COUNTY</u>		
	<u>Year</u>	<u>Population</u>	<u>Percentage Change</u>	<u>Population</u>	<u>Percentage Change</u>
	2011	245,958		3,115,810	
	2012	248,044	0.8%	3,128,387	0.4%
	2013	252,586	1.8%	3,164,818	1.2%
	2014	255,580	1.2%	3,192,457	0.9%
	2015	257,989	0.9%	3,227,496	1.1%
% Increase Between 2011 - 2015			4.9%	% Increase Between 2011 - 2015	
				3.6%	

Source: State of California, Department of Finance, “E-4 Population Estimates for Cities, Counties, and the State, 2011-2015, with 2010 Census Benchmark” Sacramento, California, May 2015.

Per Capita Personal Income

Per capita personal income information for Chula Vista, San Diego County, the State of California and the United States is summarized in the following table.

TABLE NO. 2
PER CAPITA PERSONAL INCOME
CITY OF CHULA VISTA, SAN DIEGO COUNTY,
STATE OF CALIFORNIA AND UNITED STATES
2010 – 2014

<u>Year</u>	<u>Chula Vista</u>	<u>San Diego County</u> ⁽¹⁾	<u>State of California</u> ⁽¹⁾	<u>United States</u> ⁽¹⁾
2010	\$41,840	\$44,563	\$42,282	\$40,144
2011	43,000	47,095	44,749	42,332
2012	43,720	48,990	47,505	44,200
2013	43,240	49,907	48,434	44,765
2014	43,150	51,459	49,985	46,049

⁽¹⁾ For San Diego County, State of California and United States, per capita personal income was computed using Census Bureau midyear population estimates. Estimates for 2010-2014 reflect county population estimates available as of March 2015.

Note: All dollar estimates are in current dollars (not adjusted for inflation).

Last updated: November 19, 2015 - new estimates for 2014; revised estimates for 2010-2013.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, and City of Chula Vista Comprehensive Annual Financial Report.

Employment

As of December 2015 the civilian labor force for the City was approximately 119,800 of whom 112,600 were employed. The unadjusted unemployment rate as of December 2015 was 6.0% for the City as compared to 4.7% for the County. Civilian labor force, employment and unemployment statistics for the City, County, the State and the United States, for the years 2010 through 2014 are shown in the following table:

**TABLE NO. 3
CITY OF CHULA VISTA
CIVILIAN LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT
ANNUAL AVERAGES**

<u>Year</u>	<u>Civilian Labor Force</u>	<u>Employment</u>	<u>Unemployment</u>	<u>Unemployment Rate</u>
<u>2010</u>				
City of Chula Vista	117,700	102,000	15,700	13.3%
San Diego County	1,516,000	1,353,100	162,900	10.7%
California	18,336,300	16,091,900	2,244,300	12.2%
United States	153,889,000	139,064,000	14,825,000	9.6%
<u>2011</u>				
City of Chula Vista	118,300	103,200	15,100	12.8%
San Diego County	1,526,000	1,368,700	157,300	10.3%
California	18,419,500	16,260,100	2,159,400	11.7%
United States	153,617,000	139,869,000	13,747,000	8.9%
<u>2012</u>				
City of Chula Vista	119,400	105,800	13,600	11.4%
San Diego County	1,544,600	1,403,600	141,000	9.1%
California	18,554,800	16,630,100	1,924,700	10.4%
United States	154,975,000	142,469,000	12,506,000	8.1%
<u>2013</u>				
City of Chula Vista	119,100	107,500	11,600	9.7%
San Diego County	1,546,200	1,425,800	120,400	7.8%
California	18,671,600	17,002,900	1,668,700	8.9%
United States	155,389,000	143,929,000	11,460,000	7.4%
<u>2014</u>				
City of Chula Vista	118,500	108,900	9,500	8.1%
San Diego County	1,544,600	1,445,400	99,200	6.4%
California	18,811,400	17,397,100	1,414,300	7.5%
United States	155,922,000	146,305,000	9,617,000	6.2%

Source: California State Employment Development Department and United States Bureau of Labor Statistics.

Industry

The City is located in the San Diego-Carlsbad Metropolitan Statistical Area. Six major job categories constitute 82.0% of the work force. They are professional and business services (17.1%), government (16.9%), service producing (14.2%), educational and health services (14.1%), leisure and hospitality (12.7%), and manufacturing (7.0%). The December 2015 unemployment rate in the San Diego-Carlsbad MSA was 4.7%. The State of California December 2015 unemployment rate (unadjusted) was 5.8%.

TABLE NO. 4
SAN DIEGO-CARLSBAD METROPOLITAN STATISTICAL AREA
WAGE AND SALARY WORKERS BY INDUSTRY ⁽¹⁾
(in Thousands)

<u>Industry</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Government	229.8	231.2	233.1	236.6	240.3
Other Services	47.4	48.9	49.9	54.1	51.6
Leisure and Hospitality	155.4	162.2	170.9	178.8	180.9
Educational and Health Services	165.5	177.6	184.0	191.1	201.3
Professional and Business Services	212.3	221.8	230.7	237.2	244.2
Financial Activities	68.8	71.7	71.1	70.6	73.6
Information	24.3	24.6	24.7	24.9	25.8
Transportation, Warehousing and Utilities	26.8	28.5	27.2	27.5	27.8
Service Producing					
Retail Trade	143.3	147.4	152.4	152.4	156.3
Wholesale Trade	42.1	44.4	44.0	44.0	45.3
Manufacturing					
Nondurable Goods	22.5	23.5	24.7	24.7	25.0
Durable Goods	71.4	72.2	71.7	72.7	74.2
Goods Producing					
Construction	55.1	58.3	62.6	63.4	69.2
Mining and Logging	<u>0.4</u>	<u>0.4</u>	<u>0.4</u>	<u>0.4</u>	<u>0.4</u>
Total Nonfarm	1,265.1	1,312.7	1,347.4	1,378.4	1,415.9
Farm	<u>8.8</u>	<u>8.7</u>	<u>8.9</u>	<u>9.6</u>	<u>9.4</u>
Total (all industries)	<u>1,273.9</u>	<u>1,321.4</u>	<u>1,356.3</u>	<u>1,388.0</u>	<u>1,425.3</u>

⁽¹⁾ Annually, as of December.

Note: The unemployment rate is calculated using unrounded data. Data may not add due to rounding.

Source: State of California Employment Development Department, Labor Market Information Division, "Industry Employment & Labor Force - by month, March 2014 Benchmark."

Largest Employers

The largest employers operating within the City and their respective number of employees as of June 30, 2015 are as follows:

**TABLE NO. 5
CITY OF CHULA VISTA
LARGEST EMPLOYERS**

<u>Name of Company</u>	<u>Number of Employees</u>	<u>Product/Service</u>
Sweetwater Union High School District	4,121	Education
Chula Vista Elementary School District	3,135	Education
Rohr Inc./Goodrich Aerospace	2,468	Aerospace Manufacturing
Southwestern Community College	1,918	Education
Sharp Chula Vista Medical Center	1,878	Hospital
Wal-Mart	1,239	General Merchandise
City of Chula Vista	1,178	Government
Scripps Mercy Hospital Chula Vista	1,058	Hospital
Costco	597	General Merchandise
24 Hour Fitness	559	Health Club

Source: City of Chula Vista Comprehensive Annual Financial Report.

Commercial Activity

The following table summarizes the volume of retail and food services sales and taxable transactions for the City for 2009 through 2013 (the most recent year for which statistics are available for the full year). The City's sales tax receipts increased by approximately 6.2% between Fiscal Year 2012/13 and Fiscal Year 2014/15. See "FINANCIAL INFORMATION - Local Taxes."

**TABLE NO. 6
CITY OF CHULA VISTA
TOTAL TAXABLE TRANSACTIONS
(in \$ Thousands)
2009 – 2013**

<u>Year</u>	<u>Retail and Food Services (\$000's)</u>	<u>% Change</u>	<u>Retail and Food Services Permits</u>	<u>Total Taxable Transactions (\$000's)</u>	<u>% Change</u>	<u>Issued Sales Permits</u>
2009	\$1,976,176		2,543	\$2,199,592		4,005
2010	2,070,662	4.8%	2,649	2,303,400	4.7%	4,064
2011	2,184,654	5.5%	2,714	2,421,666	5.1%	4,095
2012	2,258,846	3.4%	2,778	2,501,497	3.3%	4,149
2013	2,333,365	3.3%	2,835	2,589,379	3.5%	4,182

Source: California State Board of Equalization, "Taxable Sales in California."

Taxable transactions by type of business for the City are summarized below for 2009 through 2013 (the most recent year for which statistics are available for the full year).

TABLE NO. 7
CITY OF CHULA VISTA
TAXABLE TRANSACTIONS BY TYPE OF BUSINESS
(in \$ Thousands)
2009 – 2013

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
<i>Retail and Food Services</i>					
Clothing and Clothing					
Accessories Stores	\$ 118,759	\$ 134,611	\$ 139,282	\$ 147,168	\$ 150,789
General Merchandise Stores	617,638	649,020	657,146	668,390	675,819
Food and Beverage Stores	117,144	117,923	124,929	131,846	139,157
Food Services and Drinking Places	280,806	287,698	297,506	317,320	338,183
Home Furnishings and					
Appliance Stores	145,785	146,805	150,305	150,541	153,461
Building Materials and Garden					
Equipment and Supplies	94,134	94,588	99,766	105,472	109,437
Motor Vehicle and Parts Dealers					
Gasoline Stations	218,397	255,746	303,189	305,217	304,968
Other Retail Group	<u>194,997</u>	<u>198,423</u>	<u>203,410</u>	<u>202,547</u>	<u>215,390</u>
Total Retail and Food Services	1,976,176	2,070,661	2,184,654	2,258,846	2,333,365
<i>All Other Outlets</i>					
	<u>223,416</u>	<u>232,738</u>	<u>237,013</u>	<u>242,651</u>	<u>256,014</u>
Total All Outlets	<u>\$2,199,592</u>	<u>\$2,303,399</u>	<u>\$2,421,667</u>	<u>\$2,501,497</u>	<u>\$2,589,379</u>

Note: Detail may not compute to total due to rounding.

Source: State Board of Equalization, "Taxable Sales in California."

Building Activity

The following table summarizes building activity valuations for the City of Chula Vista for the Fiscal Years 2010/11 through 2014/15.

**TABLE NO. 8
CITY OF CHULA VISTA
BUILDING ACTIVITY AND VALUATION
(in \$ Thousands)
2010/11 – 2014/15**

<u>Fiscal Year</u>	<u>Residential Building</u>		<u>Non-Residential Building</u>	
	<u>Units</u>	<u>Valuation</u>	<u>Buildings</u>	<u>Valuation</u>
2010/11	861	\$144,615,239	23	\$14,834,350
2011/12	479	120,416,023	12	4,281,013
2012/13	954	226,972,213	13	22,328,114
2013/14	571	116,869,207	26	53,222,385
2014/15	—	—	—	—

Source: City of Chula Vista.

FINANCIAL INFORMATION

Fiscal Policies

The City Council has adopted several policies that form the overall framework within which the City's operating budget is formulated and serve as a basis for resource allocation decisions. These policies are summarized below.

General

- The City's financial assets will be managed in a sound and prudent manner in order to ensure the continued viability of the organization.
- A comprehensive operating and capital budget for all City funds will be developed annually and presented to the City Council for approval. The purpose of the annual budget will be to (1) identify community needs for essential services, (2) identify the programs and specific activities required to provide these essential services, (3) establish program policies and goals that define the nature and level of program services required, (4) identify alternatives for improving the delivery of program services, (5) identify the resources required to fund identified programs and activities, and enable accomplishment of program objectives, and (6) set standards to facilitate the measurement and evaluation of program performance.
- The City's annual operating budget will be balanced whereby planned expenditures do not exceed anticipated revenues.
- Recurring revenues will fund recurring expenditures. One-time revenues will be used for capital, reserve augmentation, or other nonrecurring expenditures.
- Accounting systems will be maintained in accordance with Generally Accepted Accounting Principles.
- Investment policy and practice will be in accordance with State statutes that emphasize safety and liquidity over yield, including quarterly status reports to the City Council.
- City operations will be managed and budgets prepared with the goal of maintaining an available fund balance in the General Fund of no less than 15% of the General Fund operating budget.
- General Fund fiscal status reports reflecting comparisons of actual and projected performance with budget allocations for both revenue and expenditures will be presented to the City Council on a quarterly basis.

Reserves

The City will target to maintain a minimum Operating Reserve equal to 15% of operating budget to address extraordinary needs of an emergency nature, an Economic Contingency Reserve of 5% of operating budget to mitigate service impacts during a significant downturn in the economy and a Catastrophic Event Reserve of 3% of operating budget to fund unanticipated expenses related to a major natural disaster in the City.

The City's Operating Reserve for the Fiscal Year ending June 30, 2015 is expected to be 10.5% and the Economic Contingency Reserve is expected to be 2.6%. To date, the Catastrophic Event Reserve has not been funded.

Revenue

- The City will endeavor to maintain a diversified and stable revenue base in order to minimize the impact to programs from short-term economic fluctuations.
- Revenue projections will be maintained for the current year and four future fiscal years, and estimates will be based on a conservative, analytical, and objective process.
- In order to maintain flexibility, except as required by law or funding source, the City will avoid earmarking any restricted revenues for a specific purpose or program.
- The City has established user fees to best ensure that those who use a proprietary service pay for that service in proportion to the benefits received. With few exceptions, such as those services provided for low-income residents, fees have been set to enable the City to recover the full cost of providing those services.
- User fees will be reviewed and updated on an ongoing basis to ensure that program costs continue to be recovered and that the fees reflect changes in levels of service delivery.
- The City will recover the cost of new facilities and infrastructure necessitated by new development consistent with State law and the City's Growth Management Program. Development Impact Fees will be closely monitored and updated to ensure that they are maintained at a level adequate to recover costs.
- When considering new development alternatives, the City will attempt to determine the fiscal impact of proposed projects, annexations, etc. and ensure that mechanisms are put in place to provide funding for any projected negative impacts on City operations.

Expenditures

- Budgetary control will be exercised at the Department/category level, meaning that each department is authorized to spend up to the total amount appropriated for that department within the expenditure categories of Personnel Costs, Supplies & Services, Other Charges, Utilities, and Capital. Transfers of appropriations between expenditure categories of up to \$15,000 may be approved by the City Manager. Transfers of appropriations between expenditure categories in excess of \$15,000, or between departments require City Council approval.
- Appropriations, other than for capital projects, remaining unspent at the end of any fiscal year will be cancelled and returned to Available Fund Balance with the exception of any appropriations encumbered as the result of a valid purchase order or as approved for a specific project or purpose by the City Council or the City Manager. Appropriations for capital projects will necessarily be carried over from year to year until the project is deemed to be complete.
- The City will establish and maintain equipment replacement and facility maintenance funds as deemed necessary to ensure that monies are set aside and available to fund ongoing replacement needs.
- The City will attempt to compensate non-safety employees at rates above the middle of the labor market as measured by the median rate for similar jurisdictions.

Capital

- Major capital projects will be included in a capital improvement program budget (the "CIP Budget") reflecting a five-year period. The CIP Budget will be updated annually and presented to

City Council for approval. Resources will be formally appropriated (budgeted) for the various projects on an annual basis in accordance with the five-year plan.

Capital Financing and Debt Management

- The City will consider the use of debt financing only for one-time capital improvement projects when the project's useful life will exceed the term of the financing and when resources are identified sufficient to fund the debt service requirements. The only exception to this limitation is the issuance of short-term instruments such as tax and revenue anticipation notes, which will only be considered in order to meet legitimate cash flow needs occurring within a fiscal year.
- The City will attempt to limit the total amount of annual debt service payments guaranteed by the General Fund to no more than 10% of estimated General Fund revenues.
- The City will consider requests from developers for the use of debt financing secured by property based assessments or special taxes in order to provide for necessary infrastructure for new development only under strict guidelines adopted by the City Council, which may include minimum value-to-lien ratios and maximum tax burdens.
- The City will strive to minimize borrowing costs by seeking the highest credit rating possible, procuring credit enhancement such as letters of credit or insurance, when cost effective, and maintaining good communications with credit rating agencies regarding the City's fiscal condition.
- The City will diligently monitor its compliance with bond legal covenants, including adherence to continuing disclosure requirements and federal arbitrage regulations.
- In addition to externally financed debt, the City utilizes inter-fund loans whenever possible to reduce borrowing costs or provide for shorter term loans. When interest is charged on internal loans, it is done at the same rate the City earns from its pooled investments.

Planning Documents

In 2011, the City prepared a Five-Year Financial Outlook and embarked on a Fiscal Recovery and Progress Plan. The City continues to update the five year outlook, with the most recent completed for the five year period 2015-2019. The update for the five year period 2016-2020 is underway. The City also adopted a Strategic Plan in 2012 and is developing a Long-Term Financial Plan. The overall goal of these planning documents is to provide advance information on the City's financial condition that can be used by decision makers in developing budgets and prioritizing goals as well as responding timely to any projected budget imbalances.

Budgetary Process and Administration

An annual budget is adopted by the City Council prior to the first day of the fiscal year. The budget process includes submittal of each department's budget request for the next fiscal year, a detailed review of each department's proposed budget by the City Manager, and a final City Manager recommended budget transmitted to the City Council for its review before the required date of adoption. Once transmitted to the City Council, the proposed budget is made available for public inspection. A public hearing is held to give the public the opportunity to comment upon the proposed budget. Notice of such public hearing is published in a newspaper of general circulation.

The adoption of the budget is accomplished by the approval of a Budget Resolution. The legal level of budgetary control is at the department level. Any budget modification, which would result in an appropriation increase, requires City Council approval. The City Manager and Finance Director are jointly authorized to transfer appropriations up to \$15,000 within a departmental budget. Any appropriation

transfers between departments or greater than \$15,000 require City Council approval.

All appropriations which are not obligated, encumbered or expended at the end of the fiscal year lapse and become a part of the unreserved fund balance which may be appropriated for the next fiscal year.

An annual budget for the year ended June 30, 2016, was adopted and approved by the City Council for the general, special revenue and debt service funds except for the Developer's Deposit Special Revenue Fund, which is used to account for various developer deposits for development projects and is used to fund staff costs and other costs related to specific projects and the Public & Educational Government Fees Special Revenue Fund, which is used to account for the 1% public, education and government access (PEG) costs. These budgets are prepared on the modified accrual basis of accounting. The budgets of the capital projects funds are primarily long-term budgets, which emphasize major programs and capital outlay plans extending over a number of years.

Economic Conditions and Outlook

The City's financial outlook is more stable than it has been in recent years. Positive revenue growth, implementation of efficiency measures, the cooperation of City labor groups and strong City Council leadership have help stabilize the City's financial base. However, the City continues to seek new ways of maximizing limited resources to deliver high-quality services to the community.

Sales Tax. Sales tax revenue is highly sensitive to economic conditions and reflects the factors that drive taxable sales including the levels of unemployment, consumer confidence, per capita income and business investment. Consumer spending decreased significantly nationwide due to the economic recession. However recent trends show that sales tax revenues are beginning to increase due to improvement in local economic indicators. The positive trend was expected to continue in Fiscal Year 2015/16 and was reflected in the projections with an increase of 2.3%, or approximately \$700,000 compared to 2014/15 estimates when the budget was prepared, and 4.7% or \$1.4 million more than the 2014/15 actual sales tax.

Property Tax. Property tax revenue fell throughout the economic recession, with Chula Vista being one of the hardest hit areas in San Diego County. During the economic recession the City's assessed valuation dropped over 15% and until 2013/14 was still declining. Over the last two fiscal years the City's assessed value has increased, and this positive trend was anticipated to continue into Fiscal Year 2015/16 as reflected in a budgeted property tax revenue increase of 3.3%, or approximately \$1 million compared to 2014/15 estimates. A similar increase was budgeted for property taxes paid to the City in lieu of motor vehicle license fees (See "Motor Vehicle License Fees" below). The actual assessed value for Fiscal Year 2015/16 reflected a net increase of approximately 4.8%.

Transient Occupancy Tax. The trend for City transient occupancy tax ("TOT") revenues has been improving since 2010 and actual TOT revenue has increased on a yearly basis since that time. Continuing with this improving trend, Fiscal Year 2015/16 TOT revenues were budgeted to increase 3% over Fiscal Year 2014/15 estimates. Actual TOT revenues for 2014/15 were \$3.1 million, or \$200,000 higher than the 2015/16 budgeted amounts.

Staffing Levels. As revenues have improved, the City has continued the trend of slowly recovering it's staffing levels previously reduced as a result of the great recession. Since Fiscal Year 2011/12 the City has been able to achieve a modest 4.5% increase in staffing, managing to keep pace with the population 4% increase over the same time period, resulting in no net increase in full time equivalent positions ("FTE") since 2011/12, when budget constraints necessitated the elimination of 331 FTE positions from the City's peak employment of 1,264 FTEs during Fiscal Year 2006/07.

Pension Costs. The increase in retirement cost driven by rising CalPERS rates is a significant budgetary challenge facing the City. The payments made to the retirement system equals 15.3% of the City's General Fund in the Fiscal Year 2015/16 proposed budget. Over the last several years CalPERS has made a series

of changes that have resulted in higher contribution rates. The impact of these cost increases have been partially offset through negotiations with the City's bargaining groups, and have resulted in the implementation of pension reform. Under the negotiated pension reform, employees have agreed to pay their share of pension costs, thereby reducing the impact of pension cost increases to the City's budget.

Health Care Costs. Flex/health insurance represents an 8.5% of total Fiscal Year 2015/16 General Fund expenditure budget and account for the healthcare costs for permanent employees. The annually increasing flex/health insurance cost is also a challenge that the City will continue to address in future budgets. For example medical premiums the City pays on behalf of Public Safety employees increased between 21% and 34% since calendar year 2011.

Revenues and Expenditures

The City's General Fund Budget includes programs which are provided on a largely city-wide basis. The programs and services are financed primarily by the City's share of property taxes, sales tax, revenues from the State, and charges for services provided.

A comparison of the results for Fiscal Year 2013/14, the Fiscal Year 2014/15 budget and actual results for Fiscal Year 2014/15 and the budget for Fiscal Year 2015/16 is 2.9 million, while expenditures were only \$300,000 higher than budgeted.

Revenues

The largest components of budgeted Fiscal Year 2015/16 General Fund revenues (including transfers) are sales tax (22.8%), property tax (21.4%) and property tax in lieu of motor vehicle license fees (13.3%).

The revenues in Table No. 9 that follows are categorized as:

- Property Taxes and Property Taxes In Lieu of Motor Vehicle License Fees (see "State Legislative Shifts of Property Tax Allocation" below);
- Sales Taxes, including the "triple flip" (see "State Legislative Shifts of Property Tax Allocation" below);
- Other Taxes, detailed in Table No. 14 "Tax Revenues by Source," which include utility users tax, transient occupancy tax, franchise fees, business licenses and other taxes such as documentary transfer tax;
- Licenses and Permits, which includes construction building permits and engineering permits;
- Fines, Forfeitures and Penalties, which includes municipal and vehicle code violations;
- Use of Money and Property, which includes rental income for various City facilities and investment income;
- Intergovernmental Revenue;
- Charges for Services, comprised of charges such as plan checking, building inspection and other municipal services, animal shelter contracts, services to the Port of San Diego, recreation program fees and staff services reimbursement;
- Other Revenue, which includes charges to other funds for overhead and administration, and reimbursements for costs relating to staffing for open space and assessment district maintenance and capital improvements, and

- Transfers In from the Gas Tax Fund, Traffic Safety Fund, Asset Seizure Fund, Proposition 42 Fund, Sewer Service Fund and other funds to reimburse for qualifying expenditures or overhead.

Expenditures

The expenditures in Table No. 9 that follows are categorized by governmental function. Each function generally includes salaries and benefits and materials and supplies.

Salaries and Benefits include direct personnel costs, benefits, health insurance costs and workers' compensation and unemployment insurance costs. Materials and supplies include non-personnel operating costs and contract professional services.

Operating Transfers Out are primarily transfers to the debt service funds for the General Fund share of payments on outstanding debt not paid for using Public Facilities Development Impact Fees (see "Public Facilities Development Impact Fees" below).

The City provides both police and fire services. These public safety expenditures represent approximately 53.2% of the total budgeted General Fund expenditures (including transfers) for Fiscal Year 2015/16.

As noted, Table No. 9 provides a comparison of results for Fiscal Year 2013/14, the Fiscal Year 2014/15 budget, the actual results for Fiscal Year 2014/15 and the budget for Fiscal Year 2015/16. Historical financial information is shown in Table No. 25.

**TABLE NO. 9
CITY OF CHULA VISTA
GENERAL FUND REVENUES AND EXPENDITURES**

	2013/14	2014/15	2014/15	2015/16
	<u>Actual</u>	<u>Budget</u>	<u>Actual</u>	<u>Budget</u>
Revenues:				
Property Tax	\$ 28,492,215	\$ 28,032,214	\$ 29,705,939	\$ 29,896,924
Property Tax in Lieu of MVLF	16,773,957	17,450,125	17,779,353	18,597,204
Sales Tax	29,171,174	30,455,693	30,394,291	31,830,591
Other Taxes ⁽¹⁾	31,281,292	20,774,802	22,858,848	23,079,601
Licenses and Permits	1,315,445	1,309,447	1,281,656	1,309,447
Intergovernmental Revenue	2,477,214	3,440,490	1,933,114	2,789,541
Fines, Forfeitures and Penalties	1,009,736	1,110,800	1,638,251	1,133,800
Use of Money & Property	2,522,915	2,439,246	2,832,039	2,676,807
Charges for Services ⁽²⁾	9,257,946	7,649,532	9,430,097	7,701,176
Other Revenue	1,381,502	868,212	3,538,553	940,970
Reimbursements from Other Funds	10,199,020	10,297,404	9,273,303	9,759,977
Transfers In ⁽²⁾	<u>9,571,300</u>	<u>10,708,779</u>	<u>9,994,525</u>	<u>9,988,321</u>
Total Revenues	143,453,716	134,536,744	140,659,969	139,704,359
Expenditures:				
General Government	18,316,773	18,124,817	20,841,178	19,433,341
Public Safety - Police	43,683,206	46,044,342	46,484,920	48,608,964
Public Safety - Fire	25,093,218	24,878,821	26,024,758	24,680,343
Public Works	27,092,607	27,939,619	27,822,644	29,404,880
Recreation and Library	6,925,073	7,476,017	7,273,387	7,982,168
Planning and Building	2,269,389	2,609,039	2,464,305	2,476,400
Capital Outlay	849,234	1,724,067	1,081,105	1,019,016
Transfers Out ⁽¹⁾	<u>14,234,482</u>	<u>5,740,022</u>	<u>6,082,780</u>	<u>6,099,247</u>
Total Expenditures	138,463,982	134,536,744	138,075,077	139,704,359
Net Change in Fund Balances	4,989,734	-	2,584,892	-
Beginning Unassigned Fund Balance	10,790,135	14,417,422	14,511,252	14,554,698
Change in Reserves	<u>(1,268,617)</u>	<u>-</u>	<u>(683,266)</u>	<u>-</u>
Ending Unassigned Fund Balance ⁽³⁾	\$ 14,511,252	\$ 14,417,422	\$16,412,878	\$ 14,554,698

⁽¹⁾ In Fiscal Year 2013/14, other taxes include recognition of \$10.5 million in deferred utility users tax and transfers out of \$8,017,453 pursuant to a settlement agreement (see "Local Taxes" below).

⁽²⁾ The City budgets charges for ambulance services in a separate fund and transfers in the revenues to the General Fund. These revenues are shown as Charges for Services in the audited financial statements.

⁽³⁾ Does not include Committed or Assigned Fund Balance. See "Financial Statements - GASB Statement No. 54" herein.

Source: City of Chula Vista.

Ad Valorem Property Taxes

Taxes are levied for each fiscal year on taxable real and personal property which is situated in the City as of the preceding January 1. For assessment and collection purposes, property is classified either as “secured” or “unsecured,” and is listed accordingly on separate parts of the assessment roll. The “secured roll” is that part of the assessment roll containing State assessed property and real property having a tax lien which is sufficient, in the opinion of the assessor, to secure payment of the taxes. Other property is assessed on the “unsecured roll.”

Property taxes on the secured roll are due in two installments, on November 1 and February 1 of the fiscal year. If unpaid, such taxes become delinquent on December 10 and April 10, respectively, and a 10% penalty attaches to any delinquent payment. In addition, property on the secured roll with respect to which taxes are delinquent is sold to the State on or about June 30 of the fiscal year. Such property may thereafter be prepaid by payment of the delinquent taxes and the delinquency penalty, plus a prepayment penalty of 1½% per month to the time of prepayment. If taxes are unpaid for a period of five years or more, the property is subject to sale by the County Tax Collector.

Property taxes on the unsecured roll become delinquent, if unpaid on August 31. A 10% penalty attaches to delinquent taxes on property on the unsecured roll, and an additional penalty of 1½% per month begins to accrue on November 1 of the fiscal year. The County of San Diego has four ways of collecting delinquent unsecured personal property taxes: (1) a civil action against the taxpayer; (2) filing a certificate in the office of the County Clerk specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer; (3) filing a certificate of delinquency for record in the County Recorder’s Office, in order to obtain a lien on certain property of the taxpayer; and (4) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the assessee.

The Board of Supervisors of the County approved the implementation of 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. Under the Teeter Plan, the County apportions secured property taxes and assessments on an accrual basis when due (irrespective of actual collections) to participating local political subdivisions for which the County acts as the levying or collecting agency. The City does not participate in the Teeter Plan. As a result, the County apportions to the City only the secured property taxes actually collected, including penalties and interest paid on delinquent installments of property taxes.

Taxable Property and Assessed Valuation

Set forth in Table No. 10 are assessed valuations for secured and unsecured property within the City. Article XIII A of the California Constitution prescribes the method for determining the full cash value of real property and the maximum ad valorem tax on real property. The full cash value, once established, is subject to annual adjustment to reflect inflation at a rate not to exceed 2% or a reduction in the California Consumer Price Index. There may also be declines in valuations if the California Consumer Price Index is negative.

Proposition 8 provides for the assessment of real property at the lesser of its originally determined (base year) full cash value compounded annually by the inflation factor, or its full cash value as of the lien date, taking into account reductions in value due to damage, destruction, obsolescence or other factors causing a decline in market value. Reductions based on Proposition 8 do not establish new base year values, and the property may be reassessed as of the following lien date up to the lower of the then-current fair market value or the factored base year value. The City saw significant Proposition 8 reductions in property values between 2008 and 2012, reducing assessed value by 19%. Assessed values increased by 2.2% in 2013 (Fiscal Year 2013/14), 7.9% in 2014 (Fiscal Year 2014/15) and 4.8% in 2015 (Fiscal Year 2015/16). See “RISK FACTORS - Constitutional Limitation on Taxes and Expenditures - Article XIII A” and “- Proposition 8 Adjustments” herein.

**TABLE NO. 10
CITY OF CHULA VISTA
GROSS ASSESSED VALUE OF ALL TAXABLE PROPERTY**

<u>Fiscal Year</u>	<u>Secured</u>	<u>Unsecured</u>	<u>Total</u>
2009/10	\$21,556,536,548	\$540,453,455	\$22,096,990,003
2010/11	20,727,034,672	508,410,557	21,235,445,229
2011/12	20,622,452,438	531,510,997	21,153,963,435
2012/13	20,459,110,877	483,686,031	20,942,796,908
2013/14	21,179,757,717	466,551,192	21,646,268,909
2014/15	22,642,031,835	448,408,518	23,090,440,353
2015/16	23,761,465,611	454,158,733	24,215,624,344

Source: County of San Diego Auditor-Controller.

A five year history of property tax levies and collections for the City is set forth in Table No. 11.

**TABLE NO. 11
CITY OF CHULA VISTA
PROPERTY TAX LEVIES AND COLLECTIONS**

<u>Fiscal Year</u>	<u>Total Tax Levy</u> ⁽¹⁾	<u>Current Tax Collections</u>	<u>Percentage of Levy Collected</u>	<u>Collections in Subsequent Years</u> ⁽²⁾	<u>Total Tax Collections</u>	<u>Percentage of Levy</u>
2010/11	25,325,126	24,773,002	97.82	134,325	24,907,328	98.35
2011/12	25,373,780	24,669,632	97.22	(35,474)	24,634,158	97.09
2012/13	25,352,454	24,982,072	98.54	117,973	25,100,045	99.00
2013/14	26,063,753	25,758,225	98.83	39,776	25,798,001	98.98
2014/15	27,726,666	27,398,740	98.82	36,404	27,435,143	98.95

⁽¹⁾ Levy amounts do not include supplemental taxes.

⁽²⁾ Collection amounts represent delinquencies collected for all prior years during the current tax year. Total delinquent collections are reduced by any refunds processed from prior year tax collections.

Source: City of Chula Vista.

Redevelopment Agencies

The California Redevelopment Law (Part 1 of Division 24 of the Health and Safety Code of the State) authorized the redevelopment agency of any city or county to receive an allocation of tax revenues resulting from increases in assessed values of properties within designated redevelopment project areas (the “incremental value”) occurring after the year the project area was formed. In effect, local taxing authorities, such as the City, realized tax revenues only on the assessed value of such property at the time the redevelopment project is created for the duration of such redevelopment project. There were two redevelopment projects in the City. Table No. 12 sets forth total assessed valuations and redevelopment agency incremental values.

The State Legislature approved a bill, AB X1 26, during the 2011/12 State budget process. AB X1 26 eliminated redevelopment agencies State-wide. The California Redevelopment Association and the League of California Cities filed a petition with the California Supreme Court (the “Court”), requesting the Court to review the constitutionality of AB X1 26. On December 29, 2011, the Court issued its opinion and upheld

AB X1 26. As a result of the decision, all California redevelopment agencies, including the City's Redevelopment Agency, were dissolved as of February 1, 2012. Certain tax revenues allocable to the former Redevelopment Agency will continue to be available to the City, as successor agency to the Redevelopment Agency, to pay certain obligations, and some of those revenues may be redirected to other taxing agencies, such as the County, school districts and the City. The City's General Fund was impacted by the implementation of AB X1 26 (and subsequent legislation AB 1484) and those impacts were incorporated into the City's budget beginning in 2012/13. See "RISK FACTORS - State Budget; Redevelopment Agency Legislation."

**TABLE NO. 12
CITY OF CHULA VISTA
TOTAL AND NET PROPERTY TAX VALUATIONS**

Fiscal Year	Total Assessed Valuation	Redevelopment Agency Incremental Value	Net Value	Percent Change
2009/10	\$22,096,990,003	\$(1,225,949,135)	\$20,871,040,868	(11.8)%
2010/11	21,235,445,229	(1,172,995,829)	20,062,449,400	(3.9)
2011/12	21,153,963,435	(1,212,102,912)	19,941,860,523	(0.6)
2012/13	20,942,796,908	(1,143,033,852)	19,799,763,056	(0.7)
2013/14	21,399,932,979	(1,255,372,303)	20,144,560,676	1.7
2014/15	23,090,440,553	(1,260,053,981)	21,830,386,572	8.3

Source: County of San Diego Auditor-Controller.

Largest Taxpayers

The largest property taxpayers as of June 30, 2015 are as shown in Table No. 13.

**TABLE NO. 13
CITY OF CHULA VISTA
LARGEST PROPERTY TAXPAYERS**

Taxpayer	Assessed Valuation	Percent of Total
Rohr Inc.	\$ 225,819,454	0.98%
JPB Development	206,435,871	0.89%
Brisa Acquisitions LLC	117,000,000	0.51%
Regulo Place Apartments Invest	100,348,224	0.43%
Vista Pacific Villas LP	89,856,103	0.39%
Olympic Pointe West Communities	79,773,634	0.35%
Chula Vista Center LP	70,679,733	0.31%
EQR Teresina LP	68,091,753	0.29%
Camden USA Inc.	65,770,597	0.28%
ESSEL LP	<u>51,803,100</u>	<u>0.22%</u>
Total	\$1,075,578,469	4.66%

Source: City of Chula Vista.

State Legislative Shifts of Property Tax Allocation

Since 1992/93, the State has required that local agencies including cities remit a portion of property taxes received to augment school funding. These funds are deposited in each county's Education Revenue Augmentation Fund ("ERAF"). These property taxes (approximately 17.5%) are permanently excluded from the City's property tax revenues.

On July 24, 2009, the California legislature approved amendments to the 2009/10 Budget to close its anticipated \$26.3 billion budget shortfall. The approved amendments included borrowing from local governments by withholding of the equivalent of 8% of Fiscal Year 2008/09 property related tax revenues from cities' and counties' property tax collections under provisions of Proposition 1A (approved by the voters in 2004), which the State was required to repay with interest within three years. The City participated in the Proposition 1A securitization program undertaken by the California Statewide Community Development Authority, whereby the City sold the \$4,488,610 receivable that resulted from the State borrowing of property tax revenues. The first (and to date, only) shift occurred in Fiscal Year 2009/10. Fiscal Year 2012/13 was the first year that another shift was allowable, but the State has not implemented another borrowing yet.

In addition, certain other provisions in the State budget have resulted in a realignment of property tax revenues:

On March 2, 2004, voters approved a bond initiative formally known as the "California Economic Recovery Act." This act authorized the issuance of \$15 billion in bonds to finance the Fiscal Year 2002/03 and Fiscal Year 2003/04 State budget deficits, which would be payable from a fund to be established by the redirection of tax revenues through the Triple Flip as described more fully below.

Under the "Triple Flip," one-quarter of local governments' 1% share of the sales tax imposed on taxable transactions within their jurisdiction will be redirected to the State. In an effort to eliminate the adverse impact of the sales tax revenue redirection on local government, the legislation provides for property taxes in the ERAF to be redirected to local government. Because the ERAF moneys were previously earmarked for schools, the legislation provides for schools to receive other state general fund revenues. The swap of sales taxes for property taxes terminated once the deficit financing bonds were repaid in September 2015. The City treated the Triple Flip property tax revenue as sales tax in its financial statements.

The City also received a portion of Department of Motor Vehicles license fees ("VLF") collected statewide. Several years ago, the State-wide VLF was reduced by approximately two-thirds. However, the State continued to remit to cities and counties the same amount that those local agencies would have received if the VLF had not been reduced, known as the "VLF backfill." The State VLF backfill was phased out and by 2011/12 all of the VLF is now received through an in lieu payment from State property tax revenues.

Local Taxes

In addition to ad valorem taxes on real property, the City receives the following non-real estate local taxes (see "RISK FACTORS - Constitutional Limitation on Taxes and Expenditures - Proposition 62" and "- Proposition 218" herein).

Sales and Use Taxes. Sales tax is collected and distributed by the State Board of Equalization. Each local jurisdiction receives an amount equal to 1% of taxable sales within their jurisdiction. In addition, the City receives a portion of a ½ cent sales tax increase approved by voters in 1993 pursuant to Proposition 172. Sales tax generated by this increase is used to offset certain expenses for public safety.

Utility Users Tax. A utility users tax ("UUT") is levied on gas and electric customers based on usage (.01103 per therm for gas; .00300 per kilo watt for electricity) and telephone services based on gross receipts. The UUT was first levied in 1970 and the last increase in tax rates was in 1979. A class action

lawsuit was filed against the City contending that a tax on wireless phone use was not covered in the implementing UUT ordinance. A preliminary settlement agreement was entered into in April 2013 for rebates to affected wireless phone users who paid the UUT of their wireless phone bills from April 2010 to April 2013. The court approved the final settlement on December 12, 2013.

At June 30, 2012, the City had recorded \$7.3 million of disputed UUT as “deferred revenue” on its balance sheet. As of June 30, 2013, the City recorded another \$4.1 million as “deferred revenues,” moved \$8,000,000 of disputed UUT to a liability account in accordance with the settlement agreement, and recorded \$900,000 of prior deferred revenue to pay expenses of the UUT litigation, leaving \$2.5 million in UUT that had been collected in the “deferred revenue” account. Under the terms of the settlement, a portion of the \$8 million was applied to pay legal fees and expenses and a portion was paid to the claims administrator for disbursement to the affected class of wireless phone users. Pursuant to the settlement agreement, the balance of the funds were earmarked as separate from the General Fund and used for the benefit of Chula Vista citizens to address communications, police services, fire services, libraries, parks and recreation services. Pursuant to the settlement, starting March 1, 2014 the UUT rate on phone service was reduced from 5% to 4.75%.

The City recognized a total \$10.5 million of deferred UUT revenue in 2013/14, which is reflected in Table No. 14.

There is no time limit established for the collection of the utility users tax or the transient occupancy tax. There is also no expiration for the levy of sales tax pursuant to Proposition 172. See “RISK FACTORS - The Base Rental Payments” and “Constitutional Limitation on Taxes and Expenditures - Proposition 218” herein.

Franchise Fees. The City levies a franchise fee on its cable television, trash collection and utility franchises. The City increased its franchise fees in 2014/15.

Business License Tax. The City levies a business license tax based on number of employees.

Transient Occupancy Tax. The City levies a 10% transient occupancy tax on hotel and motel bills.

Property Transfer Taxes. The City receives a documentary stamp tax which is assessed for recordation of real property transfers.

**TABLE NO. 14
CITY OF CHULA VISTA
TAX REVENUES BY SOURCE**

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>Budget 2016</u>
Property Tax	\$24,518,260	\$27,876,534	\$ 28,492,215	\$29,705,939	\$ 29,896,924
Property Tax In Lieu of VLF ⁽¹⁾	16,288,377	16,253,826	16,773,957	17,779,353	18,597,204
Sales Tax	27,275,753	28,627,785	29,171,174	30,394,291	31,830,591
Franchise Fees	8,400,178	9,266,768	8,845,067	10,831,671	11,426,283
Utility Users Tax ⁽²⁾	3,465,136	4,428,794	17,525,294	6,364,691	6,500,000
Transient Occupancy Tax	2,295,675	2,471,252	2,632,774	3,136,847	2,890,853
Business License Tax	1,169,307	1,260,622	1,328,554	1,407,145	1,429,643
Property Transfer Tax	<u>779,981</u>	<u>1,125,252</u>	<u>949,603</u>	<u>1,118,494</u>	<u>832,822</u>
Total	\$84,192,667	\$91,310,833	\$105,718,638	\$100,738,431	\$103,404,320

⁽¹⁾ See “Motor Vehicle License Fees” below. For comparison purposes, these amounts are included in “Taxes” for all years.

⁽²⁾ The City began recording a portion of the utility users’ tax as deferred revenue in Fiscal Year 2010/11. In 2012/13, the City recognized \$900,000 of deferred revenue to pay expenses related to the settlement described above. In 2013/14, the remaining \$10.5 million of deferred revenue was recognized.

Source: City of Chula Vista.

Motor Vehicle License Fees

As described above, the City receives a portion of VLF collected state-wide. The total VLF budgeted for Fiscal Year 2015/16 is \$18.6 million, all of which is included in the City’s Fiscal Year 2015/16 budget as intergovernmental revenues, but will be received through an in lieu payment from State property tax revenues. Although the VLF is shown in Table No. 14 in all years as “Property Tax In Lieu of VLF” for comparison purposes, the property tax portion of the VLF was phased in over several years, and in the City’s financial statements (except for Fiscal Year 2011/12 and 2013/14), is shown in “Intergovernmental Revenues.”

Public Facilities Development Impact Fees

The City assesses certain fees on new development. One such fee is the Public Facilities Development Impact Fee, or “PFDIF.” These revenues are recorded in a Development Impact Fee Fund. See “APPENDIX B - CITY AUDITED FINANCIAL STATEMENTS.” The City utilizes the PFDIF to offset the cost of constructing or financing certain public facilities, such as the renovation of the Civic Center complex and the Police Headquarters, including paying a portion of the lease payments related to the financing of these improvements. See “Outstanding Indebtedness of the City” below.

The receipt of the PFDIF is dependent upon building activity in the City and such revenues were significantly reduced during the recession years. Over the last eight years PFDIF revenues have ranged from a high of \$18 million in Fiscal Year 2005/06 to a low of \$695,793 in Fiscal Year 2008/09. Such amounts have not always been adequate in recent years to pay the proportionate share of lease payments as expected and such amounts have instead been funded with the PFDIF fund balance or interfund loans made to the PFDIF fund. The accumulated balance of PFDIF revenues at June 30, 2015 is approximately \$8 million and the interfund loans due to other funds from the PFDIF was \$10.7 million.

<u>Fiscal Year</u>	<u>PFDIF Revenues</u> ⁽¹⁾
2006/07	\$2,130,561
2007/08	2,861,465
2008/09	695,793
2009/10	1,610,071
2010/11	4,208,203
2011/12	3,122,330
2012/13	6,808,865
2013/14	4,554,723
2014/15	
2015/16 Budget	2,850,000

⁽¹⁾ Does not include investment income/market value decline in investment value or reimbursements from other funds for prior expenditures.

Source: City of Chula Vista.

The City’s budget for Fiscal Year 2015/16 includes \$2.85 million in PFDIF fee revenues as compared to a total of approximately \$5.8 million in the portion of lease payments on all City financings which could be paid from such revenues (see “Outstanding Indebtedness of the City”). While the City has projected that future development will stabilize and believes that annual PFDIF revenues, or accumulated PFDIF revenues, will be available to pay a portion of the lease payments referenced above, there can be no guarantee that building activity will occur as anticipated, and as a result, the City General Fund may be required to pay a greater share of lease payments than currently anticipated by the City. However, to mitigate future fluctuations in PFDIF revenues again impacting the General Fund, the City has reserved \$5.8 million (one year’s share of debt service on PFDIF – eligible projects) of the current \$8.0 million fund balance.

Personnel

Employee salaries and benefits account for over 80% of the City’s General Fund expenditures estimate for Fiscal Year 2015/16. Table No. 15 sets forth historical employee information for the City as of June 30 in each of the last five fiscal years and budgeted for 2015/16 based on authorized, budgeted full-time equivalent positions.

**TABLE NO. 15
CITY OF CHULA VISTA
CITY PERSONNEL**

<u>Fiscal Year</u>	<u>Number of Full Time Permanent Employees</u>	<u>Employees Per Thousand Population</u>
2010/11	1,005	4.09
2011/12	923	3.72
2012/13	932	3.70
2013/14	950	3.70
2014/15	961	3.70
2015/16	966	3.70

Source: City of Chula Vista.

Employee Relations and Collective Bargaining

City employees are represented by five labor unions and associations: the Chula Vista Employees' Association ("CVEA"), the Chula Vista Police Officers' Association ("POA"), the International Association of Fire Fighters ("IAFF"), the Western Council of Engineers ("WCE") and Mid Managers and Professional Association ("MMPA"). CVEA is the largest association, representing approximately 45.5% of all City employees. Currently 95% of all City employees are covered by negotiated agreements. Current negotiated agreements of POA, IAFF, CVEA, WCE expire June 30, 2017. The current negotiated agreement with MMPA expires June 30, 2018.

Retirement Programs

The City contributes to the California Public Employees Retirement System ("PERS"), an agent multiple-employer public employee defined benefit pension plan. The City's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Copies of PERS' annual financial report may be obtained from its executive office at 400 Q Street, Sacramento, California 95811.

California Public Employees' Pension Reform Act of 2013. On September 12, 2012, the Governor signed into law the California Public Employees' Pension Reform Act of 2013 (the "Reform Act"), which makes changes to both PERS and California State Teachers' Retirement System ("CalSTRS"), most substantially affecting new employees hired after January 1, 2013 (the "Implementation Date"). For non-safety PERS participants hired after the Implementation Date, the Reform Act changes the normal retirement age by increasing the eligibility for the 2% age factor from age 55 to 62 and increases the eligibility requirement for the maximum age factor of 2.5% to age 67. Among the other changes to PERS and CalSTRS, the Reform Act also: (i) requires all new participants enrolled in PERS and CalSTRS after the Implementation Date to contribute at least 50% of the total annual normal cost of their pension benefit each year as determined by an actuary, (ii) requires CalSTRS and PERS to determine the final compensation amount for employees based upon the highest annual compensation earnable averaged over a consecutive 36-month period as the basis for calculating retirement benefits for new participants enrolled after the Implementation Date, and (iii) caps "pensionable compensation" for new participants enrolled after the Implementation Date at 100% of the federal Social Security contribution and benefit base for members participating in Social Security or 120% for members not participating in social security, while excluding previously allowed forms of compensation under the formula such as payments for unused vacation, annual leave, personal leave, sick leave, or compensatory time off. Ultimately, the Reform Act is expected to reduce the City's long-term pension obligation as existing employees retire and new employees are hired to replace them.

Funding Policy. The City has established two separately funded retirement plans, one for safety employees (Safety Plan) and one for all other covered employees (Miscellaneous Plan). The City has implemented a three-tiered structure and participants become members of a specific tier based on their date of membership to PERS. Participants in the Miscellaneous Plan are required to contribute 8%, 7% and 6.75% of their annual covered salary for tiers 1, 2 and 3, respectively. Participants in the Safety Plan contribute 9% of their annual covered salary regardless of PERS membership date or tier. The City employees make the required contributions.

Under Governmental Accounting Standards Board (“GASB”) Statement No. 27, an employer reports an annual pension cost (“APC”) equal to the annual required contribution (“ARC”) plus an adjustment for the cumulative difference between the APC and the employer’s actual plan contributions for the year. The cumulative difference is called the net pension obligation. The ARC for the period July 1, 2014 to June 30, 2015 was determined by an actuarial valuation of the plan as of June 30, 2013. The contribution rate indicated for that period is 26.235% of payroll for the Miscellaneous Plan and 28.857% of payroll for the Safety Plan. In order to calculate the dollar value of the ARC for inclusion in financial statements prepared as of June 30, 2015, the contribution rate is multiplied by the payroll of covered employees that were paid during the period from July 1, 2014 to June 30, 2015.

See below for a further discussion of GASB Statement No. 27 and the impact of GASB Statement No. 68 on pension reporting.

Contribution Rates. The contribution requirements of plan members and the City are established by PERS. These rates are factored in to the City’s 2015/16 budget.

A history of the PERS annual portfolio rate of return is shown below. The PERS portfolio rate of return for the most recent fiscal year ending June 30, 2015 was 2.4%. For the most recent calendar year 2014 for which data is available, a rate of return of 6.5% was achieved. Future earnings performance and adjustments of assumptions may increase or decrease future contribution rates for plan participants, including the City.

**TABLE NO. 16
PERS HISTORICAL INVESTMENT RETURNS**

Year Ending <u>June 30</u>	Rate of <u>Return</u>
2006	12.3%
2007	19.1
2008	(4.9)
2009	(23.4)
2010	11.6
2011	20.9
2012	1.0
2013	12.5
2014	18.4
2015	2.4

Source: California Public Employees’ Retirement System.

The City's percentage of payroll for PERS payments for 2008/09 through 2015/16 and estimates for 2016/17 and for 2017/18 are shown in the table below. These rates do not include the employees' contribution rates.

**TABLE NO. 17
CITY OF CHULA VISTA
HISTORICAL AND PROJECTED PERS RATES**

<u>Fiscal Year</u>	<u>Miscellaneous</u>	<u>Safety</u>
2008/09	18.317%	23.936%
2009/10	18.152%	23.228%
2010/11	19.599%	22.654%
2011/12	22.702%	26.134%
2012/13	23.668%	26.492%
2013/14	25.437%	27.316%
2014/15	26.235%	28.857%
2015/16	28.119%	30.431%
2016/17*	—	—
2017/18*	—	—

* Projected by PERS at November 2015. Assumes a 7.5% rate of return.

Source: California Public Employees' Retirement System.

Recent Changes in Actuarial Assumptions.

In March 2012, PERS voted to decrease the investment rate of return used in future actuarial valuations from 7.75% to 7.5%. This change was implemented over a two-year period beginning with the 2013/14 rates.

In April 2013, PERS voted to raise employer rates roughly 50% over the next seven years, replacing current actuarial methods. Over five years, the new method increases employer rates to the level needed to project 100% funding in 30 years.

Also in April 2013, PERS approved a recommendation to change the amortization and smoothing policies. Prior to this change, PERS employed an amortization and smoothing policy, which spread investment returns over a 15-year period while experience gains and losses were amortized over a rolling 30-year period. Effective with the June 30, 2013 valuations, PERS will no longer use an actuarial value of assets and will employ an amortization and smoothing policy that will spread rate increases or decreases over a five-year period, and will amortize all experience gains and losses over a fixed 30-year period.

The new amortization and smoothing policy was used for the first time in the June 30, 2013 actuarial valuations. These valuations were performed in the fall of 2014 and affect employer contribution rates beginning in Fiscal Year 2015/16.

In February 2014, PERS adopted new demographic assumptions regarding improved mortality rates. According to PERS, this could result in rates as much as 2% to 5% higher. The impact would be phased in and affects rates beginning in Fiscal Year 2016/17.

Although there is no assurance as to the actual level of PERS rates in future fiscal years, the City expects PERS rates to stabilize within 5 years as the smoothing policy and other policy changes are fully recognized and there are less Tier 1 employees and more Tier 3 employees.

Annual Pension Costs. A ten-year history of the City’s required annual pension cost and actual contribution is shown in the table below. The required contribution was determined as part of annual actuarial valuation using the entry age normal actuarial cost method. The current actuarial assumptions include (a) 7.50% investment rate of return (net of administrative expenses), (b) projected salary increases of 3.3% to 14.2%, and (c) 3.00% annual payroll growth. Both (a) and (b) included an inflation component of 2.75%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments. PERS unfunded actuarial accrued liabilities (or surplus) is being amortized as a level percentage of projected payroll on a closed basis over 20 years.

TABLE NO. 18
CITY OF CHULA VISTA
TREND INFORMATION FOR EMPLOYER CONTRIBUTIONS
(ALL PLANS COMBINED)
(in \$ Thousands)

<u>Fiscal Year</u>	<u>Annual Pension Cost</u>	<u>Annual Required Contribution</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2005/06	\$17,893,117	\$17,893,117	100%	-
2006/07	17,773,292	17,773,292	100%	-
2007/08	19,084,940	19,084,940	100%	-
2008/09	18,938,442	18,938,442	100%	-
2009/10	17,865,618	17,865,618	100%	-
2010/11	19,092,227	19,092,227	100%	-
2011/12	23,996,289	23,996,289	100%	-
2012/13	18,188,432	18,188,432	100%	-
2013/14	16,215,564	16,215,564	100%	-
2014/15	20,818,356	20,818,356	100%	-

Source: California Public Employees’ Retirement System.

Set forth below is a ten-year analysis of the market value of assets as a percentage of the actuarial accrual liability and the unfunded actuarial accrued liability as a percentage of the annual covered payroll as of June 30 of each year indicated for the City's combined employee groups. The schedule presents multiyear trend information about whether the market value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. For the June 30, 2013 valuation date, PERS began using market value as the actuarial value of plan assets.

TABLE NO. 19
CITY OF CHULA VISTA
HISTORICAL FUNDING PROGRESS (MARKET VALUE)
(ALL PLANS COMBINED)
(in \$ Thousands)

<u>Actuarial Valuation June 30 Date</u>	<u>Market Valuation of Assets</u>	<u>Entry Age Actuarial Accrued Liability</u>	<u>Unfunded Actuarial Accrued Liability</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>Unfunded Liability as a Percent of Covered Payroll</u>
2005	359,233	428,428	69,195	83.8%	79,012	87.6%
2006	410,175	479,523	69,348	85.5%	88,655	78.2%
2007	498,631	521,653	23,022	95.6%	92,984	24.8%
2008	479,849	564,011	84,162	85.1%	83,391	100.9%
2009	362,945	617,013	254,068	58.8%	79,361	320.1%
2010	412,394	651,284	238,890	63.3%	77,797	307.1%
2011	499,961	701,421	201,460	71.3%	75,110	268.2%
2012	492,528	733,341	240,813	67.2%	74,422	323.6%
2013	551,851	776,710	224,859	71.0%	75,838	296.5%
2014						

Source: California Public Employees' Retirement System.

Defined Contribution Pension Plan

The City provides pension plan benefits for all of its part-time employees through a defined contribution plan (Public Agency Retirement Plan). In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The plan is administered by Public Agency Retirement Services. All part-time employees are eligible to participate from the date of employment. Federal legislation requires contributions of at least 7.5% to a retirement plan, and City Council resolved to match the employees' contributions of 3.75%. The City's contributions for each employee (and interest earned by the accounts) are fully vested immediately.

For the year ended June 30, 2015, the City's total payroll and covered payroll for the Public Agency Retirement Plan was \$2,590,272. The City made employer contributions of \$97,135 (3.75% of current covered payroll), and employees contributed \$97,135 (3.75% of current covered payroll).

Other Post Employment Benefits

Plan Description. The City provides a Retiree Healthcare Plan, a single employer defined benefit plan, which allows retirees to purchase healthcare coverage under the City's medical plan. Retirees pay 100% of the premiums. Retirees not eligible for Medicare pay the same healthcare premiums as active employees, even though retiree's healthcare costs are greater than that of active employees. This results in an implied subsidy of retiree's healthcare costs by the City. In Fiscal Year 2011/12, the City entered into an agreement

with various bargaining groups eliminating the subsidized retiree health care rates for employees hired under the Second Tier PERS Retirement Plan. Employees hired under the Third Tier PERS Retirement Plan are also not eligible for this benefit. The post employment benefit is a single-employer plan. The plan has not been audited and therefore, there is no audited benefit plan report available.

Eligibility. Employees are eligible for retiree health benefits if they retire from the City on or after age 50 (unless disabled) and are eligible for PERS pension. The benefits are available only to employees who retired from the City. The benefits terminate at age 65. Membership of the plan consisted of the following at June 30, 2015:

	<u>Police</u>	<u>Fire</u>	<u>Miscellaneous</u>	<u>Total</u>
Eligible active employee	204	122	594	920
Enrolled eligible retirees	33	14	186	233

The information above does not reflect current retirees that are not yet enrolled in the healthcare plan but are eligible to enroll in the plan at a later date.

Funding Policy. The City offers an implied subsidy benefit paid from the City’s General Fund. The City’s contribution is based on pay-as-you-go. The retirees pay 100% of their individual premium except for the retirees who retire under the incentive plan. The City is contributing \$452 monthly in premium on behalf of one employee who retired under the incentive plan in Fiscal Year 2012.

Annual OPEB Cost and Net OPEB Obligation. The City’s annual other post employment benefit (“OPEB”) cost (expense) is calculated based on the ARC of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City’s annual OPEB cost for Fiscal Years commencing 2010/11, the amount actually contributed to the plan, and changes in the City’s net OPEB obligation for these benefits.

**TABLE NO. 20
CITY OF CHULA VISTA
ANNUAL OPEB COST AND NET OPEB OBLIGATION**

	<u>2010/11</u>	<u>2011/12</u>	<u>2012/13</u>	<u>2013/14</u>	<u>2014/15</u>
Annual required contribution	\$1,470,000	\$1,803,000	\$1,974,000	\$2,100,000	\$1,920,000
Interest on net OPEB obligation	108,000	151,000	187,000	241,000	295,000
Adjustment to the annual required contribution	<u>-</u>	<u>(285,000)</u>	<u>(460,000)</u>	<u>(607,000)</u>	<u>(767,000)</u>
Net OPEB cost	1,578,000	1,669,000	1,701,000	1,734,000	1,448,000
Contribution made	<u>(574,000)</u>	<u>(537,000)</u>	<u>(359,000)</u>	<u>(392,000)</u>	<u>(389,000)</u>
Increase in net OPEB liability	1,004,000	1,132,000	1,342,000	1,342,000	1,059,000
Net OPEB liability, beginning of the year	<u>2,549,000</u>	<u>3,553,000</u>	<u>4,685,000</u>	<u>6,027,000</u>	<u>7,369,000</u>
Net OPEB liability, end of year	\$3,553,000	\$4,685,000	\$6,027,000	\$7,369,000	\$8,428,000

Source: City of Chula Vista Comprehensive Annual Financial Report.

The City's annual OPEB cost and the percentage of annual OPEB cost contributed to the plan for Fiscal Years 2010/11 through 2014/15, and the net OPEB obligation as of June 30 of each Fiscal Year were as follows:

**TABLE NO. 21
CITY OF CHULA VISTA
OPEB COSTS AND NET OPEB OBLIGATION**

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2010/11	\$1,578,000	36%	\$3,553,000
2011/12	1,669,000	32	4,685,000
2012/13	1,701,000	21	6,027,000
2013/14	1,734,000	23	7,369,000
2014/15	1,448,000	27	8,428,000

Source: City of Chula Vista Comprehensive Annual Financial Report.

Funded Status and Funding Progress. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far 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 presents information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for the benefits.

**TABLE NO. 22
CITY OF CHULA VISTA
SCHEDULE OF FUNDING PROGRESS**

<u>Actuarial Valuation Date June 30 ⁽¹⁾</u>	<u>Entry Age Actuarial Accrued Liability</u>	<u>Actuarial Value of Assets</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
2009	\$11,885,000	\$ -	\$11,885,000	0.0%	\$69,087,000	17.2%
2012	13,081,000	-	13,081,000	0.0	62,923,000	20.8
2014	12,877,000	-	12,877,000	0.0	58,224,000	22.1

Source: City of Chula Vista Comprehensive Annual Financial Report.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial assets, consistent with the long-term perspective of the calculations.

The actuarial cost method used for determining the benefit obligation is the Entry Age Normal Cost Method. The current actuarial assumptions included a 4.0% discount rate, the inflation rate for HMO's starts at 7.5% (the increase in 2016 premiums over 2015) and grades down to 5.0% (2021 premiums over 2020) and

remains at 5.0% into the future. This assumption means healthcare is assumed to increase, on the average, 6.75% a year for HMOs/PPOs Non-Medicare and 6.95% a year for HMOs/PPOs Medicare a year for the next six years after 2014. The general inflation assumption rate is 3% and is assumed that healthcare will level off at 1.5% over general inflation. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll over a closed 30 years.

Risk Management

The City is self-insured for the first \$500,000 per occurrence for its general liability losses including personal injury, property damage, errors and omissions, automobile liability and employment practices liability. For those losses between \$500,000 and \$2,000,000 per occurrence the City pools its liabilities through its membership in the San Diego Pooled Insurance Program Authority ("SANDPIPA"). Insurance for losses in excess of the \$2,000,000 up to \$45,000,000 is purchased on a group basis by the member cities.

SANDPIPA is a joint powers authority comprised of twelve San Diego County cities. The Board of Directors consists of one staff representative (and an alternate) from each of the member cities as designated by the city's governing body. Each member city has equal representation on the Board of Directors. The Board of Directors is liable for all actions of SANDPIPA.

The SANDPIPA Board of Directors establishes an Executive Committee that is responsible for the administration and operation of the risk management programs of SANDPIPA, subject to the control of the Board. The Executive Committee consists of the Board President, Vice-President, Treasurer and a member at-large nominated by the Board President and approved by a vote of the Board. The Executive Committee is responsible for the oversight of all SANDPIPA operations, including preparation and submittal of the Pool's annual budget to the Board for its review and approval.

Annual pool premiums and assessments are approved by the Board of Directors and are adjusted annually based on the member city's incurred losses; the member's share of such losses and other expenses as a proportion of all member's losses; historical contributions to reserves (including reserves for IBNR losses); the cost to purchase excess liability insurance and other coverage and a proportionate share of administrative expenses.

The City is self-insured for the first \$1,000,000 per occurrence for workers' compensation liabilities. Excess workers' compensation coverage is obtained through participation in the CSAC Excess Insurance Authority's Excess Workers' Compensation Program. As of June 30, 2014, there were 167 member entities participating in the program that offers per occurrence coverage up to \$5,000,000 through pooled resources and from \$5,000,000 to statutory limits via group purchased excess insurance policies.

Only the probable amounts of loss as estimated by the City's Risk Manager and Attorney, including an estimate of incurred-but-not reported losses, have been recorded as liabilities in the financial statements. There were no reductions in insurance from the prior year and there were no insurance settlements that exceeded coverage in each of the past three years.

The aggregate change in the balance of claims payable as recorded in the Governmental Activities were as follows:

	Beginning of Fiscal Year <u>Liability</u>	Claims and Changes in <u>Estimates</u>	Claims <u>Payments</u>	Balance at Fiscal <u>Year End</u>
2009/10	\$17,869,949	\$4,554,348	\$(3,622,693)	\$18,801,604
2010/11	18,801,604	7,960,587	(4,330,098)	22,432,093
2011/12	22,432,093	3,372,465	(3,614,694)	22,189,864
2012/13	22,189,864	3,288,127	(4,456,532)	21,021,459
2013/14	21,021,459	5,186,700	(3,846,924)	22,361,235

Source: City of Chula Vista Comprehensive Annual Financial Report.

City Investment Policy and Portfolio

The City administers a pooled investment program, except for those funds which are managed separately by trustees appointed under bond indentures. This program enables the City to combine available cash from all funds and to invest cash that exceeds current needs. Under the City's Investment Policy and in accordance with the Government Code, the City may invest in the following types of investments subject to certain limitations on maturity and amount:

Bankers' Acceptances, Negotiable Certificates of Deposits, Commercial Paper, State and Local Agency Bonds, U.S. Treasury Obligations, U.S. Agency Securities, Repurchase Agreements, Reverse-Purchase Agreements, Medium-Term Corporate Notes, Time Certificates of Deposits, Money Market Funds, Local Agency Investment Fund (LAIF) and the Investment Trust of California (CalTrust).

As of June 30, 2015, the book value (unaudited) of the Chief Financial Officer's investment portfolio (excluding funds held under bond indentures) was 189,867,654. The diversification of the Chief Financial Officer's investment portfolio assets as of such date is shown in the following table.

<u>Type of Investment</u>	<u>% of Combined Portfolio</u>
Federal Securities	50.7%
Pooled Investments	40.1
Corporate Notes	7.9
Time Deposits	<u>1.3</u>
	<u>100.0%</u>

The weighted average maturity of the investment portfolio was 916 days. The current yield of the investment portfolio at June 30, 2015 (at cost) was 1.05%.

It has been the City's general practice to purchase investments and hold them until their maturity. Given this practice, the City does not expect its rate of return on the investment portfolio to be affected by fluctuations in the market value of investments.

Outstanding Indebtedness of the City

The City had the following outstanding indebtedness as of January 1, 2016, exclusive of obligations to be paid from specifically pledged revenues, such as revenue bonds, tax allocation bonds and assessment district or special tax bonds or Section 108 Loans. The City has never defaulted in the payment of any of its obligations.

<u>Category of Indebtedness</u>	<u>Original Obligation</u>	<u>Amount Outstanding</u>	<u>Final Maturity</u>
(2) 2006 Certificates of Participation (Civic Center Phase 2)	20,325,000	9,275,000	2036
(3) 2010 Certificates of Participation (Capital Facilities Refunding)	29,355,000	27,285,000	2033
(4) 2014 Refunding Certificates of Participation (Police Facility Project)	45,920,000	42,835,000	2032
(5) 2015 Refunding Certificates of Participation (Civic Center	34,330,000	34,330,000	2034
(5) Notes Payable		7,425,813	2026
(6) Capital Leases	2,498,987	2,226,728	2031
(7) Compensated Absences		6,625,460	N/A

- (1) In September 2004, the City delivered its 2004 Certificates of Participation to provide funding for the first phase of the reconstruction, renovation, and equipping of the City's Civic Center Complex as well as approximately \$9 million in infrastructure improvements throughout the City. The 2004 Certificates will be refunded with proceeds of the Certificates. The City expects that approximately 58.5% of the annual Lease Payments allocable to the refunding of the 2004 Certificates (\$1,230,000) will be funded from the PFDIF, subject to the availability of funds and an additional \$595,000 will be funded from residential construction taxes.
- (2) In March 2006, the City delivered its 2006 Certificates of Participation to provide funding for the construction and equipping of certain improvements to the Civic Center Complex of the City of Chula Vista and other existing City facilities. \$7,135,000 of the 2006 Certificates maturing in years 2016-2026 were refunded with proceeds of the 2015 Certificates of Participation and the balance will be refunded with proceeds of the Bonds. 77.8% of annual lease payments for the 2015 Certificates of Participation and the Bonds attributable to the 2006 Certificates of Participation (\$_____) will be funded from the PFDIF, subject to the availability of funds.
- (3) To be refunded with proceeds of the Bonds. The City expects that approximately 71.5% of the annual lease payments for the Bonds attributable to the 2010 Certificates of Participation (\$_____) will be funded from the PFDIF, subject to the availability of funds.
- (4) In March 2014, the City delivered the 2014 Certificates to provide funds to refinance its outstanding 2002 Certificates of Participation. The 2002 Certificates of Participation were delivered to provide funds to construct the City's Police Headquarters. The City expects that approximately 44.4%, of the annual lease payments will be funded from the PFDIF (\$_____), subject to the availability of funds.
- (5) In August 2015, the City, the City delivered the 2015 Certificates to provide funds to refinance its outstanding 2004 Certificates of Participation and a portion of the 2006 Certificates of Participation as described in (2) above. The City expects that approximately 58.5% of the annual lease payments for the Bonds attributable to the 2004 Certificates of Participation (\$1,230,000) will be funded from the PFDIF, subject to the availability of funds and an additional \$595,000 will be funded from residential construction taxes.
- (5) (a) In September, 2007, the City Council authorized the City's participation in the California Energy Commission (CEC) and the SDG&E On-Bill Financing program. These loans would bridge

the financial gap between energy conservation project capital costs and the available rebates for energy conservation equipment. As of June 30, 2015, the outstanding balance is \$3,213,211. (b) In December 2012, the City entered into a lease purchase agreement to purchase energy conservation equipment relating to the Municipal Street Lighting Retrofit Project. As of June 30, 2015, the outstanding balance is \$1,820,357. (c) In August 2013, the City entered into a lease purchase agreement to purchase energy conservation equipment relating to the Municipal Solar Project. As of June 30, 2015, the outstanding balance is \$1,893,561. Annual payments for these obligations total approximately \$829,000.

(6) The City has capitalized a lease for energy efficiency equipment. The annual payments are approximately \$235,000. The City also entered into a capital lease for computer equipment. Annual lease payments are \$106,368.

(7) Represents that portion of compensated absences not expected to be paid during the current year.

Direct and Overlapping Debt

Set forth below is a direct and overlapping debt report (the “Debt Report”) prepared by California Municipal Statistics, Inc. as of June 30, 2015. The Debt Report is included for general information purposes only. The City has not reviewed the Debt Report for completeness or accuracy and makes no representations in connection therewith. Any inquiries concerning the scope and methodology of procedures carried out to compile the information presented should be directed to California Municipal Statistics, Inc.

The Debt Report generally includes long-term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of the City in whole or in part. Such long-term obligations are not payable from the City’s General Fund nor are they necessarily obligations secured by property within the City. In many cases, long-term obligations issued by a public agency are payable only from the general fund or other revenues of such public agency.

**TABLE NO. 23
CITY OF CHULA VISTA
DIRECT AND OVERLAPPING DEBT
AS OF JUNE 30, 2015**

2014/15 Assessed Valuation: \$23,090,440,353

<u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable ⁽¹⁾</u>	<u>Debt 6/30/15</u>
Metropolitan Water District	0.995%	\$ 1,098,679
Otay Municipal Water District, I.D. No. 27	99.995	5,149,743
Southwestern Community College District	51.340	114,000,134
Sweetwater Union High School District	61.306	206,061,369
Chula Vista City School District	87.125	49,517,494
Chula Vista City School District Schools Facilities Improvement District No. 1	77.890	33,488,806
National School District	4.046	728,280
City of Chula Vista Community Facilities Districts	100.	177,025,000
Sweetwater Union High School District Community Facilities Districts	94.00	124,229,117
Chula Vista City School District Community Facilities Districts	99.718	3,819,199
City of Chula Vista 1915 Act Bonds	100.	15,896,000
California Statewide Communities Development Authority 1915 Act Bonds	100.	502,677
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT		\$ 731,516,498

Continued on next page.

Continued from previous page.

<u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u>	<u>% Applicable</u>	<u>Debt 6/30/15</u>
San Diego County General Fund Obligations	5.510%	\$ 19,377,017
San Diego County Pension Obligation Bonds	5.510	37,612,096
San Diego County Superintendent of Schools Obligations	5.510	811,761
Southwestern Community College District Certificates of Participation	51.340	549,338
Sweetwater Union High School District General Fund Obligations	61.306	25,849,675
Chula Vista City School District Certificates of Participation	87.125	117,396,581
City of Chula Vista Certificates of Participation	100.	117,590,000 ⁽²⁾
Otay Municipal Water District Certificates of Participation	64.660	<u>29,223,087</u>
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT		\$ 348,409,555
Less: Otay Municipal Water District Certificates of Participation		<u>29,223,087</u>
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT		\$ 319,186,468
 <u>OVERLAPPING TAX INCREMENT DEBT (Successor Agency):</u>	 99.153-100. %	 \$ 39,052,970
 TOTAL DIRECT DEBT		 \$ 117,590,000
TOTAL GROSS OVERLAPPING DEBT		\$1,001,389,023
NET OVERLAPPING TOTAL DEBT		\$ 972,165,936
 GROSS COMBINED TOTAL DEBT		 \$1,118,979,023 ⁽³⁾
NET COMBINED TOTAL DEBT		\$1,089,755,936

- (1) The percentage of the overlapping debt applicable to the City is estimated using taxable assessed property value. Applicable percentages were estimated by determining the portion of the overlapping district's assessed value that is within the boundaries of the City divided by the district's total taxable assessed value.
- (2) Excludes refunding issues dated 7/15. Includes issues to be refunded.
- (3) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations. Qualified Zone Academy Bonds are included based on principal due at maturity.

Ratios to 2014/15 Assessed Valuation:

Total Overlapping Tax and Assessment Debt	3.17%
Total Direct Debt (\$121,650,000)	0.51%
Gross Combined Total Debt	4.85%
Net Combined Total Debt	4.72%

Ratios to Redevelopment Successor Agency Incremental Valuation (\$1,244,289,863):

Total Overlapping Tax Increment Debt	3.14%
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Source: California Municipal Statistics, Inc.

Financial Statements

The City's accounting policies conform to generally accepted accounting principles and reporting standards set forth by the State Controller. The audited financial statements also conform to the principles and standards for public financial reporting established by the National Council of Government Accounting and the Governmental Accounting Standards Board.

Basis of Accounting and Financial Statement Presentation. The government-wide financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to

be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

The City retained the firm of Lance, Soll & Lunghard, LLP, Certified Public Accountants, Brea, California, to examine the general purpose financial statements of the City as of and for the year ended June 30, 2015. The following tables summarize the audited Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance of the City's General Fund for the last five fiscal years.

See "APPENDIX B" hereto for the audited financial statements for the Fiscal Year ended June 30, 2015. The City has not requested, and the auditor has not provided, any review or update of such statements in connection with the inclusion in this Official Statement.

GASB Statement No. 54. The City was required to implement GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definition, for the Fiscal Year ending June 30, 2011. GASB Statement No. 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

The initial distinction that is made in reporting fund balance information is identifying amounts that are considered nonspendable, such as fund balance associated with inventories. GASB Statement No. 54 also provides for additional classification as "restricted," "committed," "assigned," and "unassigned" based on the relative strength of the constraints that control how specific amounts can be spent.

GASB Statement No. 68. On June 25, 2012, GASB approved two new standards ("Statements") with respect to pension accounting and financial reporting standards for state and local governments and pension plans. The new Statements, No. 67 and No. 68, will replace GASB Statement No. 27 and most of Statements No. 25 and No. 50. The changes will impact the accounting treatment of pension plans in which state and local governments participate. Major changes include: 1) the inclusion of unfunded pension liabilities on the government's balance sheet (currently, such unfunded liabilities are typically included as notes to the government's financial statements); 2) more components of full pension costs will be shown as expenses regardless of actual contribution levels; 3) lower actuarial discount rates will be required to be used for underfunded plans in certain cases for purposes of the financial statements; 4) closed amortization periods for unfunded liabilities will be required to be used for certain purposes of the financial statements; and 5) the difference between expected and actual investment returns will be recognized over a closed five-year smoothing period. In addition, according to GASB, Statement No. 68 means that, for pensions within the scope of the Statement, a cost-sharing employer that does not have a special funding situation is required to recognize a net pension liability, deferred outflows of resources, deferred inflows of resources related to pensions and pension expense based on its proportionate share of the net pension liability for benefits provided through the pension plan. Because the accounting standards do not require changes in funding policies, the full extent of the effect of the new standards on the City is not known at this time. The reporting requirements for pension plans took effect for the Fiscal Year beginning July 1, 2013 and the reporting requirements for government employers, including the City, took effect for the Fiscal Year beginning July 1, 2014.

See Note 1 in the City's audited financial statements attached in "APPENDIX B" for a discussion of additional accounting changes.

Set forth in Table No. 24 below is the General Fund balance sheet for the last five fiscal years and Table No. 25 below presents a five year history of General Fund revenues, expenditures and changes in fund balances.

**TABLE NO. 24
CITY OF CHULA VISTA
GENERAL FUND
BALANCE SHEET**

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Assets:					
Pooled cash and investments	\$19,641,248	\$17,403,991	\$24,347,238	\$20,276,201	\$20,402,711
Receivables:					
Accounts	790,544	2,397,608	1,673,960	792,147	2,066,125
Taxes	9,379,494	9,560,463	7,911,510	7,378,291	8,030,250
Accrued interest	21,885	26,988	25,816	27,374	-
Deferred loans	106,531	92,874	79,182	65,454	65,454
Allowance for uncollectible loans	-	-	-	-	(65,454)
Other	123,705	34,641	-	-	-
Prepaid costs	-	-	-	-	32,906
Due from other funds	3,717,477	3,006,662	4,073,822	2,937,494	4,096,758
Due from other governments	672,822	505,049	188,542	844,196	275,123
Due from Successor Agency	-	10,207,797	9,002,419	9,297,040	-
Due from agency fund	-	-	94,016	-	-
Advances to other funds	14,150,004	1,581,814	1,621,446	1,661,076	1,496,657
Inventories and prepaid costs	72,852	49,595	104,344	61,805	-
Restricted Assets:					
Cash and investments with fiscal agents	-	-	-	-	1,274,067
Due from Successor Agency of Chula Vista RDA	-	-	-	-	<u>9,591,661</u>
Total assets	<u>\$48,676,562</u>	<u>\$44,867,482</u>	<u>\$44,122,295</u>	<u>\$43,341,078</u>	<u>\$47,266,258</u>
Liabilities, Deferred Inflows of Resources, and Fund Balances					
Liabilities:					
Accounts payable and accrued liabilities	\$ 5,964,280	\$ 5,549,046	\$ 6,154,223	\$ 6,712,402	\$ 1,744,436
Accrued liabilities	-	-	-	-	5,492,633
Retention payable	3,351	-	212,667	-	-
Settlement payable	-	-	8,000,000	-	-
Pass-through payable	-	-	-	-	8,229
Deferred revenue	<u>6,968,532</u>	<u>11,279,378</u>	<u>6,786,230</u>	-	-
Total liabilities	<u>\$12,936,163</u>	<u>\$16,828,424</u>	<u>\$21,153,120</u>	<u>\$ 6,712,402</u>	<u>\$ 7,245,298</u>

Continued on next page.

**TABLE NO. 24
CITY OF CHULA VISTA
GENERAL FUND
BALANCE SHEET**

Continued from previous page.

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
DEFERRED INFLOWS OF RESOURCES:					
Unavailable revenues	\$ -	\$ -	\$ -	\$ 3,669,767	\$ 3,898,935
Total Deferred inflows of resources	\$ -	\$ -	\$ -	<u>\$ 3,669,767</u>	<u>\$ 3,898,935</u>
Fund Balances ⁽¹⁾:					
Nonspendable:					
Prepaid costs	-	-	-	61,805	32,906
Notes and loans	-	-	-	5,854,271	5,889,439
Advances to other funds	-	-	-	1,508,736	1,496,657
Committed to:					
Capital projects	-	-	-	1,839,650	3,226,070
Economic contingency	-	-	-	3,600,000	3,600,000
San Diego Authority for Freeway Emergency	-	-	-	695,951	695,951
Legal counsel	-	-	-	80,000	80,000
Assigned to:					
General government	-	-	-	535,776	916,473
Public safety	-	-	-	1,106,960	939,669
Parks and recreation	-	-	-	152,853	116,375
Public works	-	-	-	101,975	122,650
Library	-	-	-	41	5,000
Public liability	-	-	-	-	2,587,957
Unassigned				14,511,252	16,412,878
Nonspendable ⁽²⁾	11,258,150	8,799,026	7,481,079	-	-
Restricted ⁽²⁾	127,883	-	750,951	-	-
Committed ⁽²⁾	7,178,838	4,375,207	2,298,088	-	-
Assigned ⁽²⁾	5,298,536	2,895,545	6,648,922	-	-
Unassigned ⁽²⁾	<u>11,876,992</u>	<u>11,969,280</u>	<u>10,790,135</u>	-	-
Total fund balances	<u>\$35,740,399</u>	<u>\$28,039,058</u>	<u>\$27,969,175</u>	<u>\$32,958,909</u>	<u>\$36,122,025</u>
Total liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$48,676,562</u>	<u>\$44,867,482</u>	<u>\$49,122,295</u>	<u>\$43,341,078</u>	<u>\$47,266,258</u>

(1) See "GASB Statement No 54" above.

(2) Change in financial statement presentation to show individual components of the fund balance commitments and designations.

Source: City of Chula Vista Comprehensive Annual Financial Reports.

**TABLE NO. 25
CITY OF CHULA VISTA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
REVENUES:					
Taxes	\$ 69,441,761	\$ 85,167,221 ⁽²⁾	\$ 75,841,123	\$105,718,638	\$100,738,431
Intergovernmental ⁽¹⁾	18,748,469	2,029,529	19,542,065	2,477,213	1,933,114
Licenses and permits	2,777,946	1,222,769	1,395,519	1,315,445	1,281,656
Charges for services	9,721,746	7,794,981	8,357,509	9,257,946	9,430,097
Fines and forfeitures	1,708,846	1,355,769	1,002,946	1,009,736	1,638,251
Use of money and property	6,923,963	2,916,631	2,201,490	2,522,893	2,832,039
Miscellaneous	<u>16,689,172</u>	<u>11,587,469</u>	<u>13,023,676</u>	<u>11,580,545</u>	<u>12,811,856</u>
Total revenues	<u>\$126,011,903</u>	<u>\$112,074,369</u>	<u>\$121,364,328</u>	<u>\$133,882,416</u>	<u>\$130,665,444</u>
EXPENDITURES:					
Current:					
General government	\$ 28,568,063	\$ 19,615,371	\$ 22,742,279	\$ 20,586,160	\$ 23,305,483
Public safety	64,872,225	64,440,238	66,359,410	68,776,426	72,509,678
Public works	26,071,616	25,219,618	26,014,418	27,092,607	27,822,644
Parks and recreation	4,030,767	3,244,286	3,362,558	3,588,693	3,746,349
Library	3,870,646	3,435,325	3,182,483	3,336,380	3,527,038
Capital outlay	<u>428,936</u>	<u>280,627</u>	<u>1,172,734</u>	<u>849,234</u>	<u>1,081,105</u>
Total expenditures	<u>\$127,842,253</u>	<u>\$116,235,465</u>	<u>\$122,833,882</u>	<u>\$124,229,500</u>	<u>\$131,992,297</u>
REVENUES OVER (UNDER) EXPENDITURES	\$ (1,830,350)	\$ (4,161,096)	\$ (1,469,554)	\$ 9,652,916	\$ (1,326,853)
OTHER FINANCING SOURCES (USES):					
Transfers in	\$ 11,304,257	\$ 9,850,345	\$ 9,661,447	\$ 9,571,300	\$ 9,994,525
Transfers out	(6,915,308)	(13,390,590) ⁽²⁾	(4,910,795)	(14,234,482)	(6,082,780)
Capital leases	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>578,224</u>
Total other financing sources	<u>\$ 4,388,949</u>	<u>\$ (3,540,245)</u>	<u>\$ 4,750,652</u>	<u>\$ (4,663,182)</u>	<u>\$ 4,489,969</u>
NET CHANGE IN FUND BALANCES	\$ 2,558,599	\$ (7,701,341)	\$ 3,281,098	\$ 4,989,734	\$ 3,163,116
FUND BALANCE					
Beginning of year, as restated	<u>\$ 33,181,800</u>	<u>\$ 35,740,399</u>	<u>\$ 24,688,077</u>	<u>\$ 27,969,174</u>	<u>\$ 32,958,909</u>
End of year	<u>\$ 35,740,399</u>	<u>\$ 28,039,058</u>	<u>\$ 27,969,175</u>	<u>\$ 32,958,909</u>	<u>\$ 36,122,025</u>

⁽¹⁾ The City reflected the Motor Vehicle Fees and Property Taxes In-Lieu of Motor Vehicle Fees in "Intergovernmental Revenues" in all years except Fiscal Year 2011/12 and 2013/14, when such revenue were included in "Taxes." See "Local Taxes" and "Motor Vehicle License Fees" above.

⁽²⁾ Includes one-time recognition of \$10.5 million in deferred UUT revenue. See "Local Taxes" above and corresponding \$8.0 million required transfer out of the General Fund.

Source: City of Chula Vista Comprehensive Annual Financial Reports.

RISK FACTORS

The purchase of the Bonds involves investment risk. If a risk factor materializes to a sufficient degree, it could delay or prevent payment of principal of and/or interest on the Bonds. Such risk factors include, but are not limited to, the following matters and should be considered, along with other information in this Official Statement, by potential investors.

The Base Rental Payments

Base Rental Payments are Limited Obligations of the City. The Base Rental Payments and other payments due under the Lease Agreement (including a proportionate share of the costs of improvement, repair and maintenance of the Leased Property and taxes, other governmental charges and assessments levied against the Leased Property) are not secured by any pledge of taxes or other revenues of the City but are payable from yearly appropriations of any funds lawfully available to the City. In the event the City's revenue sources are less than its total obligations, the City could choose to fund other services before paying Base Rental Payments and other payments due under the Lease Agreement. 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 (see "Constitutional Limitation on Taxes and Expenditures" below). To the extent these types of events or other events adversely affecting the funds available to the City occur in any year, the funds available to pay Base Rental Payments may be decreased.

The City has the capacity to enter into other obligations which may constitute additional charges against its revenues. To the extent that additional obligations are incurred by the City, the funds available to the City to pay Base Rental Payments may be decreased.

Abatement. Except to the extent that amounts are available (i) in the Lease Payment Fund under the Indenture, (ii) from proceeds of rental interruption insurance, or (iii) as payments due from third parties due to a delay in reconstructing the Leased Property, the amount of Base Rental Payments and Additional Payments shall be abated during any period in which by reason of damage, destruction or taking by eminent domain or condemnation of the Leased Property or defects in the title with respect to the Leased Property there is substantial interference with the use and possession of all or a portion of the Leased Property by the City. The amount of such abatement shall be such that the resulting Base Rental Payments, exclusive of the amounts described above, do not exceed the fair rental value (as determined by the City) for the use and possession of the portion of the Leased Property not damaged, destroyed, interfered with or taken. Such abatement shall continue for the period commencing with such damage, destruction, interference or taking and ending with the substantial completion of the replacement or work of repair or the removal of the title defect causing such interference with use. The Lease Agreement shall continue in full force and effect following an event of abatement and the City waives any right to terminate the Lease Agreement by virtue of an abatement event.

In the event that such funds are insufficient to make all payments due on the Bonds during the period that the Leased Property, or portion thereof, is being restored, then all or a portion of such payments may not be made and no remedy is available to the Trustee or the Owners under the Lease Agreement or Indenture for nonpayment under such circumstances. Failure to pay principal or interest with respect to the Bonds as a result of abatement of the City's obligation to make Base Rental Payments under the Lease Agreement is not an event of default under the Indenture or the Lease Agreement. In the event that Base Rental Payments are abated due to damage caused by earthquake or flood, such abatement may continue indefinitely - since the Lease Agreement does not require earthquake or flood insurance unless the City determines that such coverage is available from reputable insurers at commercially reasonable rates and although the City currently maintains earthquake insurance with respect to the Leased Property, damage from earthquakes may not be covered in future years - and the City cannot be compelled to repair or replace the damaged Leased Property or to redeem the Bonds but has covenanted in the Lease Agreement to use its best efforts to repair or replace the Leased Property from other lawfully available funds to the extent that the Net

Proceeds are insufficient. See “APPENDIX A - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - SUBLEASE - Abatement of Base Rental Payments.”

Notwithstanding the provisions of the Lease Agreement and the Indenture specifying the extent of abatement of Base Rental Payments and the application of other funds in the event of the City’s failure to have use and occupancy of the Leased Property, such provisions may be superseded by operation of law, and, in such event, the resulting Base Rental Payments of the City may not be sufficient to pay all of the remaining principal and interest represented by the Bonds.

Insurance. The Lease Agreement obligates the City to obtain and keep in force various forms of insurance to assure repair or replacement of the Leased Property in the event of damage or destruction to the Leased Property and to maintain rental interruption insurance in an amount equal to maximum annual Base Rental Payments in any two consecutive years (see “APPENDIX A - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - SUBLEASE - Insurance” herein). The Lease Agreement does not require earthquake or flood insurance unless the City determines that such coverage is available from reputable insurers at commercially reasonable rates. See “Seismic Considerations” below. The City makes no representation as to the ability of any insurer to fulfill its obligations under any insurance policy provided for in the Lease Agreement. In addition, certain risks may not be covered by such property insurance (see “SOURCES OF PAYMENT FOR THE BONDS - Insurance Relating to the Property” herein).

In the event the Leased Property is partially or completely damaged or destroyed due to any uninsured or underinsured event, it is likely that Base Rental Payments will be partially or completely abated. If any Leased Property so damaged or destroyed is not repaired or replaced within the period during which amounts in the Reserve Fund and the proceeds of rental interruption insurance are available, any such abatement could prevent the City from timely paying Base Rental Payments.

Discovery of a Hazardous Substance That Would Limit the Beneficial Use of the Leased Property. In general, the owners and lessees of a parcel 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 California laws with regard to hazardous substances are also stringent and similar. Under many of these laws, the owner (or lessee) is obligated to remedy a hazardous substance condition of property whether or not the owner (or lessee) had any involvement in creating or handling the hazardous substance. The effect, therefore, should the Leased Property be affected by a hazardous substance, might be to limit the beneficial use of the Leased Property upon discovery and during remediation. The City is not aware of any such condition on the Leased Property.

Seismic Considerations

According to the Public Safety Element of the City’s General Plan, the City is located in a seismically active region and could be impacted by a major earthquake originating from the numerous faults in the area. Traces of the potentially active La Nacion fault zone are known to cross the City in a generally north-south direction within the central portion of the City. The nearest active faults are the Rose Canyon fault, located approximately 14 miles northwest of the City, and the Coronado Bank fault, located approximately 30 miles from the City. Other active faults in the region are located more than 60 miles from the City. Seismic hazards encompass potential surface rupture, ground shaking, liquefaction and landslides.

Strong vibrations due to earthquakes can cause liquefaction of certain soil types. Areas of Chula Vista in close proximity to San Diego Bay and the Sweetwater and Otay River Valley have shallow groundwater tables and poorly consolidated granular sediments potentially subject to seismically-induced liquefaction. A portion of the City is also subject to landslides in the event of an earthquake. A major earthquake could cause widespread destruction and significant loss of life in a populated area such as the City.

A major earthquake could cause widespread destruction and significant loss of life in a populated area such as the City. If an earthquake were to substantially damage or destroy taxable property within the City, a reduction in taxable values of property in the City and a reduction in revenues available to the General Fund to make Base Rental Payments would be likely to occur. Seismic activity may also reduce or eliminate the use and occupancy of the Leased Property by the City. There is no assurance that, in the event of a natural disaster, sufficient City reserves or Federal Emergency Management Agency assistance would be available for the repair or replacement of the Leased Property.

State Budget

The following information concerning the State's budgets has been obtained from publicly available information which the City, the Municipal Advisor and the Underwriter believe to be reliable; however, neither the City, the Municipal Advisor nor the Underwriter guarantees the accuracy or completeness of this information and has not independently verified such information. Furthermore, it should not be inferred from the inclusion of this information in this Official Statement that the principal of or interest with respect to the Bonds is payable by or the responsibility of the State of California.

State Budget. 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 Department of Finance, www.dof.ca.gov, under the heading "California Budget." An impartial analysis of the budget is posted by the Office of the Legislative Analyst at www.lao.ca.gov. In addition, various State of California 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, www.treasurer.ca.gov. The information referred to is prepared by the respective State agency maintaining each website and not by the City, and the City can 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.

According to the State Constitution, the Governor of the State (the "Governor") is required to propose a budget to the State Legislature (the "Legislature") by no later than January 10 of each year, and a final budget must be adopted by the vote of each house of the Legislature no later than June 15, although this deadline has been routinely breached in the past. The State budget becomes law upon the signature of the Governor, who may veto specific items of expenditure.

Prior to Fiscal Year 2010/11, the State budget had to be adopted by a two-thirds vote of each house of the Legislature. However, in November 2010, the voters of the State passed Proposition 25, which reduced the vote required to adopt a budget to a majority vote of each house and which provided that there would be no appropriation from the current budget or future budget to pay any salary or reimbursement for travel or living expenses for members of the Legislature for the period during which the budget was presented late to the Governor.

Potential Impact of State of California Financial Condition on the City. For several fiscal years during the recent recession, the State faced a structural deficit that resulted in substantial annual deficits and reductions in expenditures. Although the State is projecting a budget surplus in the current fiscal year, the State is still facing continuing financial challenges and unfunded long-term liabilities of more than \$200 billion, which could result in future reductions or deferrals in amounts payable to the City. The State's financial condition and budget policies affect local public agencies throughout California. To the extent that the State budget process results in reduced revenues to the City, the City will be required to make adjustments to its budget. State budget policies can also impact conditions in the local economy and could have an adverse effect on the local economy and the City's major revenue sources.

No prediction can be made by the City as to whether the State will encounter budgetary problems in future fiscal 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 over which the City has no control.

Limited Recourse on Default; No Acceleration

If an event of default occurs and is continuing under the Lease Agreement, there is no remedy of acceleration of any Base Rental Payments which have not come due and payable in accordance with the Lease Agreement. The City will continue to be liable for Base Rental Payments as they become due and payable in accordance with the Lease Agreement if the Trustee does not terminate the Lease Agreement, and the Trustee would be required to seek a separate judgment each year for that year's defaulted Base Rental Payments. Any such suit for money damages would be subject to limitations on legal remedies against cities in California, including a limitation on enforcement of judgments against funds or property needed to serve the public welfare and interest. In addition, the enforcement of any remedies provided in the Lease Agreement and the Indenture could prove both expensive and time-consuming.

The Lease Agreement permits the Trustee to take possession of and re-lease the Leased Property in the event of a default by the City under the Lease Agreement. Even if the Trustee could readily re-lease the Leased Property, the rents may not be sufficient to enable it to pay principal and interest on the Bonds in full when due. Any such re-leasing of the Leased Property would be subject to existing encumbrances thereon. See "THE LEASED PROPERTY" herein.

Enforcement of Remedies

The enforcement of any remedies provided in the Lease Agreement and the Indenture could prove both expensive and time consuming. The rights and remedies provided in the Lease Agreement and the Indenture may be limited by and are subject to the limitations on legal remedies against cities, including State constitutional limits on expenditures, and limitations on the enforcement of judgments against funds needed to serve the public welfare and interest; by federal bankruptcy laws, as now or hereafter enacted; applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect (see "Bankruptcy of the City" below); 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 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 municipal entities 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.

The legal opinions to be delivered concurrently with the delivery of the Bonds (including Bond Counsel's legal opinion) will be qualified, as to the enforceability of the Bonds, the Indenture, the Site Lease, the Lease Agreement, the Assignment Agreement 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 limitation on legal remedies against charter cities and counties in the State. See "Bankruptcy of the City" below.

Bankruptcy of the City

The City is a unit of State government and therefore is not subject to the involuntary procedures of the United States Bankruptcy Code (the “Bankruptcy Code”). However, pursuant to Chapter 9 of the Bankruptcy Code, the City may seek voluntary protection from its creditors for purposes of adjusting its debts. 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 proceeding. 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; (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 court-approved secured debt which may have a priority of payment superior to that of the Base Rental Payments under the Lease Agreement as they relate to Revenues due to Owners of Bonds; and (iv) the possibility of the adoption of a plan for the adjustment of the City’s debt (a “Plan”) without the consent of the Trustee or all of the Owners of Bonds, which Plan may restructure, delay, compromise or reduce the amount of any claim of the Owners if the Bankruptcy Court finds that the Plan is fair and equitable.

In addition, the City could either reject the Lease Agreement or assume the Lease Agreement despite any provision of the Lease Agreement which makes the bankruptcy or insolvency of the City an event of default thereunder. In the event the City rejects the Lease Agreement, the Trustee, on behalf of the Owners of the Bonds, would have a pre-petition claim that may be limited under the Bankruptcy Code and treated in a manner under a Plan over the objections of the Trustee or Owners of the Bonds. Moreover, such rejection would terminate the Lease Agreement and the City’s obligations to make payments thereunder.

The Authority is a public agency and, like the City, is not subject to the involuntary procedures of the Bankruptcy Code. The Authority may also seek voluntary protection under Chapter 9 of the Bankruptcy Code. In the event the Authority were to become a debtor under the Bankruptcy Code, the Authority would be entitled to all of the protective provisions of the Bankruptcy Code as applicable in a Chapter 9 proceeding. Such a bankruptcy could adversely affect the payments under the Indenture. Among the adverse effects 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 Authority or the commencement of any judicial or other action for the purpose of recovering or collecting a claim against the Authority; (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 court-approved secured debt which may have priority of payment superior to that of the Owners of the Bonds; and (iv) the possibility of the adoption of a plan for the adjustment of the Authority’s debt without the consent of the Trustee or all of the Owners of the Bonds, which plan may restructure, delay, compromise or reduce the amount of any claim of the Owners if the Bankruptcy Court finds that the Plan is fair and equitable. However, the bankruptcy of the Authority, and not the City, should not affect the Trustee’s rights under the Lease Agreement. The Authority could still challenge the assignment, and the Trustee and/or the Owners of the Bonds could be required to litigate these issues to protect their interests.

Constitutional Limitation on Taxes and Expenditures

State Initiative Measures Generally. Under the California Constitution, the power of initiative is reserved to the voters for the purpose of enacting statutes and constitutional amendments. Voters have exercised this power through the adoption of Proposition 13 (“Article XIII A”) and similar measures, such as Propositions 22 and 26 approved in the general election held on November 2, 2010.

Any such initiative may affect the collection of fees, taxes and other types of revenue by local agencies such as the City. Subject to overriding federal constitutional principles, such collection may be materially

and adversely affected by voter-approved initiatives, possibly to the extent of creating cash-flow problems in the payment of outstanding obligations such as the Lease.

Article XIII A. Article XIII A of the California Constitution limits the taxing powers of California public agencies. Article XIII A provides that the maximum ad valorem tax on real property cannot exceed 1% of the “full cash value” of the property, and effectively prohibits the levying of any other ad valorem property tax except for taxes above that level required to pay debt service on voter-approved general obligation bonds. “Full cash value” is defined as “the County assessor’s valuation of real property as shown on the 1975/76 tax bill under ‘full cash value’ or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment.” The “full cash value” is subject to annual adjustment to reflect inflation at a rate not to exceed 2% or a reduction in the consumer price index or comparable local data. 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 substantial 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 other special circumstances. There may also be declines in valuations if the California Consumer Price Index is negative.

The foregoing limitation does not apply to ad valorem taxes or special assessments to pay the interest and prepayment charges on any indebtedness approved by the voters before July 1, 1978 or any bonded indebtedness for the acquisition or improvement of real property approved by two-thirds of votes cast by the voters voting on the proposition.

In the general election held November 4, 1986, voters of the State of California approved two measures, Propositions 58 and 60, which further amend the terms “purchase” and “change of ownership,” for purposes of determining full cash value of property under Article XIII A, to not include the purchase or transfer of (1) real property between spouses, and (2) the principal residence and the first \$1,000,000 of other property between parents and children. Proposition 60 amends Article XIII A to permit the Legislature to allow persons over age 55 who sell their residence and buy or build another of equal or lesser value within two years in the same city, to transfer the old residence’s assessed value to the new residence. In the March 26, 1996 general election, voters approved Proposition 193, which extends the parents-children exception to the reappraisal of assessed value. Proposition 193 amended Article XIII A so that grandparents may transfer to their grandchildren whose parents are deceased, their principal residences, and the first \$1,000,000 of other property without a reappraisal of assessed value.

Because the Revenue and Taxation Code does not distinguish between positive and negative changes in the California Consumer Price Index used for purposes of the inflation factor, there was a decrease of 0.237% in 2009/10 – applied to the 2010/11 tax roll – reflecting the actual change in the California Consumer Price Index, as reported by the State Department of Finance. For each fiscal year since Article XIII A has become effective (the 1978/79 Fiscal Year), the annual increase for inflation has been at least 2% except in ten fiscal years as shown below:

<u>Tax Roll</u>	<u>Percentage</u>	<u>Tax Roll</u>	<u>Percentage</u>
1981/82	1.000%	2010/11	(0.237)%
1995/96	1.190%	2011/12	0.753%
1996/97	1.110%	2014/15	0.454%
1998/99	1.853%	2015/16	1.998%
2004/05	1.867%	2016/17	1.525%

Proposition 8 Adjustments. Proposition 8, approved in 1978, provides for the assessment of real property at the lesser of its originally determined (base year) full cash value compounded annually by the inflation factor, or its full cash value as of the lien date, taking into account reductions in value due to damage, destruction, obsolescence or other factors causing a decline in market value. Reductions based on Proposition 8 do not establish new base year values, and the property may be reassessed as of the following

lien date up to the lower of the then-current fair market value or the factored base year value. The State Board of Equalization has approved this reassessment formula and such formula has been used by county assessors statewide. The City experienced Proposition 8 reductions in property values between 2009 and 2013. See “FINANCIAL INFORMATION - Ad Valorem Property Taxes - Taxable Property and Assessed Valuation” herein.

Article XIII B. On November 6, 1979, California voters approved Proposition 4, or the Gann Initiative, which added Article XIII B to the California Constitution. Article XIII B limits the annual appropriations of the State and any city, county, city and county, school district, authority or other political subdivision of the State. The “base year” for establishing such appropriations limit is the 1978/79 Fiscal Year, and the limit is to be adjusted annually to reflect changes in population, consumer prices and certain increases in the cost of services provided by public agencies.

Appropriations subject to Article XIII B include generally the proceeds of taxes levied by or for the entity and the proceeds of certain State subventions, refunds of taxes, benefit payments from retirement, unemployment insurance and disability insurance funds. “Proceeds of taxes” include, but are not limited to, all tax revenues, certain State subventions, and the proceeds to an entity of government, from (1) regulatory licenses, user charges and user fees, to the extent that such charges and fees exceed the costs reasonably borne in providing the regulation, product or service, and (2) the investment of tax revenues. Article XIII B includes a requirement that if an entity’s 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 within the next two subsequent fiscal years.

In the June 1990 election, the voters approved Proposition 111 amending the method of calculation of State and local appropriations limits. Proposition 111 made several changes to Article XIII B. First, the term “change in the cost of living” was redefined as the change in the California per capita personal income (“CPCPI”) for the preceding year. Previously, the lower of the CPCPI or the United States Consumer Price Index was used. Second, the appropriations limit for the fiscal year was recomputed by adjusting the 1986/87 limit by the CPCPI for the three subsequent years. Third and lastly, Proposition 111 excluded appropriations for “qualified capital outlay for fiscal 1990/91 as defined by the legislature” from proceeds of taxes.

Section 7910 of the Government Code requires the City to adopt a formal appropriations limit for each fiscal year. The City’s appropriations limit for 2015/16 is \$729,447,134. The City’s appropriations subject to the limit for 2015/16 are \$293,415,4059. Based on this, the appropriations limit is not expected to have any impact on the ability of the City to continue to budget and appropriate the Base Rental Payments as required by the Lease Agreement.

Proposition 62. Proposition 62 was a statutory initiative adopted in the November 1986 general election. Proposition 62 added Sections 53720 to 53730, inclusive, to the California Government Code. It confirmed the distinction between a general tax and special tax, established by the State Supreme Court in 1982 in *City and County of San Francisco v. Farrell*, by defining a general tax as one imposed for general governmental purposes and a special tax as one imposed for specific purposes. Proposition 62 further provided that no local government or district may impose (i) a general tax without prior approval of the electorate by majority vote or (ii) a special tax without such prior approval by two-thirds vote. It further provided that if any such tax is imposed without such prior written approval, the amount thereof must be withheld from the levying entity’s allocation of annual property taxes for each year that the tax is collected. By its terms, Proposition 62 applies only to general and special taxes imposed on or after August 1, 1985. Proposition 62 was generally upheld in *Santa Clara County Local Transportation Authority v. Guardino*, a California Supreme Court decision filed September 28, 1995.

Proposition 218. On November 5, 1996, California voters approved Proposition 218 – Voter Approval for Local Government Taxes – Limitation on Fees, Assessments, and Charges – Initiative Constitutional Amendment. Proposition 218 added Articles XIII C and XIII D to the California 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 shall be 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 shall be assessed by any agency upon any parcel of property or upon any person as an incident of property ownership except: (i) the ad valorem property tax imposed pursuant to Article XIII and Article XIII A of the California Constitution, (ii) any special tax receiving a two-thirds vote pursuant to Section 4 of Article XIII A the California Constitution, and (iii) assessments, fees, and charges for property related services as provided in Article XIII D. Proposition 218 added 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 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 impairment of contracts.

Proposition 218 provides that, effective July 1, 1997, fees that are charged “as an incident of property ownership” may not “exceed the funds required to provide the property related services” and may only be charged for services that are “immediately available to the owner of the property.”

The City levies a utility users tax (“UUT”) on gas and electric customers based on usage (.01103 per therm for gas; .00300 per kilo watt for electricity) and telephone services based on gross receipts. The UUT was first levied in 1970 and the last increase in tax rates was in 1979. A class action lawsuit was filed against the City contending that a tax on wireless phone use was not covered in the implementing UUT ordinance. A settlement agreement was entered into in December 2013 for rebates to affected wireless phone users who paid the UUT of their wireless phone bills from April 2010 to April 2013. Under the terms of the settlement, a portion of the previously collected UUT was paid to the claims administrator for disbursement to the affected class of wireless phone users. In addition, pursuant to the settlement, starting March 1, 2014 the UUT rate on phone service was reduced from 5% to 4.75%.

The City does not expect the application of Proposition 218 will have a material adverse impact on its ability to pay Base Rental Payments.

Proposition 1A. Proposition 1A (“Proposition 1A”), proposed by the Legislature in connection with the 2004/05 Budget Act and approved by the voters in November 2004, restricts State authority to reduce major local tax revenues such as the tax shifts permitted to take place in Fiscal Years 2004/05 and 2005/06. Proposition 1A provides that the State may not reduce any local sales tax rate, limit existing local government authority to levy a sales tax rate or change the allocation of local sales tax revenues, subject to certain exceptions. Proposition 1A generally prohibits the State from shifting to schools or community colleges any share of property tax revenues allocated to local governments for any fiscal year, as set forth under the laws in effect as of November 3, 2004. Any change in the allocation of property tax revenues among local governments within a county must be approved by two-thirds of both houses of the Legislature.

Proposition 1A provides, however, that beginning in Fiscal Year 2008/09, the State may shift to schools and community colleges up to 8% of local government property tax revenues, which amount must be repaid, with interest, within three years, if the Governor proclaims that the shift is needed due to a severe state financial hardship, the shift is approved by two-thirds of both houses and certain other conditions are met. Such a shift may not occur more than twice in any 10-year period. The State may also approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county.

For Fiscal Year 2009/10, 8% of the City's property tax revenues (approximately \$4.5 million) were diverted to the State as a result of a Proposition 1A suspension.

Proposition 1A also provides that if the State reduces the vehicle license fee rate below 0.65% of vehicle value, the State must provide local governments with equal replacement revenues. Further, Proposition 1A requires the State to suspend State mandates affecting cities, counties and special districts, excepting mandates relating to employee rights, schools or community colleges, in any year that the State does not fully reimburse local governments for their costs to comply with such mandates.

Proposition 22. On November 2, 2010, voters in the State approved Proposition 22. Proposition 22, known as the "Local Taxpayer, Public Safety, and Transportation Protection Act of 2010," eliminates or reduces the State's authority to (i) temporarily shift property taxes from cities, counties and special districts to schools, (ii) use vehicle license fee revenues to reimburse local governments for State-mandated costs (the State will have to use other revenues to reimburse local governments), (iii) redirect property tax increment from redevelopment agencies to any other local government, (iv) use State fuel tax revenues to pay debt service on State transportation bonds, or (v) borrow or change the distribution of State fuel tax revenues.

Proposition 26. On November 2, 2010, voters in the State also approved Proposition 26. Proposition 26 amends Article XIIC of the State Constitution to expand the definition of "tax" to include "any levy, charge, or exaction of any kind imposed by a local government" except the following: (1) 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; (2) 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; (3) a charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections, and audits, enforcing agricultural marketing orders, and the administrative enforcement and adjudication thereof; (4) a charge imposed for entrance to or use of local government property, or the purchase, rental, or lease of local government property; (5) 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; (6) a charge imposed as a condition of property development; and (7) assessments and property-related fees imposed in accordance with the provisions of Article XIID. Proposition 26 provides that the local government bears the burden of proving by a preponderance of the evidence that a levy, charge, or other exaction is not a tax, that the amount is no more than necessary to cover the reasonable costs of the governmental activity, and that the manner in which those costs are allocated to a payor bear a fair or reasonable relationship to the payor's burdens on, or benefits received from, the governmental activity. The City does not expect the provisions of Proposition 26 to materially impede its ability to pay Base Rental Payments when due.

Future Initiatives. From time to time other initiative measures could be adopted, affecting the ability of the City to increase revenues and appropriations.

Early Redemption Risk

Early payment of the Base Rental Payments and early redemption of the Bonds may occur in whole or in part without premium, on any date if the Leased Property or a portion thereof is lost, destroyed or damaged

beyond repair or taken by eminent domain and from the proceeds of title insurance (see “THE BONDS - Redemption - Special Mandatory Redemption From Insurance or Condemnation Proceeds”).

Loss of Tax Exemption

As discussed under the caption “TAX MATTERS” herein, interest on the Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date the Bonds were executed and delivered as a result of future acts or omissions of the Authority or the City in violation of its covenants contained in the Indenture and the Lease Agreement. Should such an event of taxability occur, the Bonds are not subject to special redemption or any increase in interest rate and will remain outstanding until maturity.

In addition, Congress has considered in the past, is currently considering and may consider in the future, legislative proposals, including some that carry retroactive effective dates, that, if enacted, would alter or eliminate the exclusion from gross income for federal income tax purposes of interest on municipal bonds, such as the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal tax legislation. Neither the Authority nor the City can provide assurance that federal tax law will not change while the Bonds are outstanding or that any such changes will not adversely affect the exclusion of the interest on the Bonds from gross income for federal income tax purposes. If the exclusion of the interest on the Bonds from gross income for federal income tax purposes were amended or eliminated, it is likely that the market price for the Bonds would be adversely impacted.

IRS Audit of Tax-Exempt Bond Issues

The Internal Revenue Service 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 Internal Revenue Service. 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 bonds).

Secondary Market Risk

There can be no assurance that there will be a secondary market for purchase or sale of the Bonds, and from time to time there may be no market for them, depending upon prevailing market conditions, the financial condition or market position of firms who may make the secondary market and the financial condition of the City.

TAX MATTERS

(to be provided by Bond Counsel)

LEGAL MATTERS

Enforceability of Remedies

The remedies available to the Trustee and the Owners of the Bonds upon an event of default under the Indenture, the Lease Agreement, the Site Lease, or any other document described herein are in many respects dependent upon regulatory and judicial actions which are often subject to discretion and delay. Under existing law and judicial decisions, the remedies provided for under such documents may not be readily available or may be limited. In the case of any bankruptcy proceeding involving the City, the rights of the Owners could be modified at the direction of the court. The various legal opinions to be delivered concurrently with the delivery of the Bonds will be qualified to the extent that the enforceability of certain legal rights related to the Indenture, the Lease Agreement, the Site Lease and other pertinent documents is subject to limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally and by equitable remedies and proceedings generally.

Approval of Legal Proceedings

Stradling Yocca Carlson & Rauth, a Professional Corporation, Los Angeles, California, as Bond Counsel, will render an opinion with respect to the validity and enforceability of the Indenture and the Lease Agreement, and as to the validity of the Bonds. See "APPENDIX D" hereto for the proposed form of Bond Counsel's opinion.

The Authority and the City have no knowledge of any fact or other information which would indicate that the Indenture, the Lease Agreement, the Site Lease or the Bonds are not so enforceable against the Authority and the City, as applicable, except to the extent such enforcement is limited by principles of equity, by state and federal laws relating to bankruptcy, reorganization, moratorium or creditors' rights generally and by limitations on legal remedies against municipalities in the State.

Certain legal matters will be passed on for the City and the Authority by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, as Disclosure Counsel and by Glen R. Googins, City Attorney. Certain legal matters will be passed on for the Underwriter by its Counsel, Jones Hall, A Professional Law Corporation, San Francisco, California. Fees payable to Disclosure Counsel are contingent upon the sale and delivery of the Bonds.

Absence of Litigation

The Authority and the City will each furnish a certificate dated as of the date of delivery of the Bonds that there is not now known to be pending or threatened any litigation restraining or enjoining the execution or delivery of the Indenture, the Lease Agreement or the sale or delivery of the Bonds or in any manner questioning the proceedings and authority under which the Indenture, the Site Lease and the Lease Agreement are to be executed or delivered or the Bonds are to be delivered or affecting the validity thereof.

CONCLUDING INFORMATION

Rating on the Bonds

Standard & Poor's has assigned their rating of “__” to the Bonds. Such rating reflects only the views of the rating agency and any desired explanation of the significance of such rating should be obtained from the rating agency. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own.

Except as otherwise required in the Continuing Disclosure Certificate, the City undertakes no responsibility either to bring to the attention of the owners of any Bonds any downward revision or withdrawal of any rating obtained or to oppose any such revision or withdrawal. There is no assurance such rating will continue for any given period of time or that such rating will not be revised downward or withdrawn entirely by the rating agency, if in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time.

Underwriting

The Bonds were sold to Stifel, Nicolaus & Company, Incorporated (the “Underwriter”), who is offering the Bonds at the prices set forth on the inside cover page hereof. The initial offering prices may be changed from time to time and concessions from the offering prices may be allowed to dealers, banks and others.

The Underwriter has purchased the Bonds at a price equal to \$_____, which amount represents the principal amount of the Bonds plus a net original issue premium of \$_____, less an Underwriter's discount of \$_____. The Underwriter will pay certain of its expenses relating to the offering from the Underwriter's discount.

The Municipal Advisor

The material contained in this Official Statement was prepared by the Authority and the City with the assistance of the Municipal Advisor who advised the Authority and the City as to the financial structure and certain other financial matters relating to the Bonds. The information set forth herein received from sources other than the City has been obtained by the Authority from sources which are believed to be reliable, but such information is not guaranteed by Municipal Advisor as to accuracy or completeness, nor has it been independently verified. Fees paid to the Municipal Advisor are contingent upon the sale and delivery of the Bonds.

Continuing Disclosure

The City will covenant to provide certain annual financial information (the “Annual Reports”) and notices of the occurrence of certain enumerated events in accordance with Rule 15c2-12 of the Securities Exchange Act of 1934 as amended (the “Rule”) by not later than _____ in each year. The specific nature of the information to be contained in the Annual Report or the notices of listed events and certain other terms of the continuing disclosure obligation are found in the form of the City's Disclosure Certificate attached in “APPENDIX C - FORM OF CONTINUING DISCLOSURE CERTIFICATE.”

The City and certain other entities related to the City, including the former redevelopment agency, various community facilities districts and joint powers authorities (together, the “City Entities”), have entered into previous undertakings pursuant to the Rule. Within the last five years, the City and certain of the City Entities have failed to comply with their respective prior undertakings in the following respects: pursuant to the undertakings for the City's five series of Certificates of Participation (collectively, the “Certificates”)

issued prior to 2011, the City's audit for Fiscal Year 2009-10 was timely filed on EMMA (by February 1, 2011) and referenced in the annual reports as being filed, however, the audit was not linked by CUSIP number to two series of Certificates until May 2011 and to the three other series of Certificates until February 2014; (ii) pursuant to the undertakings for certain of the community facilities districts, such community facilities districts were twelve days late in filing the City's audited financial statements in 2013; (iii) pursuant to the undertakings for three series of the former agency's bonds, the former agency's annual reports due in February and March 2012 were not filed until July 2012 and financial statements due in February and March 2011 were not filed until February 2014, although financial statements were timely filed for all other years since 2011; (iv) notice of certain ratings changes resulting from changes in ratings on municipal bond insurance companies were not promptly filed and one notice of an underlying rating change was filed 37 days after the rating change occurred; and (v) in certain cases information was timely filed on EMMA under the applicable base CUSIP number for the issuer but not linked to all of the individual CUSIP numbers for a series of bonds.

The City has adopted policies and procedures regarding compliance with undertakings made by the City and the City Entities pursuant to the Rule and has retained the services of outside consultants to assist in the reporting process. The City's Finance Department has assigned a specific person to coordinate with the outside consultants and to monitor compliance.

References

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Authority and the purchasers or Owners of any of the Bonds.

Execution

The execution of this Official Statement by the Treasurer of the Authority and the Deputy City Manager/Chief Financial Officer has been duly authorized by the Authority and by the City, respectively.

CHULA VISTA MUNICIPAL FINANCING AUTHORITY

By: _____
Treasurer

CITY OF CHULA VISTA

By: _____
Deputy City Manager/Chief Financial Officer

APPENDIX A
SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

[to be provided by Bond Counsel]

APPENDIX B
CITY AUDITED FINANCIAL STATEMENTS

APPENDIX C
FORM OF CONTINUING DISCLOSURE CERTIFICATE

[to be provided by Disclosure Counsel]

APPENDIX D
PROPOSED FORM OF BOND COUNSEL OPINION

[to be provided by Bond Counsel]

APPENDIX E

THE BOOK-ENTRY SYSTEM

The following description of the Depository Trust Company (“DTC”), the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, interest and other payments on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest 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. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

Neither the issuer of the Bonds (the “Issuer”) nor the trustee, fiscal agent or paying agent appointed with respect to the Bonds (the “Agent”) take any responsibility for the information contained in this Appendix.

No assurances can be given that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current “Rules” applicable to DTC are on file with the Securities and Exchange Commission and the current “Procedures” of DTC to be followed in dealing with DTC Participants are on file with DTC.

1. The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the Bonds (the “Securities”). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each issue of the Securities, each in the aggregate principal amount of such issue, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

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

Commission. More information about DTC can be found at www.dtcc.com. *The information contained on such Internet site is not incorporated herein by reference.*

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

4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

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

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to 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 Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds and distributions on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Issuer or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or 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 Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

11. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.