

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

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation (“Bond Counsel”), under existing statutes, regulations, rulings and judicial decisions, and assuming certain representations and compliance with certain covenants and requirements described more fully herein, interest (and original issue discount) on the Series 2017B Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest (and original issue discount) on the Series 2017A Bonds and the Series 2017B Bonds is exempt from State of California personal income tax. See “TAX MATTERS” herein.

CHULA VISTA MUNICIPAL FINANCING AUTHORITY

\$13,300,000*

\$1,050,000*

**LEASE REVENUE BONDS SERIES 2017A
(NEW CLEAN RENEWABLE ENERGY BONDS)
(FEDERALLY TAXABLE)**

**LEASE REVENUE BONDS SERIES 2017B
(TAX-EXEMPT)**

Dated: Date of Delivery

Due: As shown on the inside cover page

The Chula Vista Municipal Financing Authority Lease Revenue Bonds Series 2017A (New Clean Renewable Energy Bonds) (Federally Taxable) (the “Series 2017A Bonds”) and Lease Revenue Bonds Series 2017B (Tax-Exempt) (the “Series 2017B Bonds”) and together with the Series 2017A Bonds, the “Bonds”) are being issued to finance photovoltaic energy systems at various City facilities, capitalize interest on the Bonds and pay the costs incurred in connection with the issuance of the Bonds. The Bonds are payable from the revenues and funds 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 including insurance proceeds and 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 legally available funds in an amount sufficient to pay the annual principal and interest due on 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 December 1 and June 1 of each year, commencing June 1, 2018. The Series 2017A Bonds are subject to optional redemption prior to maturity, and are also subject to mandatory sinking fund redemption as described herein. The Bonds are also subject to extraordinary mandatory redemption and special optional redemption, as described herein. See “THE BONDS - General Provisions” and “THE BONDS - Redemption” herein.

The Authority and the City will designate the Series 2017A Bonds as “New Clean Renewable Energy Bonds” (“New CREBs”) under section 54C of the Internal Revenue Code of 1986, as amended (the “Code”) and will irrevocably elect under section 6431(f)(2) of the Code to receive a direct payment from the United States Treasury equal to the lesser of (i) the amount of interest payable with respect to the Series 2017A Bonds, or (ii) seventy percent (70%) of the amount of interest which would be payable with respect to the Series 2017A Bonds if the interest rates were determined at the applicable credit rate determined under section 54A(b)(3) of the Code. See “THE BONDS - Designation of the Series 2017A Bonds as New Clean Renewable Energy Bonds” herein.

THE BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY PAYABLE SOLELY FROM BASE RENTAL PAYMENTS 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 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 Bonds are offered, when, as and if issued, subject to the approval as to their legality by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, 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 Nixon Peabody LLP, Los Angeles, California. It is anticipated that the Bonds, in book-entry form, will be available for delivery on or about December 21, 2017 through the facilities of The Depository Trust Company (see “APPENDIX E - THE BOOK-ENTRY SYSTEM” herein).

The date of the Official Statement is _____, 2017.



* 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.

CHULA VISTA MUNICIPAL FINANCING AUTHORITY

\$13,300,000*

**LEASE REVENUE BONDS SERIES 2017A
(NEW CLEAN RENEWABLE ENERGY BONDS)
(FEDERALLY TAXABLE)**

MATURITY SCHEDULE

(Base CUSIP®† 17132E)

<u>Maturity Date</u>	<u>Principal</u>	<u>Interest</u>			
<u>December 1</u>	<u>Amount</u>	<u>Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP®†</u>
2019					
2020					
2021					
2022					
2023					
2024					
2025					
2026					
2027					
2028					
2029					
2030					
2031					
2032					
2033					
2034					
2035					
2036					
2037					
2038					
\$ _____ % Term Bonds maturing December 1, 2043*, Yield _____% CUSIP®† _____					
\$ _____ % Term Bonds maturing December 1, 2048*, Yield _____% CUSIP®† _____					

* Preliminary, subject to change.

† CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Capital IQ on behalf of the American Bankers Association. CUSIP numbers have been assigned by an independent company not affiliated with the Authority, the City, the Municipal Advisor or the Underwriter 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 is responsible for the selection or use of these CUSIP numbers, and no representation is made as to their correctness on the Bonds or as indicated above. The CUSIP number for a specific maturity is subject to being changed after the execution and delivery of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity 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.

CHULA VISTA MUNICIPAL FINANCING AUTHORITY

\$1,050,000*

**LEASE REVENUE BONDS SERIES 2017B
(TAX-EXEMPT)**

MATURITY SCHEDULE

(Base CUSIP®† 17132E)

<u>Maturity Date</u>	<u>Principal</u>	<u>Interest</u>			
<u>December 1</u>	<u>Amount</u>	<u>Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP®†</u>
2019					
2020					
2021					
2022					
2023					
2024					
2025					
2026					
2027					
2028					

* Preliminary, subject to change.

† CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Capital IQ on behalf of the American Bankers Association. CUSIP numbers have been assigned by an independent company not affiliated with the Authority, the City, the Municipal Advisor or the Underwriter 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 is responsible for the selection or use of these CUSIP numbers, and no representation is made as to their correctness on the Bonds or as indicated above. The CUSIP number for a specific maturity is subject to being changed after the execution and delivery of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity 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 pages 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 AND AUTHORITY BOARD MEMBERS

Mary Casillas Salas, *Mayor*
John McCann, *Councilmember, District 1*
Patricia Aguilar, *Councilmember, District 2*
Stephen Padilla, *Councilmember, District 3*
Mike Diaz, *Councilmember, District 4*

CITY STAFF

Gary Halbert, *City Manager*
Maria Kachadoorian, *Assistant City Manager*
Kelley Bacon, *Deputy City Manager*
Kelly Broughton, *Director of Development Services*
Eric Crockett, *Director of Economic Development*
Jim Geering, *Fire Chief*
David Bilby, *Director of Finance/Treasurer*
Courtney Chase, *Director of Human Resources*
Edward Chew, *Director of Information Technology Services*
Betty Waznis, *Director of Library*
Roxana Kennedy, *Chief of Police*
Richard Hopkins, *Director of Public Works*
Kristi McClure Huckaby, *Director of Recreation*
Glen R. Googins, *City Attorney*
Donna Norris, CMC, *City Clerk*

PROFESSIONAL SERVICES

Bond Counsel and Disclosure Counsel

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

Municipal Advisor

Harrell & Company Advisors, LLC
Orange, California

Trustee

U.S. Bank National Association
Los Angeles, California

TABLE OF CONTENTS

INTRODUCTION1	Public Facilities Development Impact Fees41
The City and the Authority1	Personnel.....42
Purpose1	Employee Relations and Collective Bargaining.....42
Security and Sources of Repayment2	Pension Plans42
Limited Obligation.....2	Defined Contribution Pension Plan.....50
No Reserve Fund3	Other Post Employment Benefits.....50
Designation of the Series 2017A Bonds as New	Risk Management52
Clean Renewable Energy Bonds.....3	City Investment Policy and Portfolio.....53
Legal Matters.....3	Outstanding Indebtedness of the City54
Professional Services3	Joint Financing Agreement with Respect to the
Offering of the Bonds3	Chula Vista Bayfront.....55
Summaries Not Definitive4	Elite Athlete Training Center56
THE FINANCING PLAN.....4	Estimated Direct and Overlapping Debt56
Estimated Sources and Uses of Funds4	Financial Statements58
The Project.....4	RISK FACTORS63
THE LEASED PROPERTY5	Base Rental Payments.....63
THE BONDS6	Natural Hazards64
General Provisions.....6	Limited Recourse on Default; No Acceleration65
Redemption.....6	Enforcement of Remedies.....65
Scheduled Debt Service on the Bonds10	Bankruptcy.....66
Scheduled Debt Service on the Bonds12	State Budget.....67
Debt Service Requirements13	Constitutional Limitation on Taxes and
Additional Bonds.....14	Expenditures69
SOURCES OF PAYMENT FOR THE BONDS14	Federal Legislation73
General.....14	Early Redemption Risk.....73
Base Rental Payments; Abatement14	Loss of Tax Exemption on the Series 2017B Bonds 73
No Reserve Fund15	IRS Audit of Tax-Exempt Bond Issues74
Insurance Relating to the Leased Property15	Secondary Market Risk.....74
Remedies on Default.....17	TAX MATTERS.....74
Encumbrances.....17	LEGAL MATTERS78
New CREBs Subsidy Payments17	Enforceability of Remedies.....78
CITY OF CHULA VISTA18	Approval of Legal Proceedings.....78
General Information.....18	Absence of Litigation.....78
General Organization.....18	CONCLUDING INFORMATION79
Governmental Services.....19	Rating on the Bonds.....79
Community Facilities and Services20	Underwriting79
Transportation.....20	The Municipal Advisor79
Population.....21	Continuing Disclosure80
Per Capita Personal Income.....21	References.....80
Employment.....22	Execution81
Industry23	APPENDIX A - SUMMARY OF PRINCIPAL
Largest Employers24	LEGAL DOCUMENTS
Commercial Activity.....24	APPENDIX B - CITY AUDITED FINANCIAL
Building Activity26	STATEMENTS
FINANCIAL INFORMATION26	APPENDIX C - FORM OF CONTINUING
Fiscal Policies26	DISCLOSURE AGREEMENT
Budgetary Process and Administration.....29	APPENDIX D - PROPOSED FORM OF BOND
Economic Conditions and Outlook.....29	COUNSEL OPINIONS
Revenues and Expenditures31	APPENDIX E - THE BOOK-ENTRY SYSTEM
Ad Valorem Property Taxes34	
Local Taxes38	
Motor Vehicle License Fees.....41	

OFFICIAL STATEMENT

CHULA VISTA MUNICIPAL FINANCING AUTHORITY

\$13,300,000*

**LEASE REVENUE BONDS SERIES 2017A
(NEW CLEAN RENEWABLE ENERGY BONDS)
(FEDERALLY TAXABLE)**

\$1,050,000*

**LEASE REVENUE BONDS SERIES 2017B
(TAX-EXEMPT)**

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 by the Chula Vista Municipal Financing Authority (the “Authority”) of the Chula Vista Municipal Financing Authority Lease Revenue Bonds Series 2017A (New Clean Renewable Energy Bonds) (Federally Taxable) (the “Series 2017A Bonds”) and Lease Revenue Bonds Series 2017B (Tax-Exempt) (the “Series 2017B Bonds” and together with the Series 2017A Bonds, the “Bonds”).

INTRODUCTION

This Introduction contains only a brief description of this issue and does not purport to be complete. The Introduction is subject in all respects to more complete information in the entire Official Statement and the offering of the Bonds to potential investors is made only by means of the entire Official Statement and the documents summarized herein. Potential investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision with respect to the Bonds (see “RISK FACTORS” herein). For definitions of certain capitalized terms used herein and not otherwise defined, and the terms relating to the Bonds, see the summary included in “APPENDIX A - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS” herein.

The City and the Authority

The City of Chula Vista (the “City”) 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 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 and to provide for such revenue bonds to be repaid from lease payments, 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 finance photovoltaic energy systems at various City facilities, to capitalize interest on the Bonds and to 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 December 1, 2017, (the “Indenture”), by and among the Authority, the City and U.S. Bank National Association, Los Angeles, California, as trustee (the “Trustee”) (see “APPENDIX A - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - INDENTURE” 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. See “THE LEASED PROPERTY” herein.

Pursuant to a Site Lease, dated as of December 1, 2017 (the “Site Lease”), by and between the Authority and the City, the City will lease the Leased Property to the Authority. The Authority will lease the Leased Property back to the City under the Lease Agreement, dated as of December 1, 2017, by and between the City and the Authority (the “Lease Agreement”). The Base Rental Payments are to be made by the City pursuant to the Lease Agreement.

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, will be assigned to the Trustee under the Indenture and under the Assignment Agreement, dated as of December 1, 2017 (the “Assignment Agreement”), by and between the Authority and the Trustee, for the benefit of Owners of the Bonds.

In general, the City is required under the Lease Agreement to pay to the Authority the Base Rental Payments 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’s obligation to pay Base Rental Payments under the Lease Agreement is subject, however, to events of abatement as described therein. The City is required to make the Base Rental Payments from legally available funds. The City will covenant 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 title defect or damage or destruction of all or any portion of the Leased Property (see “RISK FACTORS - Base Rental Payments - Abatement” herein).

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.”

The rights of the owners of the Bonds and the enforceability of the Bonds, the Indenture, the Site Lease, the Lease Agreement and the Assignment 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).

Limited Obligation

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

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.

No Reserve Fund

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

Designation of the Series 2017A Bonds as New Clean Renewable Energy Bonds

On August 3, 2017, the City received allocations of volume cap to issue New Clean Renewable Energy Bonds ("New CREBs") with respect to the twelve Renewable Energy Projects described under the caption "THE FINANCING PLAN - The Project" herein. The City and the Authority have designated the Series 2017A Bonds as New CREBs.

Legal Matters

Certain legal matters relating to the issuance of the Bonds are subject to the approving opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel. The proposed form of Bond Counsel's opinion expected to be delivered upon the issuance of the Bonds is attached hereto as "APPENDIX D." Certain legal matters will be passed on for the City and the Authority by Glen R. Googins, as City Attorney and by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, as Disclosure Counsel, and for the Underwriter by its counsel, Nixon Peabody LLP, Los Angeles, California. Fees payable to Bond Counsel and Disclosure Counsel are contingent upon the sale and delivery of the Bonds.

Professional Services

U.S. Bank National Association, Los Angeles, California, serves as Trustee under the Indenture.

Harrell & Company Advisors, LLC (the "Municipal Advisor") has advised the City as to the financial structure and certain other financial matters relating to the Bonds. Fees payable to the Municipal Advisor are contingent upon the sale and delivery of the Bonds.

Offering of the Bonds

Authority for Issuance and Delivery. The Bonds are to be issued in accordance with applicable provisions of the California Government Code, the Indenture and by Resolution No. MFA-_____ of the Authority adopted on November 21, 2017.

Offering and Delivery of the Bonds. The Bonds are offered, when, as and if issued, subject to the approval as to their legality by Bond Counsel. It is anticipated that the Bonds, in book-entry form, will be available for delivery on or about December 19, 2017 through the facilities of The Depository Trust Company.

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

Estimated Sources and Uses of Funds

The proceeds from the sale of the Bonds are anticipated to be applied as follows:

	<u>Series 2017A Bonds</u>	<u>Series 2017B Bonds</u>
<u>Sources of Funds</u>		
Par Amount of Bonds		
Original Issue Premium		
Total Sources		
<u>Uses of Funds</u>		
Acquisition and Construction Fund		
Interest Fund ⁽¹⁾		
Underwriter's Discount		
Costs of Issuance Fund ⁽²⁾		
Total Uses		

⁽¹⁾ Interest on the Series 2017A Bonds will be capitalized to June 1, 2018 and interest on the Series 2017B Bonds will be capitalized to December 1, 2018.

⁽²⁾ Expenses include fees and expenses of Bond Counsel, Municipal Advisor, Disclosure Counsel and the Trustee, rating fees, costs of printing the Official Statement, and other costs of issuance of the Bonds.

The Project

The proceeds of the Bonds deposited in the Acquisition and Construction Fund are expected to be used to acquire and construct photovoltaic energy systems at twelve facilities located throughout the City (the "Renewable Energy Projects"). The Renewable Energy Projects consist of the installation of an aggregate 2,434 Kw DC photovoltaic energy systems. The City received the New CREBs allocation to finance the Renewable Energy Projects on August 3, 2017.

The Renewable Energy Projects are projected to produce energy and reduce the City's expenditures on electricity at the facilities, in amounts greater than the operation and maintenance costs, future major maintenance costs and financing costs. The affected facilities are the City's Civic Center, Police Headquarters, Main Library, Public Works facility, South Chula Vista Library, Loma Verde Aquatic Center, Parkway Aquatic Center and Gymnasium, Montevalle Recreation Center, Boys & Girls Club, Mount San Miguel Park, Animal Care Shelter and Salt Creek Recreation Center.

THE LEASED PROPERTY

Description of the Leased Property

Pursuant to the terms of the Site Lease, the City will lease certain real property and the improvements thereon owned by City (the “Leased Property”) to the Authority. Pursuant to the terms of the Lease Agreement, the Authority will lease the Leased Property back to the City.

The Leased Property consists of the City’s main library and its Harvest Park. The City’s main library (“Library”) is located on a 4-acre site adjacent to the City’s civic center complex and main police headquarters. The Library is 58,000 square feet including a basement, and was constructed in 1974. The City’s Harvest Park consists of a 5.3-acre neighborhood park in eastern Chula Vista, improved with picnic areas, play equipment, restrooms, shelters and gazebos and a soccer field. A recent appraisal of the Library estimates the value at \$12,700,000. Based on recent appraisals of comparable park facilities located in the City, the City estimates the value of Harvest Park to be at least \$9,000,000.

The component properties of the Leased Property are not located in a 100-year flood plain. The facilities are not currently insured for earthquake or flood (see “RISK FACTORS - Natural Hazards”).

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 - LEASE AGREEMENT - NO CONSEQUENTIAL DAMAGES; USE OF THE LEASED PROPERTY; SUBSTITUTION OR RELEASE - Substitution or Release of the Leased 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 cover page hereof, on June 1, 2018 and each December 1 and June 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 cover page hereof.

Interest on the Bonds is payable from the Interest Payment Date next preceding the date of authentication thereof unless (i) 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, (ii) a Bond is authenticated on or before the first Record Date, in which event interest thereon will be payable from the Closing Date, or (iii) 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 shall be paid on each Interest Payment Date to the Bond Owners at their respective addresses shown on the Registration Books as of the close of business on the preceding 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 remit such interest and principal to DTC Participants (as defined herein), who 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 of Series 2017A Bonds. The Series 2017A Bonds maturing on or before December 1, 2027, are not subject to optional redemption prior to their respective stated maturities. The Series 2017A Bonds maturing on and after December 1, 2028 are subject to optional redemption prior to maturity in whole or in part on any date on or after December 1, 2027, at the option of the Authority, from any source of moneys, or in the event the City exercises its option under the Lease Agreement to prepay the corresponding principal components of Base Rental Payments (in integral multiples of \$5,000), at a redemption price equal to the principal amount thereof, together with accrued interest to the date fixed for redemption, without premium.

No Optional Redemption of Series 2017B Bonds. The Series 2017B Bonds are not subject to optional redemption prior to their respective stated maturities.

Mandatory Sinking Fund Redemption. The Series 2017A Bonds maturing December 1, 2043* (the “2043 Term Bonds”) are subject to mandatory redemption prior to their maturity at a redemption price of 100% of the principal amount to be redeemed plus accrued interest thereon to the redemption date on each December 1 commencing December 1, 20__ in the principal amounts and on the scheduled mandatory redemption dates as follows:

<u>Date</u> <u>(December 1)</u>	<u>Sinking Fund</u> <u>Redemption Amount</u>
--	---

The Series 2017A Bonds maturing December 1, 2048* (the “2048 Term Bonds”) are subject to mandatory redemption prior to their maturity at a redemption price of 100% of the principal amount to be redeemed plus accrued interest thereon to the redemption date on each December 1 commencing December 1, 20__ in the principal amounts and on the scheduled mandatory redemption dates as follows:

<u>Date</u> <u>(December 1)</u>	<u>Sinking Fund</u> <u>Redemption Amount</u>
--	---

In addition, in lieu of mandatory sinking fund redemption thereof, the 2043 Term Bonds or the 2048 Term Bonds may be purchased by the Authority and tendered to the Trustee pursuant to the provisions of the Indenture.

Extraordinary Redemption From Net Proceeds. The Bonds are subject to redemption, in whole or in part, on any date, in Authorized Denominations, from and to the extent of any Net Proceeds received with respect to all or a portion of the Leased Property, deposited by the Trustee in the Redemption Fund pursuant to the Indenture, at a Redemption Price equal to the principal amount of the Bonds to be redeemed, plus accrued interest thereon to the date of redemption, without premium.

“Net Proceeds” means the proceeds received from the property or title insurance policies required pursuant to the Lease Agreement and the proceeds of any award made in eminent domain proceedings for the taking of the Leased Property, or any portion thereof, remaining after payment therefrom of all reasonable expenses incurred in the collection thereof.

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

* Preliminary, subject to change.

Extraordinary Mandatory Redemption from Unexpended Series 2017A Bond Proceeds. The Series 2017A Bonds are subject to extraordinary mandatory redemption, in whole or in part, within 90 days following the third anniversary of the Closing Date of the Series 2017A Bonds, or 90 days following the date of termination of any period of time negotiated with the IRS that extends the date by which the proceeds of the sale of the Series 2017A Bonds must be expended, as evidenced in writing from the IRS, in authorized denominations, at a redemption price equal to the principal amount of the Series 2017A Bonds called for redemption, in an amount equal to the unexpended proceeds of the sale of the Series 2017A Bonds held by the Authority, but only to the extent that the Authority fails to expend all of the proceeds of the Series 2017A Bonds for certain qualified purposes as required by Section 54A(d)(2)(B)(i) of the Code within three years of issuance thereof.

Special Optional Redemption Following Loss of Subsidy Payments. Upon the occurrence of an Extraordinary Event, the Series 2017A Bonds shall be subject to redemption, at the option of the Authority, prior to their maturity date, in whole or in part, on the date designated by the Authority, at a redemption price equal to the principal amount thereof, together with accrued interest to the date fixed for redemption, without premium.

“Extraordinary Event” means:

- (i) the occurrence of a Determination of Loss of New Clean Renewable Energy Bond Status, or
- (ii) (a) the occurrence of a material adverse change under Section 54C or 6431 of the Code, (b) the publication by the IRS or the United States Treasury of any guidance with respect to such sections; or (c) any other determination by the IRS or the United States Treasury, which determination is not the result of a failure of the City to satisfy certain requirements of the Indenture or the Lease, the result of which, as reasonable determined by the Authority (and which determination shall be conclusive), is to eliminate or reduce by 25% or more the Subsidy Payments expected to be received with respect to the Series 2017A Bonds.

“Subsidy Payments” means, with respect to the Series 2017A Bonds, the cash subsidy payments payable from the United States Treasury under Section 6431 of the Code equal to 70% of the amount of interest that would be payable on such Interest Payment Date for the Series 2017A Bonds if such interest were determined at the federal tax credit rate determined in accordance with Section 54A(b)(3) of the Code..

“Accountable Event of Loss of New Clean Renewable Energy Bonds Status” means (a) the enactment of legislation by the Congress of the United States of America, (b) the promulgation of a non-appealable ruling, notice or determination by the Internal Revenue Service or (c) a rendering of a non-appealable ruling or holding by a court of competent jurisdiction, the effect of any of which either (i) causes the Series 2017A Bonds to lose their status or otherwise fail to qualify as “New Clean Renewable Energy Bonds” under Section 54C of the Tax Code or (ii) reduces, defers or eliminates the Subsidy Payments by an amount which equals or exceeds 25% of the amount which would otherwise be payable in respect of the Series 2017A Bonds under Section 6431 of the Tax Code.

“Determination of Loss of New Clean Renewable Energy Bond Status” means (a) a final determination by the IRS (after the City has exhausted all administrative appeal remedies) determining that an Accountable Event of Loss of New Clean Renewable Energy Bond Status has occurred (b) a non-appealable holding by a court of competent jurisdiction holding that an Accountable Event of Loss of New Clean Renewable Energy Bond Status has occurred.

Selection of Bonds for Redemption. Whenever provision is made in the Indenture for the redemption of less than all of the Bonds, the Trustee shall select the Bonds to be redeemed from all Bonds not previously called for redemption, among maturities of Bonds of such Series (a) as directed in a Written Certificate of the Authority with respect to any optional redemption, extraordinary optional redemption or extraordinary mandatory redemption of Bonds of a Series, (b) on a pro rata basis as nearly as practicable among maturities

of all Series of Bonds with respect to any extraordinary redemption from Net Proceeds and (c) among maturities as provided in the Supplemental Indenture pursuant to which Additional Bonds are issued with respect to any other redemption of Additional Bonds,. The Bonds to be redeemed will be selected by lot among Bonds of the same Series with the same maturity, in any manner which the Trustee in its sole discretion shall deem appropriate and fair. For purposes of such selection, all Bonds shall be deemed to be comprised of separate \$5,000 denominations and such separate denominations shall be treated as separate Bonds which may be separately redeemed.

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. Such notice shall state the date of the notice, the redemption date, the redemption place and the redemption price and shall specify 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. Such notice of redemption may also state that no representation is made as to the accuracy or correctness of the CUSIP numbers printed therein or on the Bonds. Neither the failure to receive any notice so mailed, nor any defect in such notice, shall affect the validity of the proceedings for the redemption of the Bonds or the cessation of accrual of interest thereon from and after the date fixed for redemption.

So long as DTC is the registered Owner of the Bonds, all redemption notices will be provided only to DTC as the Owner and not to the Beneficial Owners of the Bonds. See “APPENDIX E - THE BOOK-ENTRY SYSTEM.”

Effect of Redemption. If, on the date fixed for redemption, moneys for the Redemption Price of all the Bonds to be redeemed, together with interest to said date, shall be held by the Trustee so as to be available therefor on such date, and, if notice of redemption thereof shall have been sent, then, from and after said date, interest on said Bonds shall cease to accrue and become payable. All moneys held by or on behalf of the Trustee for the redemption of Bonds shall be held in trust for the account of the Owners of the Bonds so to be redeemed without liability to such Owners for interest thereon.

Partial Redemption. Upon surrender of any Bonds redeemed in part only, 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 in authorized denominations equal in aggregate principal amount representing the unredeemed portion of the Bonds surrendered.

Scheduled Debt Service on the Bonds

The following is a schedule of the total debt service on the Series 2017A Bonds, assuming no special optional redemption or mandatory extraordinary redemption prior to maturity.

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

Continued on next page.

Continued from previous page.

<u>Period Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Semi-Annual Total</u>	<u>Fiscal Year Total*</u>
December 1, 2035				
June 1, 2036				
December 1, 2036				
June 1, 2037				
December 1, 2037				
June 1, 2038				
December 1, 2038				
June 1, 2039				
December 1, 2039				
June 1, 2040				
December 1, 2040				
June 1, 2041				
December 1, 2041				
June 1, 2042				
December 1, 2042				
June 1, 2043				
December 1, 2043				
June 1, 2044				
December 1, 2044				
June 1, 2045				
December 1, 2045				
June 1, 2046				
December 1, 2046				
June 1, 2047				
December 1, 2047				
June 1, 2048				
December 1, 2048				
Total				

* Fiscal Years ending June 30.

Scheduled Debt Service on the Bonds

The following is a schedule of the total debt service on the Series 2017B Bonds.

<u>Period Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Semi-Annual Total</u>	<u>Fiscal Year Total*</u>
June 1, 2018				
December 1, 2018				
June 1, 2019				
December 1, 2019				
June 1, 2020				
December 1, 2020				
June 1, 2021				
December 1, 2021				
June 1, 2022				
December 1, 2022				
June 1, 2023				
December 1, 2023				
June 1, 2024				
December 1, 2024				
June 1, 2025				
December 1, 2025				
June 1, 2026				
December 1, 2026				
June 1, 2027				
December 1, 2027				
June 1, 2028				
December 1, 2028				

* Fiscal Years ending June 30.

Debt Service Requirements

Annual debt service on the Bonds (assuming no redemptions of the Bonds other than sinking account redemptions) and the Subsidy Payments is presented below.

Fiscal Year Ending June 30	Series 2017A Bonds*	Subsidy Payments*	Series 2017B Bonds*	Total*
2018				
2019				
2020				
2021				
2022				
2023				
2024				
2025				
2026				
2027				
2028				
2029				
2030				
2031				
2032				
2033				
2034				
2035				
2036				
2037				
2038				
2039				
2040				
2041				
2042				
2043				
2044				
2045				
2046				
2047				
2048				
2049				
Total				

(1) Includes mandatory sinking account installments.

(2) Calculated at 2.75%*, assuming 6.6% reduction from maximum allowable rate of 2.94%* due to sequestration.

* Preliminary, subject to change.

Additional Bonds

The Authority may at any time issue one or more series of “Additional Bonds” payable from Base Rental Payments on a parity with the Bonds subject to certain conditions precedent set forth in the Indenture (see “APPENDIX A - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - INDENTURE - ISSUANCE OF ADDITIONAL BONDS” herein).

SOURCES OF PAYMENT FOR THE BONDS

General

The Bonds are payable from and secured by a pledge of Base Rental Payments to be made by the City to the Authority as the rental for the Leased Property and certain funds held under the Indenture and investment earnings thereon, and from Net Proceeds.

As security for the Bonds, pursuant to the Assignment Agreement, 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 BASE RENTAL PAYMENTS 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 the Base Rental Payments for use of the Leased Property, which are equal to the principal of and interest due on 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 Base Rental Payment Fund maintained by the Trustee under the Indenture and applied to pay the principal and interest on the Bonds.

The City will covenant 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.

The City’s obligation to make Base Rental Payments will be abated in whole or in part to the extent of substantial interference with use and possession of the Leased Property arising from damage, destruction, title defect or taking by eminent domain of the Leased Property. Abatement would not constitute a default under the Lease Agreement or the Indenture and the Trustee would not be entitled in such event to pursue remedies against the City. See “RISK FACTORS - Base Rental Payments - Abatement” herein.

Under the Lease Agreement, the City will agree to pay all taxes, assessments, utility charges, and insurance premiums charged with respect to the Leased Property and certain expenses related to the Bonds, including the fees and expenses of the Trustee. The City is responsible for repair and maintenance of the Leased Property during the term of the Lease Agreement. The City may at its own expense in good faith contest, and leave unpaid during such contest, such taxes, assessments and utility and other charges if certain requirements set forth in the Lease Agreement are satisfied.

Should the City default under the Lease Agreement, the Trustee, as assignee of the Authority, may terminate the Lease Agreement and re-lease the Leased Property or may retain the Lease Agreement and hold the City liable for all Base Rental Payments thereunder on an annual basis. Under no circumstances will the Trustee have the right to accelerate Base Rental Payments. The exercise of the remedies provided to the Trustee is subject to various limitations on the enforcement of remedies against public agencies. See “RISK FACTORS - Limited Recourse on Default; No Acceleration” and “- Enforcement of Remedies” herein.

See also “RISK FACTORS - Base Rental Payments - Base Rental Payments are Limited Obligations of the City” herein.

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.

In addition to any Additional Bonds, 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 “FINANCIAL INFORMATION - Joint Financing Agreement with Respect to the Chula Vista Bayfront” and “RISK FACTORS - 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 Leased Property

The Lease Agreement requires the City to maintain property damage insurance, including fire insurance with extended coverage on all improvements constituting any part of the Leased Property. The City is also required to maintain rental interruption insurance on the improvements constituting any part of the Leased Property in an amount equal the maximum remaining scheduled Base Rental Payments due for a period of 24 months. The rental interruption insurance is payable only following a loss of use of any part of the Leased Property due to one of the hazards covered by the City’s property damage insurance policy. The City is not required under the Lease Agreement to maintain earthquake or flood insurance. Therefore, there will be no property insurance or rental interruption insurance payable with respect to uninsured hazards or the unimproved portions of the Leased Property.

The Lease Agreement also required the City to obtain a policy of title insurance insuring title to the Leased Property in an amount not less than the initial principal amount of the Bonds and general liability insurance insuring the City, the Authority and their respective members, officers, agents and employees.

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

In accordance with the Indenture, if the Leased Property or any portion thereof is damaged or destroyed, the City shall, as expeditiously as possible, continuously and diligently prosecute or cause to be prosecuted the repair or replacement thereof, unless the City elects not to repair or replace the Leased Property or the affected portion thereof in accordance with the provisions of the Indenture. The Net Proceeds, including the proceeds of any self-insurance, received on account of any damage or destruction of the Leased Property or a portion thereof shall as soon as possible be deposited with the Trustee and be held by the Trustee in a special account and made available for, and, to the extent necessary shall be applied to, the cost of repair

or replacement of the Leased Property, or the affected portion thereof, upon receipt of a Written Request of the City, together with invoices therefor.

Notwithstanding the foregoing, the City shall, within 60 days of the occurrence of the event of damage or destruction, notify the Trustee in writing as to whether the City intends to replace or repair the Leased Property or the portions of the Leased Property which were damaged or destroyed. If the City does intend to replace or repair the Leased Property or portions thereof, the City shall deposit with the Trustee the full amount of any insurance deductible to be credited to the special account.

In the event of any damage to or destruction of the Leased Property caused by one of the perils covered by the insurance required by the Lease Agreement which would result in an abatement of rental payments or any portion thereof, then the City shall direct the Trustee, in writing, to apply the Net Proceeds together with other legally available funds that the City elects to contribute, to the repair, reconstruction or replacement of the damaged or destroyed portions of the Leased Property; provided, however, that the City shall not be required to repair or replace any portion of the Leased Property pursuant to the Indenture if such Net Proceeds, together with any other amounts held under the Indenture and any other legally available funds made available by the City at its election, are sufficient to redeem (i) all of the Outstanding Bonds, or (ii) a portion of the Outstanding Bonds such that the resulting Base Rental Payments in any Rental Period following such partial redemption are sufficient to pay in such Rental Period the principal of and interest on all Bonds to remain Outstanding immediately after such partial redemption. If the City is not required to replace or repair the Leased Property, or the affected portion thereof, or to use such amounts to redeem Bonds, then such proceeds shall be paid to the City to be used for any lawful purpose, if there is first delivered to the Trustee a Written Certificate of the City to the effect that the annual fair rental value of the Leased Property after such damage or destruction, and after any repairs or replacements made as a result of such damage or destruction, is at least equal to 100% of the maximum amount of Base Rental Payments becoming due under the Lease Agreement in the then current Rental Period or any subsequent Rental Period and the fair replacement value of the Leased Property after such damage or destruction is at least equal to the principal amount of the Outstanding Bonds.

If the insurance proceeds and any amounts contributed by the City are not sufficient to repair all of the damaged or destroyed Leased Property, there could be an abatement of Base Rental Payments under the Lease Agreement and a failure to pay the principal of and interest on the Bonds when due. An abatement is not an event of default under the Indenture or the Lease Agreement.

Proceeds of rental interruption insurance shall be deposited to the Base Rental Payment Fund and be applied to the payment of the principal of and interest due on the Bonds to the extent of any abatement of Base Rental Payments pursuant to the Lease Agreement, and otherwise as directed in writing by the City.

Proceeds of any policy of title insurance received by the Trustee in respect of the Leased Property will be applied and disbursed by the Trustee as follows: (a) if the City determines that the title defect giving rise to such proceeds has not substantially interfered with its use and occupancy of the Leased Property and will not result in an abatement of Rental Payments payable by the City under the Lease Agreement, such proceeds will be remitted to the City and used for any lawful purpose thereof; or (b) if the City determines that the title defect giving rise to such proceeds has substantially interfered with its use and occupancy of the Leased Property and will result in an abatement of Rental Payments payable by the City under the Lease Agreement, then upon written direction of the City, the Trustee will deposit such proceeds in the Redemption Fund and such proceeds shall be applied to the redemption of Bonds in the manner provided in the Indenture and the corresponding provisions of any Supplemental Indenture pursuant to which Additional Bonds are issued.

The proceeds of any award in eminent domain received in respect to the Leased Property shall be deposited by the Trustee in the Redemption Fund and applied to the redemption of Bonds.

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. The City, in the event of default, will have no right to any rentals received by the Trustee through reletting of the Leased Property, except amounts in excess of the Base Rental Payments and other amounts due under 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. In such event, the Lease Agreement provides that the City will be liable for all costs, loss or damage howsoever occurring. There are limitations on the reletting of the Leased Property and the exercise of remedies under the Lease Agreement. See "RISK FACTORS - Limited Recourse on Default; No Acceleration" and "- Enforcement of Remedies" and "APPENDIX A - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - LEASE AGREEMENT - DEFAULTS AND REMEDIES."

Encumbrances

The City may not create any mortgage, pledge, lien, charge or encumbrance upon the Leased Property other than "Permitted Encumbrances." See "APPENDIX A - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - LEASE AGREEMENT - DEFINITIONS."

New CREBs Subsidy Payments

The City has made an irrevocable election to have Section 6431 of the Code apply to the Series 2017A Bonds so that the Series 2017A Bonds are treated as "specified tax credit bonds," with respect to which the City will be allowed a direct interest subsidy payment from the United States Treasury to the City.

*As a result of this election, interest on the Series 2017A Bonds is not excludable from gross income of owners of the Series 2017A Bonds under Section 103 of the Code, and owners of the Series 2017A Bonds will not be allowed any federal tax credits as a result of ownership of or receipt of interest payments on the Series 2017A Bonds. See "TAX MATTERS." The obligation of the United States Treasury under Section 6431 of the Code to make direct payments to the City in respect of interest payments on the Series 2017A Bonds (the "Subsidy Payments") does not constitute a full faith and credit guarantee of the Series 2017A Bonds by the United States of America. As described under "TAX MATTERS," no assurances are provided that the City will receive any Subsidy Payments. The amount of the Subsidy Payments is subject to legislative changes by the Congress and the President of the United States of America. Subsidy Payments are subject to sequestration under The Budget Control Act of 2011, Pub. L. No. 112-25, 125 Stat. 240, unless the Congress and the President take action to prevent such sequestration. Subsidy Payments can also be offset against certain amounts that may, for unrelated reasons, be owed by the City to an agency of the United States of America or certain state agencies. The City cannot and does not make any representation regarding the City's receipt of Subsidy Payments with respect to the Series 2017A Bonds, including the amount and timing of receipt of such payments. *The Subsidy Payments, payable directly to the City, are not pledged to the Owners of the Series 2017A Bonds as security therefore.**

In circumstances where the Subsidy Payments are significantly reduced, the City and the Authority have the option to redeem the Series 2017A Bonds prior to maturity. See "THE BONDS - REDEMPTION - Special Optional Redemption Following Loss of Subsidy Payments" herein.

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 2017 estimated population of 267,917, 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 be relied upon by 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 elected by geographic district and a Mayor, each elected at large. The City Attorney is also elected at large. The positions of City Manager and City Clerk are filled by appointments of the Council.

In Fiscal Year 2017-18, the City had 1,006 authorized full-time staff positions including sworn officers and fire personnel. Including part-time personnel, the City employs approximately 1,320 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, <i>District 1</i>	December 2018
Patricia Aguilar, <i>District 2</i>	December 2018
Stephen Padilla, <i>District 3</i>	December 2020
Mike Diaz, <i>District 4</i>	December 2020

CITY STAFF

Gary Halbert, *City Manager*
Maria Kachadoorian, *Assistant City Manager*
Kelley Bacon, *Deputy City Manager*
Kelly Broughton, *Director of Development Services*
Eric Crockett, *Director of Economic Development*
Jim Geering, *Fire Chief*
David Bilby, *Director of Finance/Treasurer*
Courtney Chase, *Director of Human Resources*
Edward Chew, *Director of Information Technology Services*
Betty Waznis, *Director of Library*
Roxana Kennedy, *Chief of Police*
Richard Hopkins, *Director of Public Works*
Kristi McClure Huckaby, *Director of Recreation*
Glen R. Googins, *City Attorney*
Donna Norris, CMC, *City Clerk*

Governmental Services

Public Safety and Welfare

For Fiscal Year 2017-18, the City of Chula Vista Police Department has authorized total positions of 333, 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 148 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 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. 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 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.

The City now owns the Chula Vista Elite Athlete Training Center, formerly a United States Olympic Committee (“USOC”) training facility. The center is located on a 150-acre property adjacent to the Otay Lake reservoir. In 2016, the City and USOC negotiated an agreement pursuant to which in exchange for the deeding of the facility to the City for one dollar, the City has taken over responsibility for operation of the facility. Under the agreement the City will continue to provide the USOC with access to an elite Olympic training center and may use the facility for other events and 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 and 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 2013 and 2017.

**TABLE NO. 1
CHANGE IN POPULATION
CHULA VISTA AND SAN DIEGO COUNTY
2013 – 2017**

January 1 Year	<u>CHULA VISTA</u>		<u>SAN DIEGO COUNTY</u>	
	<u>Population</u>	<u>Percentage Change</u>	<u>Population</u>	<u>Percentage Change</u>
2013	256,366		3,195,215	
2014	260,416	1.6%	3,231,651	1.1%
2015	263,028	1.0	3,266,192	1.1
2016	264,911	0.7	3,286,717	0.6
2017	267,917	1.1	3,316,192	0.9
% Increase Between 2013 - 2017		4.5	3.8	

Source: State of California, Department of Finance, “E-4 Population Estimates for Cities, Counties, and the State, 2011-2017, with 2010 Census Benchmark” Sacramento, California, May 2017.

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
2011 – 2015**

<u>Year</u>	<u>Chula Vista</u>	<u>San Diego County</u> ⁽¹⁾	<u>State of California</u> ⁽¹⁾	<u>United States</u> ⁽¹⁾
2011	\$41,900	\$46,374	\$45,820	\$42,453
2012	43,060	47,961	48,312	44,267
2013	42,640	48,938	48,471	44,462
2014	42,880	51,174	50,988	46,414
2015	42,920	53,298	53,741	48,112

⁽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 2011-2015 reflect county population estimates available as of March 2016.

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

Last updated: November 17, 2016 - new estimates for 2015; revised estimates for 2011-2014.

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

Employment

As of September 2017 the civilian labor force for the City was approximately 123,200 of whom 116,900 were employed. The unadjusted unemployment rate as of September 2017 was 5.2% for the City as compared to 4.1% for the County and 4.7% for the State. Civilian labor force, employment and unemployment statistics for the City, County, the State and the United States, for the years 2012 through 2016 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>2012</u>				
City of Chula Vista	121,300	107,500	13,800	11.4%
San Diego County	1,540,400	1,399,900	140,600	9.1
California	18,523,800	16,602,700	1,921,100	10.4
United States	154,975,000	142,469,000	12,506,000	8.1
<u>2013</u>				
City of Chula Vista	121,100	109,300	11,800	9.8
San Diego County	1,543,200	1,422,500	120,700	7.8
California	18,624,300	16,958,700	1,665,600	8.9
United States	155,389,000	143,929,000	11,460,000	7.4
<u>2014</u>				
City of Chula Vista	120,700	110,900	9,700	8.1
San Diego County	1,543,700	1,444,500	99,300	6.4
California	18,755,000	17,348,600	1,406,400	7.5
United States	155,922,000	146,305,000	9,617,000	6.2
<u>2015</u>				
City of Chula Vista	121,100	113,200	7,900	6.5
San Diego County	1,554,800	1,474,400	80,400	5.2
California	18,893,200	17,723,300	1,169,900	6.2
United States	157,130,000	148,834,000	8,296,000	5.3
<u>2016</u>				
City of Chula Vista	122,200	115,000	7,200	5.9
San Diego County	1,570,400	1,497,000	73,500	4.7
California	19,102,700	18,065,000	1,037,700	5.4
United States	159,187,000	151,436,000	7,751,000	4.9

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. The number of wage and salary workers by industry for each of the years 2013 through 2017 in the Metropolitan Statistical Area is presented in Table No. 4 below.

TABLE NO. 4
SAN DIEGO-CARLSBAD METROPOLITAN STATISTICAL AREA
WAGE AND SALARY WORKERS BY INDUSTRY ⁽¹⁾
2013 - 2017
(in Thousands)

<u>Industry</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Government	225.9	227.1	231.6	239.3	242.8
Other Services	49.9	53	54.1	55.4	60.4
Leisure and Hospitality	172.4	180.8	187.6	196.3	196.6
Educational and Health Services	180.0	186.8	193.8	198.8	202.7
Professional and Business Services	221.8	224.4	230.7	235.1	232.6
Financial Activities	70.6	69.3	71.0	72.9	76.0
Information	24.4	24.4	23.6	23.6	23.6
Transportation, Warehousing and Utilities	26.9	27.1	28.9	29.7	27.8
Service Producing					
Retail Trade	140.4	143.2	145.8	145.5	146.6
Wholesale Trade	43.1	43.6	44.1	44.9	44.9
Manufacturing					
Nondurable Goods	24.1	25.0	26.5	27.3	27.7
Durable Goods	75.4	77.9	80.8	80.8	80
Goods Producing					
Construction	62.2	65.4	72.5	77.4	81.4
Mining and Logging	<u>0.3</u>	<u>0.4</u>	<u>0.3</u>	<u>0.3</u>	<u>0.3</u>
Total Nonfarm	1,317.4	1,348.4	1,391.3	1,427.3	1,443.4
Farm	<u>10.3</u>	<u>10.2</u>	<u>9.4</u>	<u>9.2</u>	<u>9.4</u>
Total (all industries)	<u>1,327.7</u>	<u>1,358.6</u>	<u>1,400.7</u>	<u>1,436.5</u>	<u>1,452.8</u>

⁽¹⁾ Annually, as of September.

Note: 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 2016 Benchmark."

Largest Employers

The largest employers operating within the City and their respective number of employees as of June 30, 2016 are as follows: [to be updated]

**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	4,385	Education
Chula Vista Elementary School District	3,245	Education
Rohr Inc./Goodrich Aerospace	2,468	Aerospace Manufacturing
Sharp Chula Vista Medical Center	2,131	Hospital
Southwestern Community College	1,409	Education
Wal-Mart	1,239	General Merchandise
City of Chula Vista	1,195	Government
Scripps Mercy Hospital Chula Vista	1,098	Hospital
Costco	760	General Merchandise
Aquatica	513	Water Park

Source: City of Chula Vista Comprehensive Annual Financial Report.

The City is not aware of any significant changes in largest employers within the City since June 30, 2016.

Commercial Activity

The following table summarizes the volume of retail and food services sales and taxable transactions for the City for 2011 through 2015 (the most recent year for which statistics are available for the full year).

**TABLE NO. 6
CITY OF CHULA VISTA
TOTAL TAXABLE TRANSACTIONS
(in Thousands)
2011 – 2015**

<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>
2011	2,184,654		2,714	2,421,667		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
2014	2,395,041	2.6	2,914	2,667,866	3.0	4,291
2015	2,394,868	(0.0)	N/A	2,687,701	0.7	N/A

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

Taxable transactions by type of business for the City are summarized below for 2011 through 2015 (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)
2011 – 2015

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u> ⁽¹⁾
<i>Retail and Food Services</i>					
Clothing and Clothing					
Accessories Stores	\$ 139,282	\$ 147,168	\$ 150,789	\$ 154,234	
General Merchandise Stores	657,146	668,390	675,819	683,633	
Food and Beverage Stores	124,929	131,846	139,157	145,854	
Food Services and Drinking Places	297,506	317,320	338,183	363,202	
Home Furnishings and					
Appliance Stores	150,305	150,541	153,461	141,676	
Building Materials and Garden					
Equipment and Supplies	99,766	105,472	109,437	113,633	
Motor Vehicle and Parts Dealers					
Gasoline Stations	303,189	305,217	304,968	312,153	
Other Retail Group	<u>203,410</u>	<u>202,547</u>	<u>215,390</u>	<u>224,411</u>	
Total Retail and Food Services	2,184,654	2,258,846	2,333,365	2,395,041	\$2,394,868
<i>All Other Outlets</i>					
	<u>237,013</u>	<u>242,651</u>	<u>256,014</u>	<u>272,825</u>	<u>292,833</u>
Total All Outlets	<u>\$2,421,667</u>	<u>\$2,501,497</u>	<u>\$2,589,379</u>	<u>\$2,667,866</u>	<u>\$2,687,701</u>

⁽¹⁾ Beginning in 2015, the State Board of Equalization stopped publishing Industry-level data.

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 2012-13 through 2016-17.

TABLE NO. 8
CITY OF CHULA VISTA
BUILDING ACTIVITY AND VALUATION
(in Thousands)
2012-13 – 2016-17

<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>
2012-13	954	\$226,972,213	13	\$22,328,114
2013-14	571	116,869,207	26	53,222,385
2014-15	1,014	175,417,974	21	18,222,385
2015-16	635	114,755,591	13	25,699,274
2016-17	847	143,328,403	40	15,179,745

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, 2017 is expected to be 11.7% of 2016-17 expenditures and 11.7% of 2017-18 expenditures and the Economic Contingency Reserve is expected to be 2.6% of 2016-17 and 1.9% of 2017-18 expenditures. 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. Some exceptions to this CIP driven focus are the issuance of pension obligation bonds, where financial benefits are significantly greater than the costs and where the benefits are determined to be a financially prudent option, and of short-term instruments such as tax and revenue anticipation notes, which are to be used for prudent management purposes. Bonded debt should not be issued for projects with minimal public benefit or support, or to finance normal operating expenditures.
- 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

Beginning in 2011, the City prepared a Five-Year Financial Outlook and embarked on a Fiscal Recovery and Progress Plan. The City then adopted a Strategic Plan in 2012. The City continued to update the Five-Year Financial Outlook annually until 2016, when it developed a Long-Term Financial Plan for a 10 year period. 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.

In December 2016, the City also adopted a plan for the expenditure of the Measure P Sales Tax (see "Local Taxes - Sales and Use Taxes") below.

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 is 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. 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

Despite a financial outlook that is more strained than it has been in recent years, the City continues to see revenue growth, infrastructure improvements, and growth in commercial and residential development. Positive revenue growth is being outpaced by pension and health care cost increases and will continue to be a challenge in the coming years. The Long-Term Financial Plan, described above, indicates a high likelihood of future structural deficits absent further action by the City to bridge the funding gap. The City will continue to implement efficiency measures to help mitigate the impacts of the cost increases and to implement new ways to maximize limited resources while delivering high quality services to the community. A positive note was the approval by voters of Measure P – a temporary, ten-year, half-cent sales tax to fund high priority infrastructure needs. Collection of the increased sales tax began on April 1, 2017. The Measure P sales tax increase is projected to raise \$178 million over the next ten years.

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 during the recent economic recession, and the City did not see its sales tax reach pre-recession levels until 2013. Between 2013 and 2016, sales tax revenues increased by 16%. The 2017-18 Budget reflects modest growth in sales tax, exclusive of Measure P, of 2% compared to the Fiscal Year 2016-17 budget for sales tax (net of the impact of a one-time adjustment in Fiscal Year 2015-16 known as the “Triple-Flip,” see “Local Taxes - Sales and Use Taxes” below). The Measure P Sales Tax is expected to generate \$16.3 million in its first full year of collection in Fiscal Year 2017-18.

Property Tax and Assessed Value. 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% from its prior peak in 2009 and until 2013-14 was still declining. The City’s assessed value in Fiscal Year 2015-16 of \$24.45 billion finally reached the prior Fiscal Year 2008-09 highest value. The positive assessed value trend is anticipated to continue into Fiscal Year 2017-18 as reflected in a budgeted property tax revenue increase of 5.6% (net of a one-time loan repayment from City’s Successor Agency) or approximately \$1.7 million compared to the Fiscal Year 2016-17 budget. 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 2016-17 reflected a net increase of approximately 5.5% from the prior fiscal year. The trend is anticipated to continue and a 4.5% increase in assessed valuation is projected in Fiscal Year 2017-18.

Transient Occupancy Tax. The City’s transient occupancy tax (“TOT”) revenues have increased on a yearly basis since 2010. In Fiscal Year 2017-18, the City is projecting an increase of \$661,000, due to modest growth in occupancy and room rates, together with the opening of a new hotel in the City during Fiscal Year 2017-18.

Staffing Levels. As revenues have improved, the City has continued the trend of slowly recovering its staffing levels previously reduced as a result of the recent economic recession. Since Fiscal Year 2013-14 the City has been able to achieve a modest 4.6% increase in staffing, managing to generally keep pace with the 3.7% population increase over the same time period, resulting in a slight net increase in Full-time Equivalent (“FTE”) positions since 2013-14 to 3.8 FTE positions from 3.7 FTE positions per 1,000 residents.

Bargaining Unit Agreements. The Fiscal Year 2017-18 Budget includes funding for the annualized costs of negotiated salary increases approved for employee groups during Fiscal Year 2016-17 and agreements for the Police Officers’ Association and the International Association of Firefighters reached for Fiscal Year 2017-18.

Pension Costs. The increase in retirement cost driven by lower investment returns of the California Public Employees Retirement System (“CalPERS”) is a significant budgetary challenge facing the City. The payments made to the retirement system equaled 16.2% of the City’s General Fund in the Fiscal Year 2016-17 budget and are estimated at \$24.5 million in 2017-18, or 14.7% of the 2017-18 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 has been partially offset through negotiations with the City’s bargaining groups, and has resulted in the implementation of pension reform. Under the negotiated pension reform, employees have agreed to pay an increased share of pension costs, thereby reducing the impact of pension cost increases to the City’s budget. The City’s required contributions will be further impacted by changes in actuarial assumptions approved by CalPERS in December 2016. See “Pension Plans.”

Health Care Costs. Flex/health insurance represents 7.4% of the total Fiscal Year 2017-18 General Fund expenditure budget and accounts 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. The Fiscal Year 2017-18 Budget shows a slight decrease in these costs compared to the prior fiscal year adopted

budget. In Fiscal Year 2016-17 the anticipated increase in healthcare premiums was estimated at 15%. The actual increase was lower than this estimation as a result of the City's switch in health insurance providers in 2017. This is carried forward into the first half of Fiscal Year 2017-18, which results in the slight decrease in comparison to the prior year adopted budget. The 2017-18 Budget assumes a 10% increase in healthcare premiums in calendar year 2018.

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.

Revenues

The largest components of budgeted Fiscal Year 2017-18 General Fund revenues (including transfers) are property taxes (20.3%), sales taxes other than Measure P (19.9%), property taxes in lieu of motor vehicle license fees (12.6%) and Measure P Sales Tax (9.8%).

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

- Property Taxes and Property Tax in Lieu of Motor Vehicle License Fees;
- Sales Taxes, including the Measure P Sales Tax;
- Other Taxes, detailed in Table No. 15 "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.

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 48.6% of the total budgeted General Fund expenditures (including transfers) for Fiscal Year 2017-18.

Table No. 9 provides a comparison of audited results for Fiscal Years 2014-15 and 2015-16, unaudited results for Fiscal Year 2016-17 and the amended budget for Fiscal Year 2017-18 (as amended to reflect any budget amendments to date). A five-year summary of the General Fund Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance is shown in Table Nos. 25 and 26.

As noted above, General Fund fiscal status reports reflecting comparisons of actual and projected performance with budget allocations for both revenue and expenditures are presented to the City Council on a quarterly basis. The report for the quarter ending September 30, 2017 was presented to the City Council on November 7, 2017. This report states that overall, General Fund revenues are projected to be lower by \$6,100 from the amended budget in Fiscal Year 2017-18, but that the net impact of this shortfall is expected to be offset elsewhere in the budget during the fiscal year.

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

	2014-15	2015-16	2016-17	2017-18
	<u>Actual</u>	<u>Actual</u>	<u>Unaudited</u>	<u>Budget</u> ⁽⁴⁾
Revenues:				
Property Tax	\$ 29,705,939	\$ 30,443,378	\$ 32,513,443	\$ 33,849,178
Property Tax in Lieu of MVLF	17,779,353	18,934,656	19,965,908	20,844,039
Sales Tax	30,394,291	34,180,296	33,449,706	33,767,466
Measure P Sales Tax ⁽¹⁾	-	-	3,906,919	16,320,000
Other Taxes	22,858,848	24,173,583	23,569,116	24,743,434
Licenses and Permits	1,281,656	1,301,243	1,266,886	1,524,632
Intergovernmental Revenue	1,933,114	2,530,464	1,936,758	1,722,934
Fines, Forfeitures and Penalties	1,638,251	1,249,457	1,123,011	1,075,423
Use of Money & Property	2,832,039	2,879,878	2,604,439	2,421,115
Charges for Services ⁽²⁾	9,430,097	9,264,462	10,377,601	8,255,255
Other Revenue	4,116,777	2,302,038	3,813,239	1,034,065
Reimbursements from Other Funds	9,273,303	10,064,380	17,028,388	9,823,215
Transfers In ⁽²⁾	<u>9,994,525</u>	<u>9,036,494</u>	<u>10,165,449</u>	<u>11,206,503</u>
Total Revenues	141,238,193	146,360,289	161,720,863	166,587,259
Expenditures:				
General Government	20,841,178	22,242,694	29,070,977	25,338,530
Public Safety - Police	46,484,920	49,151,324	50,434,681	53,331,216
Public Safety - Fire	26,024,758	26,987,659	28,776,457	27,711,512
Public Works	27,822,644	28,139,011	29,124,089	26,178,086
Recreation and Library	7,273,387	7,747,274	8,129,832	8,227,037
Planning and Building	2,464,305	2,276,098	2,319,089	2,708,162
Capital Outlay	1,081,105	2,235,590	2,921,945	150,211
Transfers Out	<u>6,082,780</u>	<u>6,335,351</u>	<u>7,025,684</u>	<u>22,942,505</u> ⁽¹⁾
Total Expenditures	138,075,077	145,115,001	157,802,754	166,587,259
Net Change in Fund Balances	3,163,116	1,245,288	3,918,109	-
Beginning Unassigned Fund Balance ⁽³⁾	14,511,252	16,412,878	17,872,368	17,855,389
Change in Reserves	<u>(1,261,490)</u>	<u>214,202</u>	<u>(2,353,000)</u>	<u>-</u>
Ending Unassigned Fund Balance ⁽³⁾	\$ 16,412,878	\$ 17,872,368	\$ 19,437,477	\$ 17,855,389

(1) Includes voter-approved sales tax transferred to Measure P Capital Project Fund (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.

(4) Including budget amendments to date.

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.

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 conditions in the real estate market, 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 values by 19%. Assessed values began to recover in Fiscal Year 2013-14, but did not exceed pre-recession levels until Fiscal Year 2016-17. 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>
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	24,001,104,385	454,894,256	24,455,998,641
2016-17	25,328,420,138	447,654,371	25,776,074,509
2017-18	26,640,897,032	465,373,283	27,106,270,315

Source: San Diego County Auditor-Controller.

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

**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>
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
2015-16	29,083,269	28,800,156	99.03	68,973	28,869,128	99.26
2016-17	30,632,668	30,388,650	99.20	49,984	30,438,634	99.37

⁽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.

Largest Taxpayers. The largest property taxpayers in the City as of June 30, 2017 are as shown in Table No. 12.

**TABLE NO. 12
CITY OF CHULA VISTA
LARGEST PROPERTY TAXPAYERS**

<u>Taxpayer</u>	<u>Assessed Valuation</u>	<u>Percent of Total</u>
Rohr Inc.	\$ 198,528,281	0.77%
Homefed Otay Land II LLC	155,952,435	0.61
John Hancock Life Insurance Co.	144,662,789	0.56
GGP Otay Ranch LP	119,625,786	0.46
Regulo Place Apt Investors LP	105,233,043	0.41
Brisa Acquisitions LLC	102,677,670	0.40
Vista Pacific Villas LP	93,361,400	0.36
JBP Development	85,611,502	0.33
HCA Properties	80,567,753	0.31
BREFMCA LLC	<u>77,685,406</u>	<u>0.30</u>
Total	\$1,163,906,065	4.52%

Source: City of Chula Vista.

Redevelopment - Related Property Tax Considerations. 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 was created for the duration of such redevelopment project. Although Assembly Bill No. 26 (“AB X1 26”), enacted on June 29, 2011 as Chapter 5 of Statutes of 2011, statutorily dissolved redevelopment agencies as of February 1, 2012, the enforceable obligations of dissolved redevelopment agencies continue to be paid from property taxes derived from such incremental value until the enforceable obligations are paid in full in accordance with Parts 1.8 (commencing with Section 34161) and 1.85 (commencing with Section 34170) of Division 24 of the California Health and Safety Code (as such statutory provisions may be amended from time to time the “Dissolution Act”).

The City had formed several redevelopment projects prior to the State’s enactment of the Dissolution Act. Table No. 13 sets forth total assessed valuations and redevelopment agency incremental values.

**TABLE NO. 13
CITY OF CHULA VISTA
TOTAL AND NET PROPERTY TAX VALUATIONS**

<u>Fiscal Year</u>	<u>Total Assessed Valuation</u>	<u>Redevelopment Agency Incremental Value</u>	<u>Net Value</u>	<u>Percent Change</u>
2010-11	\$21,235,445,229	\$(1,172,995,829)	\$20,062,449,400	
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	21,646,268,909	(1,255,372,303)	20,390,936,606	1.7
2014-15	23,090,440,553	(1,260,053,981)	21,830,386,572	8.3
2015-16	24,455,998,641	(1,327,278,438)	23,128,720,203	5.9
2016-17	25,776,074,509	(1,371,791,234)	24,404,283,275	5.5
2017-18	27,106,270,315	(1,508,723,549)	25,132,173,483	3.0

Source San Diego County Auditor-Controller.

In the first year after redevelopment agencies were statutorily dissolved, the Dissolution Act established a process for determining the liquid assets that redevelopment agencies should have shifted to their successor agencies when they were dissolved, and the amount that should be available for remittance by the successor agencies to their respective county auditor-controller for distribution to affected taxing entities within the project areas of the former redevelopment agencies. This determination process is commonly known as the “due diligence review process” and was required to be completed through the final step (review by the State Department of Finance) by November 9, 2012 with respect to affordable housing funds and by April 1, 2013 with respect to non-housing funds. Generally, redevelopment agencies were required to remit to their respective county auditor-controller the amount of unobligated balances determined by the State Department of Finance. In turn, such remitted unobligated balances were distributed to taxing entities within the applicable redevelopment project area (including the City with respect to its redevelopment projects) in proportion to such taxing entity’s share of property tax revenues in the tax rate area for the applicable fiscal year.

The Dissolution Act also provides for proceeds of the sale of land owned by redevelopment agencies at the time of their statutory dissolution to be remitted to the applicable county auditor-controller for distribution to the affected taxing entities within the applicable redevelopment project area (including the City with respect to its redevelopment projects) in proportion to such taxing entity’s share of property tax revenues in the tax rate area for the applicable fiscal year.

Further, under the Dissolution Act, taxing entities with jurisdictions within a redevelopment project, such as the City, are to receive distributions (in proportion to such taxing entity’s share of property tax revenues in the tax rate area for the applicable fiscal year) of residual amounts of property taxes attributable to incremental value of such redevelopment projects on each June 1 and January 2, after payment of: (i) tax sharing obligations established previously pursuant to the Community Redevelopment Law, (ii) enforceable obligations of the successor agency to the former redevelopment agency, and (iii) an administrative cost allowance to such successor agency. As enforceable obligations of the former redevelopment agency and its successor agency are paid and retired, residual amounts of property tax revenues attributable to redevelopment project area incremental value are expected to increase over time.

The table below summarizes the distributions received by the City of its share of (i) unobligated balances determined pursuant to the due diligence review process described above, (ii) proceeds of the sale of land owned by the City’s redevelopment agency at the time of its dissolution, and (iii) residual amounts of property taxes derived from its redevelopment projects since the statutory dissolution of the City’s

redevelopment agency on February 1, 2012. These amounts are included in property tax revenues in Table No. 15.

**TABLE NO. 14
CITY OF CHULA VISTA
CITY SHARE OF DUE DILIGENCE REVIEW PROCEEDS, LAND SALE PROCEEDS, AND RESIDUAL
PROPERTY TAXES ATTRIBUTABLE TO THE REDEVELOPMENT PROJECTS**

<u>Fiscal Year</u>	<u>Residual Property Taxes</u>	<u>Land Sale/Due Diligence Review Proceeds</u>	<u>Total</u>
2012/13	\$1,276,823	\$ -	\$1,276,823
2013/14	1,055,004	-	1,055,004
2014/15	805,449	46,483	851,932
2015/16	957,989	-	957,989
2016/17	1,005,383	51,510	1,056,893
2017/18 ⁽¹⁾	1,231,542	-	1,231,542

⁽¹⁾ Fiscal Year 2017-18 Budget.

Source: City of Chula Vista and Successor Agency to the Redevelopment Agency of the City of Chula Vista, based on information compiled from San Diego County Auditor-Controller.

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 its jurisdiction. In November 2016, voters in the City approved “Measure P,” the levy of an additional 1/2% sales tax for a 10-year term, commencing April 1, 2017. This new sales tax increased the amount of sales tax received by the City starting late in the 2016-17 Fiscal Year. The first full year of Measure P Sales Tax will occur in Fiscal Year 2017-18. The City has approved a policy to transfer the additional sales tax out of the General Fund to the Measure P Fund, where it will be expended to service the debt that was issued to fund authorized improvements and to pay direct costs relating to other City-wide capital projects, facilities and equipment expenditures.

The figures shown in Table No. 15 for sales tax revenues include property tax that the City received in lieu of sales tax because of the “Triple Flip.” See “RISK FACTORS - State Budget - State Legislative Shifts of Property Tax Allocation” herein. The City treated the Triple Flip property tax revenue as sales tax in its financial statements. There was a final one-time Triple Flip adjustment payment in 2015-16, of which the City received approximately \$4 million.

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 revenue,” moved \$8 million 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. 15.

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.

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 - Base Rental Payments” and “Constitutional Limitation on Taxes and Expenditures - Proposition 218” herein.

Table No. 15 below summarizes the tax revenues by source for the 2012-13 through the 2017-18 fiscal years.

**TABLE NO. 15
CITY OF CHULA VISTA
GENERAL FUND TAX REVENUES BY SOURCE**

	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>	<u>Unaudited 2016-17</u>	<u>Amended Budget 2017-18</u>	<u>% of 2017-18 Budget ⁽⁴⁾</u>
Property Tax	\$ 27,876,534	\$ 28,492,215	\$ 29,705,939	\$ 30,443,378	\$ 32,513,443	\$ 33,620,932	20.3%
Property Tax In Lieu of VLF ⁽¹⁾	16,253,826	16,773,957	17,779,353	18,934,656	19,965,908	20,844,039	12.6
Sales Tax	28,627,785	29,171,174	30,394,291	34,180,296	33,449,706	32,935,356	19.9
Measure P Sales Tax ⁽²⁾	-	-	-	-	3,906,919	16,320,000	9.8
Franchise Fees	9,266,768	8,845,067	10,831,671	11,709,977	11,515,850	11,968,646	7.2
Utility Users Tax ⁽³⁾	4,428,794	17,525,294	6,364,691	5,844,248	5,786,326	5,860,328	3.5
Transient Occupancy Tax	2,471,252	2,632,774	3,136,847	3,827,244	3,650,442	4,316,267	2.6
Business License Tax	1,260,622	1,328,554	1,407,145	1,538,595	1,558,887	1,424,643	0.9
Property Transfer Tax	<u>1,125,252</u>	<u>949,603</u>	<u>1,118,494</u>	<u>1,253,479</u>	<u>1,057,611</u>	<u>1,173,550</u>	<u>0.7</u>
Total	\$ 91,310,833	\$105,718,638	\$100,738,431	\$107,731,873	\$113,405,092	\$128,463,761	77.5%

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

⁽²⁾ City voters approved an additional 1/2% City sales tax, which commenced in April 2017, and will be levied for 10 years.

⁽³⁾ 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 regarding the utility users tax on wireless phone use. In 2013-14, the remaining \$10.5 million of deferred revenue was recognized.

⁽⁴⁾ Including transfer in from other funds.

Source: City of Chula Vista.

Motor Vehicle License Fees

The City receives a portion of VLF collected state-wide. The total VLF budgeted for Fiscal Year 2017-18 is approximately \$20.8 million, all of which is included in the City’s Fiscal Year 2017-18 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. 15 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, the City reflected the VLF in “Intergovernmental Revenues” in Fiscal Year 2012-13 and in all other years in “Taxes.”

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 City’s 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 some 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, 2017 is expected to be approximately \$7.15 million and the interfund loans due to other funds from the PFDIF is expected to be \$8.15 million.

Fiscal Year	PFDIF Revenues ⁽¹⁾
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	5,371,592
2015-16	6,473,891
2016-17 Estimate	4,460,000
2017-18 Projected	7,000,000

⁽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 is projecting approximately \$7.0 million in PFDIF fee revenues for Fiscal Year 2017-18 as compared to a total of approximately \$5.2 million in annual lease payments on all City financings which could be paid from such revenues (see “Outstanding Indebtedness of the City” below). 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 from again impacting the General Fund, the City generally expects to reserve \$5.2 million (one year’s share of debt service on PFDIF – eligible projects) of the PFDIF fund balance, subject to variations year-to-year, due to repayment of interfund loans. The City has maintained this additional reserve in full since Fiscal Year 2011-12, and anticipates continued reserves at least equal to \$5.2 million through the term of current debt repayment.

Personnel

Employee salaries and benefits account for over 70% of the City’s General Fund estimated expenditures for Fiscal Year 2017-18. Table No. 16 sets forth historical employee information for the City as of June 30 in each of the last five fiscal years and budgeted for 2017-18 based on authorized, budgeted full-time equivalent positions.

**TABLE NO. 16
CITY OF CHULA VISTA
CITY PERSONNEL**

<u>Fiscal Year</u>	<u>Number of Full Time Permanent Employees</u>	<u>Employees Per Thousand Population</u>
2012-13	932	3.70
2013-14	950	3.70
2014-15	961	3.70
2015-16	966	3.60
2016-17	984	3.70
2017-18	1,006	3.80

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 CVEA and WCE expire June 30, 2017 and the City is negotiating with these two bargaining groups. The current negotiated agreement with MMPA expires June 30, 2018. The current negotiated agreement with POA expires June 30, 2020 and the current negotiated agreement with IAFF expires December 31, 2019.

Pension Plans

This caption contains certain information relating to CalPERS. The information is primarily derived from information produced by CalPERS, its independent accountants and its actuaries. The City has not independently verified the information provided by CalPERS and does not guarantee the accuracy of the information provided by CalPERS.

The comprehensive annual financial reports of CalPERS are available on its Internet website at www.calpers.ca.gov. The CalPERS website also contains CalPERS’ most recent actuarial valuation reports and other information concerning benefits and other matters. The textual reference to such Internet website is provided for convenience only. None of the information on such Internet website is incorporated by

reference herein. The City cannot guarantee the accuracy of such information. Actuarial assessments are “forward-looking” statements that reflect the judgment of the fiduciaries of the pension plans, and are based upon a variety of assumptions, one or more of which may not materialize or be changed in the future.

Plan Description. The City provides retirement benefits, disability benefits, periodic cost-of-living adjustments, and death benefits to plan members and beneficiaries (the “Plans”). The Plans are part of an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State. Benefit provisions are established by State statute and by City contracts with employee bargaining groups. The Plans as described herein cover three separate employee groups – Miscellaneous, Safety Fire and Safety Police.

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 (“PEPRA”), which made changes to CalPERS Plans, most substantially affecting new employees hired after January 1, 2013 (the “Implementation Date”). For non-safety CalPERS participants hired after the Implementation Date, PEPRA changed the normal retirement age by increasing the eligibility for the 2% age factor from age 55 to 62 and increased the eligibility requirement for the maximum age factor of 2.5% to age 67.

PEPRA also: (i) requires all new participants enrolled in CalPERS 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 to a maximum of 8% of salary, (ii) requires CalPERS 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.

Benefit Tiers. In 2011 the City established two tiers of benefits for employees in each of the employee plans (Miscellaneous, Safety Fire and Safety Police), based on date of hire (“Tier 1” and “Tier 2”). Benefits were reduced for Tier 2 employees hired on or after April 22, 2011. Due to PEPRA, the City added a benefit tier in each employee group for employees subject to PEPRA (“PEPRA Tier”). Ultimately, PEPRA is expected to reduce the City’s long-term pension obligation as existing employees retire and new employees are hired to replace them.

The Plans’ provisions and benefits in effect at June 30, 2017, are summarized as follows:

	<u>Miscellaneous Plan</u>		
	<u>Tier 1</u>	<u>Tier 2</u>	<u>PEPRA Tier</u>
Benefit Formula	3% at 60	2% at 60	2% at 62
Benefit Vesting Schedule	5 years service	5 years service	5 years service
Benefit Payments	monthly for life	monthly for life	monthly for life
Retirement Age	50	50	52
Monthly Benefits, as a % of Eligible Compensation	2.0% to 3.0%	1.092% to 2.418%	1.0% to 2.5%
Required Employee Contribution Rates	8.0%	7.0%	6.75%
Required Employer Contribution Rates	29.693%	29.693%	29.693%

Safety Fire Plan

	<u>Tier 1</u>	<u>Tier 2</u>	<u>PEPRA Tier</u>
Benefit Formula	3% at 50	3% at 55	2.7% at 57
Benefit Vesting Schedule	5 years service	5 years service	5 years service
Benefit Payments	monthly for life	monthly for life	monthly for life
Retirement Age	50	50	50
Monthly Benefits, as a % of Eligible Compensation	3.0%	2.4% to 3.0%	2.0% to 2.7%
Required Employee Contribution Rates	9.0%	9.0%	12.25%
Required Employer Contribution Rates	33.691%	33.691%	33.691%

Safety Police Plan

	<u>Tier 1</u>	<u>Tier 2</u>	<u>PEPRA Tier</u>
Benefit Formula	3% at 50	3% at 55	2.7% at 57
Benefit Vesting Schedule	5 years service	5 years service	5 years service
Benefit Payments	monthly for life	monthly for life	monthly for life
Retirement Age	50	50	50
Monthly Benefits, as a % of Eligible Compensation	3.0%	2.4% to 3.0%	2.0% to 2.7%
Required Employee Contribution Rates	9.0%	9.0%	12.25%
Required Employer Contribution Rates	33.691%	33.691%	33.691%

Funding Policy. Active members in the Plans are required to contribute a percent of their annual covered salary as shown in the charts above. All employees pay their own employee contributions towards retirement.

Actuarial Methods and Assumptions Used to Determine Total Pension Liability. The total pension liabilities in the June 30, 2015 actuarial valuations, rolled forward to June 30, 2016, using standard update procedures, were determined using the following actuarial assumptions:

Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Projected Salary Increase	Varies ⁽¹⁾
Investment Rate of Return	7.65% ⁽²⁾
Mortality	⁽³⁾
Post Retirement Benefit Increase	Contract cost of living adjustment up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

⁽¹⁾ Varies by entry age and service.

⁽²⁾ Net of pension plan investment and administrative expenses, including inflation.

⁽³⁾ The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the CalPERS 2014 Experience Study.

All other actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study (“Experience Study”) for the period 1997 to 2011. Further details of the Experience Study can be found on the CalPERS website under Forms and Publications.

Recent Changes in Actuarial Assumptions. In March 2012, CalPERS 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, CalPERS 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, CalPERS approved a recommendation to change the amortization and smoothing policies. Prior to this change, CalPERS 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, CalPERS 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, CalPERS adopted new demographic assumptions regarding improved mortality rates. According to CalPERS, this could result in rates as much as 2% to 5% higher. The impact is phased in and affects rates beginning in Fiscal Year 2016-17.

On December 21, 2016, the CalPERS Board of Administration approved an incremental lowering of the discount rate from 7.5% to 7.0% over the next three Fiscal Years. For Fiscal Years 2017-18, 2018-19 and 2019-20, the Board of Administration approved discount rates of 7.375%, 7.25% and 7.0%, respectively. While the full impact of the discount rate changes on the City is not yet clear, CalPERS expects such changes to increase average employer rates by approximately 1% to 3% of normal cost as a percent of payroll for most miscellaneous retirement plans and by approximately 2% to 5% for most safety plans. CalPERS also expects the discount rate changes to result in increased unfunded accrued liability payments for employers, and estimates that many employers will see such payments increase by 30% to 40%.

Contribution Rates. The contribution requirements of Plan members and the City are established by CalPERS.

The City's percentage of payroll for CalPERS payments for Fiscal Years 2010-11 through 2016-17 are shown in the table below. These rates do not include the employees' contribution rates. The rates include both the employer's normal cost and an unfunded actuarial liability rate.

**TABLE NO. 17
EMPLOYER RETIREMENT CONTRIBUTION RATES**

<u>Fiscal Year</u>	<u>Miscellaneous</u>	<u>Safety Plans</u>
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	29.693	33.691

Source: California Public Employees' Retirement System.

CalPERS modified the calculation of the contribution rates beginning in Fiscal Year 2017-18. CalPERS now represents only the employer's normal cost as a percentage of payroll, and includes a dollar amount for the amortization of the unfunded actuarial liability (UAL). Shown in Table No. 18 are the CalPERS projections of the normal cost and amortization of the UAL for the City. For comparison, the normal cost for 2016-17 was 11.828% for the Miscellaneous Plan and 20.181% for the Safety Plans (combined Safety Fire and Safety Police members' Plans).

**TABLE NO. 18
PROJECTED EMPLOYER RETIREMENT CONTRIBUTIONS**

<u>Fiscal Year</u>	<u>Miscellaneous</u>		<u>Safety Plans</u>	
	<u>Normal Cost</u>	<u>Amortize UAL</u>	<u>Normal Cost</u>	<u>Amortize UAL</u>
2017-18	11.376%	\$ 9,751,783	19.656%	\$ 6,012,543
2018-19	11.582	11,342,809	20.054	7,613,001
2019-20	12.200	13,766,000	20.900	9,452,000
2020-21	13.300	14,590,000	22.700	10,877,000
2021-22	13.300	16,324,000	22.700	12,605,000

Projected by CalPERS based on various assumptions as of July 2017.

Source: California Public Employees' Retirement System.

Annual Pension Costs. A five-year history of the City’s required annual pension costs is shown in the table below. The required contribution was determined as part of an annual actuarial valuation. The most recent actuarial assumptions are described under the caption “Actuarial Methods and Assumptions Used to Determine Total Pension Liability.”

**TABLE NO. 19
FIVE-YEAR TREND INFORMATION FOR ANNUAL PENSION COSTS
ALL TIERS COMBINED**

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>
2012-13	\$18,188,432
2013-14	16,215,564
2014-15	20,818,356
2015-16	21,054,501
2016-17 ⁽¹⁾	22,250,000

⁽¹⁾ Unaudited.

Source: City of Chula Vista

Pension Liabilities. The City's net pension liability for the Plans is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of the Plans is measured as of June 30, 2016, using the annual actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures. The City's changes in net pension liability for the Plans between June 30, 2015 and 2016 was as follows:

TABLE NO. 20
NET PENSION LIABILITY BY PLAN

	Miscellaneous Plan		
	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability/(Assets) (c)=(a)-(b)
Balance at: 6/30/2015 (Valuation Date) ⁽¹⁾	\$474,412,350	\$327,365,459	\$147,046,891
Changes Recognized for the Measurement Period:			
Service Cost	8,451,918	-	8,451,918
Interest on the Total Pension Liability	35,618,575	-	35,618,575
Changes of Benefit Terms	-	-	-
Changes of Assumptions	-	-	-
Differences Between Expected and Actual Experience	(2,524,955)	-	(2,524,955)
Plan to Plan Resource Movement	-	-	-
Contribution - Employer	-	12,461,946	(12,461,946)
Contributions - Employees	-	3,764,641	(3,764,641)
Net Investment Income	-	1,747,676	(1,747,676)
Benefit Payments including Refunds of Employee Contributions	(21,022,078)	(21,022,078)	-
Administrative Expense	-	(199,512)	199,512
Other Miscellaneous Income	-	-	-
Net Changes During 2015-16	<u>20,523,420</u>	<u>(3,247,327)</u>	<u>23,770,747</u>
Balance at: 6/30/2016 (Measurement Date) ⁽¹⁾	<u>\$494,935,770</u>	<u>\$324,118,132</u>	<u>\$170,817,638</u>

⁽¹⁾ The fiduciary net position includes receivables for employee service buybacks, deficiency reserves, fiduciary self-insurance and OPEB expense. This may differ from the plan assets reported in the funding actuarial valuation report.

(Continued on following page)

Safety Plans (Combined Fire and Police)			
Increase (Decrease)			
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability/(Assets) (c)=(a)-(b)
Balance at: 6/30/2015 (Valuation Date) ⁽¹⁾	\$417,807,186	\$319,795,324	\$98,011,862
Changes Recognized for the Measurement Period:			
Service Cost	9,971,492	-	9,971,492
Interest on the Total Pension Liability	31,658,073	-	31,658,073
Changes of Benefit Terms	-	-	-
Changes of Assumptions	-	-	-
Difference Between Expected and Actual Experience	768,421		768,421
Plan to Plan Resource Movement	-	-	-
Contribution - Employer	-	10,971,712	(10,971,712)
Contributions - Employees	-	3,420,273	(3,420,273)
Net Investment Income	-	1,664,170	(1,664,170)
Benefit Payments including Refunds of Employee Contributions	(19,460,670)	(19,460,670)	-
Administrative Expense	-	<u>(194,899)</u>	<u>194,899</u>
<u>Other Miscellaneous Income</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Changes During 2015-16	<u>22,937,316</u>	<u>(3,599,414)</u>	<u>26,536,730</u>
Balance at: 6/30/2016 (Measurement Date) ⁽¹⁾	<u>\$440,744,502</u>	<u>\$316,195,910</u>	<u>\$124,548,592</u>

⁽¹⁾ The fiduciary net position includes receivables for employee service buybacks, deficiency reserves, fiduciary self-insurance and OPEB expense. This may differ from the plan assets reported in the funding actuarial valuation report.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate. The following presents what the City's net pension liability would be if it were calculated using a 6% discount rate, a 7% discount rate and an 8% discount rate.

	<u>Miscellaneous</u>	<u>Safety Combined</u>
Net Pension Liability 6% Discount Rate	\$278,994,645	\$234,022,920
Net Pension Liability 7% Discount Rate	\$205,718,582	\$162,880,408
Net Pension Liability 8% Discount Rate	\$145,404,804	\$105,186,070

See Note 11 of the City's Comprehensive Annual Financial Report included in "APPENDIX B" for further information about the Plans.

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, 2017, the City's total payroll and covered payroll for the Public Agency Retirement Plan was \$_____. The City made employer contributions of \$_____, and employees contributed \$_____ (both calculated at 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 Tier 2 Plan. Employees hired under the PEPRA Tier 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, 2017:

	<u>Police</u>	<u>Fire</u>	<u>Miscellaneous</u>	<u>Total</u>
Eligible active employees				
Enrolled eligible retirees				

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. Tier 1 retirees pay 100% of their individual (subsidized) premiums. Tier 2 and PEPRA Tier retirees will pay 100% of the unsubsidized (unblended) health care premiums.

Annual OPEB Cost and Net OPEB Obligation. The City’s annual other post employment benefit (“OPEB”) cost (expense) is calculated based on the annual required contribution (“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 2012-13 through 2016-17, the amount actually contributed to the plan, and changes in the City’s net OPEB obligation for these benefits.

**TABLE NO. 21
ANNUAL OPEB COST AND NET OPEB OBLIGATION**

	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>	<u>2016-17</u>
Annual required contribution	\$1,974,000	\$2,100,000	\$1,920,000	\$2,039,000	
Interest on net OPEB obligation	187,000	241,000	295,000	337,000	
Adjustment to the annual required contribution	<u>(460,000)</u>	<u>(607,000)</u>	<u>(767,000)</u>	<u>(912,000)</u>	
Net OPEB cost	1,701,000	1,734,000	1,448,000	1,464,000	
Contribution made	<u>(359,000)</u>	<u>(392,000)</u>	<u>(389,000)</u>	<u>(434,000)</u>	
Increase in net OPEB liability	1,342,000	1,342,000	1,059,000	1,030,000	
Net OPEB liability, beginning of the year	<u>4,685,000</u>	<u>6,027,000</u>	<u>7,369,000</u>	<u>8,428,000</u>	
Net OPEB liability, end of year	\$6,027,000	\$7,369,000	\$8,428,000	\$9,458,000	

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 2012-13 through 2016-17, and the net OPEB obligation as of June 30 of each Fiscal Year were as follows:

**TABLE NO. 22
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>
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
2015-16	1,464,000	30	9,458,000
2016-17			

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. 23
SCHEDULE OF FUNDING PROGRESS ⁽¹⁾

Actuarial Valuation Date <u>June 30</u>	Entry Age Actuarial Accrued <u>Liability</u>	Actuarial Value of <u>Assets</u>	Unfunded AAL <u>(UAAL)</u>	Funded <u>Ratio</u>	Covered <u>Payroll</u>	UAAL as a Percentage of Covered <u>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

⁽¹⁾ The next actuarial valuation will be dated June 30, 2016 and is expected to be completed in November 2017.

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 costs are 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 costs 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

Workers' Compensation. 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 ("CSAC-EIA") Excess Workers' Compensation Program. CSAC-EIA states that there are currently 323 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.

Property Coverage. The City carries insurance coverage for property damage through CSAC-EIA. The CSAC-EIA property damage coverage includes a deductible of \$10,000, with a deductible of \$100,000 for vehicles valued over \$100,000.

Public Liability. The City maintains a \$500,000 self-insured retention and purchases excess coverage from CSAC-EIA to \$25,000,000 along with the additional Optional Excess Liability of \$25,000,000 for a total of \$50,000,000.

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>
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
2014-15	22,361,235	4,470,778	(4,221,708)	22,610,305
2015-16	22,610,305	6,077,047	(6,218,413)	22,468,939
2016-17				

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 September 30, 2017, the book value (unaudited) of the Chief Financial Officer's investment program (excluding funds held under bond indentures) was \$ _____. 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	
Pooled Investments	
Corporate Notes	
Commercial Paper	
Asset Backed Securities	
Cash/Time Deposits	
Unrealized Gain on Fair Market Value	
Accrued Interest	
	<u>100.0%</u>

As of September 30, 2017, the weighted average maturity of the investment portfolio was ____ years and the yield (at cost) was ____% (excluding cash and time deposits).

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

In addition to the Bonds, the City has the following outstanding indebtedness exclusive of obligations to be paid from specifically pledged revenues, such as revenue bonds, tax allocation bonds, assessment district, 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>
(1) 2014 Refunding Certificates of Participation (Police Facility Project)	\$45,920,000	\$39,440,000	2032
(2) 2015 Refunding Certificates of Participation (Civic Center Project)	34,330,000	31,840,000	2034
(3) 2016 Refunding Certificates of Participation (Civic Center Project)	8,600,000	8,600,000	2036
(4) 2016 Lease Revenue Refunding Bonds	25,885,000	24,415,000	2033
(5) 2017 Lease Revenue Bonds	61,355,000	61,355,000	2027
(6) Notes Payable	7,052,850	3,805,585	2026
(7) Capital Leases	3,077,211	2,127,598	2031
(8) Capital Leases	1,285,053	1,173,985	2025
(9) Compensated Absences		2,368,027	N/A

- (1) The City delivered 2014 Refunding Certificates of Participation to refinance its outstanding 2002 Certificates of Participation, which originally provided funds to construct the City's Police Headquarters. Approximately 44.4%, of the annual lease payments will be funded from the PFDIF (approximately \$1,643,000 of a total \$3,700,000), subject to the availability of funds.
- (2) The City delivered 2015 Certificates to provide funds to refinance its outstanding 2004 Certificates of Participation and a portion of the 2006 Certificates of Participation. Approximately \$1,230,000 of the approximate \$2,920,000 annual lease payments for the 2015 Certificates will be funded from the PFDIF, subject to the availability of funds and an additional \$595,000 will be funded from residential construction taxes.
- (3) The City delivered 2016 Refunding Certificates of Participation to refinance its outstanding 2006 Certificates of Participation, which originally provided a portion of the funds to construct the City's Civic Center. Approximately 77.8%, of the annual lease payments will be funded from the PFDIF (approximately \$220,000 through 2026 and \$794,000 beginning in 2027), subject to the availability of funds.
- (4) The Authority issued 2016 Lease Refunding Revenue Bonds to provide funds to refinance the City's outstanding 2010 Certificates of Participation which originally provided a portion of the funds to construct the City's Civic Center and to refinance other outstanding debt. Approximately 71.5%, of the annual lease payments will be funded from the PFDIF (approximately \$1,516,000 of a total \$2,120,000), subject to the availability of funds.
- (5) In July 2017, the Authority issued 2017 Lease Revenue Bonds to finance a portion of the projected outlined in the City's Measure P expenditure plan.
- (6) (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, 2017, the outstanding balance was \$2,355,551. (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,

2017, the outstanding balance was \$1,450,034. Annual payments for these obligations total approximately \$648,000.

- (7) (a) 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, 2017, the outstanding balance was \$1,561,416. (b) The City has capitalized leases for the purchase of fire apparatus and computer equipment. As of June 30, 2017, the outstanding balance of these obligations was \$566,182. Annual lease payments for these leases total \$435,000.
- (8) During 2016, the City capitalized leases for the purchase of additional fire apparatus. The annual lease payments commenced in Fiscal Year 2016-17, and total \$152,000.
- (9) Represents that portion of compensated absences as of June 30, 2016 not expected to be paid during the current year.

Joint Financing Agreement with Respect to the Chula Vista Bayfront

The San Diego Unified Port District (“Port District”) and the City have worked cooperatively for some years in furtherance of a Chula Vista Bayfront Master Plan to address the development/redevelopment of the Chula Vista Bayfront located in western Chula Vista along the southern portion of the San Diego Bay, on land primarily owned by the Port District. The first major planned development would be a 1,450-room resort hotel and conference center project (“RHCC”). Over 1,500 condominiums are also planned. The City and the Port District entered into a financing agreement in May 2012 (the “2012 Financing Agreement”) to identify resources to be committed by each agency to address the expected difference between the developer investment and the costs of the RHCC, which includes the conference center and substantial public infrastructure expense (“Public Facilities”). Taken together, the Public Facilities are anticipated to cost approximately \$285 million. To the extent that these facilities are financed, the City and the Port District anticipate funding typical financing costs associated with those borrowings as well. Under the 2012 Financing Agreement, the City committed to use certain new revenue to be generated by the RHCC from a variety of sources including TOT applicable to the RHCC, net of expected operation and maintenance costs associated with the RHCC project. The Port District also committed certain revenues under the 2012 Financing Agreement.

In 2015, the Port District identified a potential developer for the RHCC project, RIDA Development Corporation (“RIDA”). The City, the Port District and RIDA have been in discussions to see if an agreement acceptable to all parties can be finalized. Based on these discussions, an amendment to the 2012 Financing Agreement was drafted. The City Council voted in November 2016 to adopt an Amended and Restated Financing Agreement, in which it committed to use current TOT generated from the existing Bayfront RV park as well as an amount equivalent to the funds currently received from the Port District to reimburse the City for the cost of providing municipal public services in the tidelands (together totaling approximately \$1.5 million annually). The City also committed to contribute sales tax generated by the RHCC project and to provide approximately \$4.4 million in one-time funding for specific sewer improvements. Further, the City agreed to pursue approval of a property tax allocation that it would contribute to the RHCC project if approved and received, and to form a community facilities district to levy special taxes to be committed to the RHCC project. Lastly, the City accepted sole responsibility for a new fire station and the operation and maintenance of a planned shuttle service within the Bayfront. Additional funds committed by the Port District include ground lease revenues generated by existing tenants on the Chula Vista Bayfront (approximately \$2.7 million annually), and one-time infrastructure funding totaling \$4.7 million. The governing board of the Port District approved the Amended and Restated Financing Agreement on June 20, 2017.

The Chula Vista Bayfront Facilities Financing Authority (the “Authority”) was formed through a joint exercise of powers agreement between the City and the Port District in May of 2014. If an agreement with RIDA is entered into, the Authority will likely issue bonds to fund the construction of the Public Facilities,

which will be secured by the City and Port District contributions, as identified in the Amended and Restated Financing Agreement. The security for the payment may take the form of a lease agreement payable from the City's General Fund but calling for annual payments in amounts not greater than the amounts generated with respect to specific, identified revenue streams. While the majority of the revenues committed pursuant to the Amended and Restated Financing Agreement are project generated, there are potential impacts to existing General Fund revenues, as previously described. Current financial modeling of the RHCC indicates sufficient project revenues to fully offset operation and maintenance costs and to reimburse the City for non-project generated funds committed in the Amended and Restated Financing Agreement (\$1.5 million annually).

Taken as a whole, the Bayfront project and the City's financial commitment would be material to the General Fund of the City. Negotiations among the parties are ongoing and are subject to numerous legal and practical impediments and conditions, and there can be no assurance that any transaction will be entered into or performed, if entered into. Likewise, it is possible that any transaction may involve different terms from those outlined above which may involve added costs to the City, but, currently, the City does not anticipate approving an agreement with greater risk to obligations funded from the General Fund of the City other than as described above.

On June 20, 2017, the City Council and the Port District approved a Non-Binding Letter of Intent with RIDA ("LOI"). The LOI is intended to describe the negotiated terms and conditions for financing the project. The parties anticipate negotiation of a Disposition and Development Agreement as the next step in the development and financing process.

Elite Athlete Training Center

As described under the heading "CITY OF CHULA VISTA - Community Facilities and Services," the City and USOC have executed an agreement pursuant to which the USOC deeded its training facility to the City. The City will operate the training facility while providing for its continued use for portions of the year for U.S. Olympic athletes. The City has contracted with a third party to operate the facility and does not expect to commit any significant amount of City funds to the operation.

Estimated 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, 2017. The Debt Report is included for general information purposes only and the City makes no representation as to its completeness or accuracy. 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. 24
CITY OF CHULA VISTA
DIRECT AND OVERLAPPING DEBT
AS OF JUNE 30, 2017**

2016-17 Assessed Valuation: \$25,776,074,509

<u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	Total Debt 6/30/17	% Applicable (1)	City's Share of Debt 6/30/17
Metropolitan Water District	\$ 74,905,000	0.996%	\$ 746,054
Otay Municipal Water District, I.D. No. 27	3,995,000	99.996	3,994,840
Southwestern Community College District	326,088,676	51.349	167,443,274
Sweetwater Union High School District	391,939,739	61.283	240,192,430
Chula Vista City School District	48,750,000	87.351	42,583,613
Chula Vista City School District Schools Facilities Improvement District No. 1	83,580,000	78.315	65,455,677
National School District	26,050,000	2.871	747,896
City of Chula Vista Community Facilities Districts	133,015,000	100.	133,015,000
Sweetwater Union High School District Community Facilities District No. 1	25,605,016	100.	25,605,016
Sweetwater Union High School District Community Facilities District No. 2	151,544	100.	151,544
Sweetwater Union High School District Community Facilities District No. 3	8,154,962	100.	8,154,962
Sweetwater Union High School District Community Facilities District No. 4	4,328,476	100.	4,328,476
Sweetwater Union High School District Community Facilities District No. 5	2,159,502	80.884	1,746,692
Sweetwater Union High School District Community Facilities District No. 6	9,490,443	100.	9,490,443
Sweetwater Union High School District Community Facilities District No. 10	6,061,760	15.812	958,485
Sweetwater Union High School District Community Facilities District No. 11	6,317,491	100.	6,317,491
Sweetwater Union High School District Community Facilities District No. 12	2,850,922	100.	2,850,922
Sweetwater Union High School District Community Facilities District No. 13	3,646,528	100.	3,646,528
Sweetwater Union High School District Community Facilities District No. 14	6,762,651	100.	6,762,651
Sweetwater Union High School District Community Facilities District No. 15	3,959,087	100.	3,959,087
Sweetwater Union High School District Community Facilities District No. 16	4,224,289	100.	4,224,289
Sweetwater Union High School District Community Facilities District No. 17	6,516,392	100.	6,516,392
Sweetwater Union High School District Community Facilities District No. 18	151,544	100.	151,544
City of Chula Vista 1915 Act Bonds	5,695,000	100.	5,695,000
California Statewide Communities Development Authority 1915 Act Bonds	489,134	100.	489,134
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT			\$ 745,227,440
 <u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u>			
San Diego County General Fund Obligations	\$291,180,000	5.516%	\$ 16,061,489
San Diego County Pension Obligation Bonds	605,520,000	5.516	33,400,483
San Diego County Superintendent of Schools Obligations	11,800,000	5.516	650,888
Southwestern Community College District Certificates of Participation	890,000	51.349	457,006
Sweetwater Union High School District General Fund Obligations	43,565,000	61.283	26,697,939
Chula Vista City School District Certificates of Participation	158,000,000	87.351	138,014,580
City of Chula Vista Certificates of Participation	106,025,000	100	106,025,000
TOTAL DIRECT AND OVERLAPPING GENERAL FUND DEBT			\$ 321,307,385
 <u>OVERLAPPING TAX INCREMENT DEBT (Successor Agency):</u>	 \$29,315,000	 99.141%	 \$ 29,063,184
 TOTAL DIRECT DEBT			 \$ 106,025,000
TOTAL OVERLAPPING DEBT			\$ 989,573,009
 COMBINED TOTAL DEBT			 \$1,095,598,009 ⁽²⁾

- (1) The percentage of 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 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 2016-17 Assessed Valuation:

Total Overlapping Tax and Assessment Debt	2.89%
Total Direct Debt (\$106,025,000).....	0.41%
Combined Total Debt.....	4.25%

Ratios to Redevelopment Successor Agency Incremental Valuation (\$1,354,453,404):

Total Overlapping Tax Increment Debt.....	2.15%
---	-------

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, 2016. 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, 2016. The City has not requested, and the auditor has not provided, any review or update of such statements in connection with their inclusion in this Official Statement.

GASB Statement No. 54. The City was required to implement Governmental Accounting Standards Board ("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 Statements No. 68 and 71. Reporting obligations under GASB Statement No. 68 - Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27 ("GASB No. 68"), and GASB Statement No. 71 - Pension Transitions for Contributions Made Subsequent to the Measurement Date - an amendment of GASB No. 68, commenced with financial statements for Fiscal Year 2014-15. Under GASB No. 68, an employer reports the net pension liability, pension expense and deferred outflows/deferred inflows of related to pensions in its financial statements as part of its financial position. The result of the implementation of these standards was to decrease the governmental activities net position at July 1, 2014 by \$214.4 million and to decrease the business-type activities net position at July 1, 2014 by \$28.7 million. The audited financial statements of the City for the Fiscal Year ended June 30, 2016 included in "APPENDIX B" contain additional information about the retirement liability and the application of GASB No. 68.

See Notes 1 and 16 in the City's audited financial statements attached in "APPENDIX B" for a discussion of additional accounting changes and prior period adjustments.

Restatement of Net Position. In the Fiscal Year 2014-15 and 2015-16 audits, City Staff identified multiple construction in progress capital assets that were not capitalized and reported this to the City’s auditor. With this information, the City’s auditor noted certain deficiencies in internal controls related to the City’s accounting for completed construction in progress items that were not properly recorded as being placed in service. The City conducted an in-depth analysis of the issue and determined that certain costs related to these projects should have been capitalized and not expensed. In Fiscal Year 2015-16, management made the necessary accounting corrections which caused a restatement of net position in the government-wide statement of activities for both governmental and business-type activities. There was a net increase in the City’s net position in Fiscal Year 2015-16 of \$43.7 million which included a restatement of \$30.4 million when compared to the prior year. As set forth in Table No. 26 below, there was no restatement of position in the General Fund in Fiscal Year 2014-15 and a restatement in Fiscal Year 2015-16 which increased the General Fund ending balance by approximately \$25,000 (see Independent Auditors’ Report on Internal Controls in “APPENDIX B”).

Set forth on the following pages in Table No. 25 is the audited General Fund balance sheet for the last four fiscal years and the General Fund unaudited balance sheet for Fiscal Year 2016-17 and Table No. 26 presents a four year history of audited General Fund revenues, expenditures and changes in fund balances, with unaudited figures for Fiscal Year 2016-17.

**TABLE NO. 25
CITY OF CHULA VISTA
GENERAL FUND
BALANCE SHEET**

	<u>2013 (a)</u>	<u>2014 (a)</u>	<u>2015 (a)</u>	<u>2016 (a)</u>	Unaudited 2017 (b)
Assets:					
Pooled cash and investments	\$24,347,238	\$20,276,201	\$20,402,711	\$16,094,309	
Receivables:					
Accounts	1,673,960	792,147	2,066,125	2,631,053	
Taxes	7,911,510	7,378,291	8,030,250	12,995,472	
Accrued interest	25,816	27,374	-	-	
Deferred loans	79,182	65,454	65,454	62,884	
Allowance for uncollectible loans	-	-	(65,454)	(62,884)	
Other	-	-	-	-	
Prepaid costs	-	-	32,906	38,788	
Due from other governments	188,542	844,196	275,123	614,891	
Due from other funds	4,073,822	2,937,494	4,096,758	3,832,041	
Due from Successor Agency	9,002,419	9,297,040	-	-	
Due from agency fund	94,016	-	-	-	
Advances to other funds	1,621,446	1,661,076	1,496,657	1,488,267	
Inventories and prepaid costs	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>	<u>9,885,147</u>	
Total Assets	<u>\$49,122,295</u>	<u>\$43,341,078</u>	<u>\$47,266,258</u>	<u>\$47,579,968</u>	
Liabilities, Deferred Inflows of Resources, and Fund Balances:					
Liabilities:					
Accounts payable	\$ 2,027,105	\$ 6,712,402	\$ 1,744,436	\$ 2,315,153	
Accrued liabilities	4,127,118	-	5,492,633	3,193,649	
Retention payable	212,667	-	-	1,089	
Settlement payable	8,000,000	-	-	-	
Pass-through payable	-	-	8,229	-	
Deferred revenue	<u>6,786,230</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Total Liabilities	<u>21,153,120</u>	<u>6,712,402</u>	<u>7,245,298</u>	<u>5,509,891</u>	
DEFERRED INFLOWS OF RESOURCES:					
Unavailable revenues	<u>-</u>	<u>3,669,767</u>	<u>3,898,935</u>	<u>4,677,420</u>	
Total Deferred inflows of resources	<u>-</u>	<u>3,669,767</u>	<u>3,898,935</u>	<u>4,677,420</u>	

Continued on next page.

**TABLE NO. 25
CITY OF CHULA VISTA
GENERAL FUND
BALANCE SHEET**

Continued from previous page.

	<u>2013 (a)</u>	<u>2014 (a)</u>	<u>2015 (a)</u>	<u>2016 (a)</u>	<u>Unaudited 2017 (b)</u>
Fund Balances ⁽¹⁾:					
Nonspendable:					
Prepaid costs	\$ -	\$ 61,805	\$ 32,906	\$ 38,788	
Notes and loans	-	5,854,271	5,889,439	-	
Due from Successor Agency of Chula Vista RDA	-	-	-	5,834,630	
Advances to other funds	-	1,508,736	1,496,657	1,488,267	
Committed to:					
Capital projects	-	1,839,650	3,226,070	2,072,436	
Economic contingency		3,600,000	3,600,000	3,600,000	
San Diego Authority for Freeway Emergency	-	695,951	695,951	664,659	
Legal counsel	-	80,000	80,000	46,050	
Assigned to:					
General government	-	535,776	916,473	1,677,574	
Public safety	-	1,106,960	939,669	1,181,062	
Parks and recreation	-	152,853	116,375	170,661	
Public works	-	101,975	122,650	836,035	
Library	-	41	5,000	185	
Public liability	-	-	2,587,957	1,909,942	
Nonspendable ⁽²⁾	7,481,079	-	-	-	
Restricted ⁽²⁾	750,951	-	-	-	
Committed ⁽²⁾	2,298,088	-	-	-	
Assigned ⁽²⁾	6,648,922	-	-	-	
Unassigned ⁽²⁾	<u>10,790,135</u>	<u>14,511,252</u>	<u>16,412,878</u>	<u>17,872,368</u>	
Total Fund Balances	<u>\$27,969,175</u>	<u>\$32,958,909</u>	<u>\$36,122,025</u>	<u>\$37,392,657</u>	
Total liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$49,122,295</u>	<u>\$43,341,078</u>	<u>\$47,266,258</u>	<u>\$47,579,968</u>	

⁽¹⁾ See "GASB Statement No 54" above.

⁽²⁾ Change in financial statement presentation in 2014 to show individual components of the fund balance commitments and designations.

Source: (a) City of Chula Vista Comprehensive Annual Financial Reports; and (b) City of Chula Vista.

TABLE NO. 26
CITY OF CHULA VISTA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

	<u>2013 (a)</u>	<u>2014 (a)</u>	<u>2015 (a)</u>	<u>2016 (a)</u>	<u>Unaudited 2017 (b)</u>
Revenues:					
Taxes	\$ 75,841,123 ⁽¹⁾	\$105,718,638	\$100,738,431	\$107,731,873	
Intergovernmental	19,542,065 ⁽¹⁾	2,477,213	1,933,114	2,530,464	
Licenses and permits	1,395,519	1,315,445	1,281,656	1,301,243	
Charges for services	8,357,509	9,257,946	9,430,097	9,264,462	
Fines and forfeitures	1,002,946	1,009,736	1,638,251	1,249,457	
Use of money and property	2,201,490	2,522,893	2,832,039	2,879,878	
Miscellaneous	<u>13,023,676</u>	<u>11,580,545</u>	<u>12,811,856</u>	<u>11,988,931</u>	
Total Revenues	<u>121,364,328</u>	<u>133,882,416</u>	<u>130,665,444</u>	<u>136,946,308</u>	
Expenditures:					
Current:					
General government	22,742,279	20,586,160	23,305,483	24,518,792	
Public safety	66,359,410	68,776,426	72,509,678	76,138,983	
Public works	26,014,418	27,092,607	27,822,644	28,139,011	
Parks and recreation	3,362,558	3,588,693	3,746,349	4,057,799	
Library	3,182,483	3,336,380	3,527,038	3,689,475	
Capital outlay	<u>1,172,734</u>	<u>849,234</u>	<u>1,081,105</u>	<u>2,235,590</u>	
Total Expenditures	<u>122,833,882</u>	<u>124,229,500</u>	<u>131,992,297</u>	<u>138,779,650</u>	
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,469,554)</u>	<u>9,652,916</u>	<u>(1,326,853)</u>	<u>(1,833,342)</u>	
Other Financing Sources (Uses):					
Transfers in	9,661,447	9,571,300	9,994,525	9,036,494	
Transfers out	(4,910,795)	(14,234,482)	(6,082,780)	(6,335,351)	
Capital leases	-	-	<u>578,224</u>	<u>377,487</u>	
Total Other Financing Sources (Uses):	<u>4,750,652</u>	<u>(4,663,182)</u>	<u>4,489,969</u>	<u>3,078,630</u>	
Net Change in Fund Balances	3,281,098	4,989,734	3,163,116	1,245,288	
Fund Balances, Beginning of Year, as previously reported	<u>24,688,077</u>	<u>27,969,175</u>	<u>32,958,909</u>	<u>36,122,025</u>	
Restatements	-	-	-	<u>25,344</u>	
Fund Balances, Beginning of Year, as restated	<u>24,688,077</u>	<u>27,969,175</u>	<u>32,958,909</u>	<u>36,147,369</u>	
Fund Balances, End of Year	<u>\$ 27,969,175</u>	<u>\$ 32,958,909</u>	<u>\$ 36,122,025</u>	<u>\$ 37,392,657</u>	

(1) The City reflected the Property Taxes In-Lieu of Motor Vehicle Fees in "Intergovernmental Revenues" in Fiscal Year 2012-13, and in all other years 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: (a) City of Chula Vista Comprehensive Annual Financial Reports and (b) City of Chula Vista.

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.

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 (see "FINANCIAL INFORMATION - Outstanding Indebtedness of the City" and "- Joint Financing Agreement with Respect to the Chula Vista Bayfront" herein).

Abatement. Except to the extent that amounts are available (i) in the Base Rental 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, as defined in "APPENDIX A - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS," shall be abated during any period in which by reason of damage, destruction or taking by eminent domain of the Leased Property or defects in 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 and the Authority in a written certificate to the Trustee) 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 the date of interference resulting from such damage, destruction, or taking by eminent domain or title defect 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, and the City cannot be compelled to repair or replace the damaged Leased Property or to redeem the Bonds but will covenant in the Indenture 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 - LEASE

AGREEMENT - RENTAL PAYMENTS - Rental Abatement” and “- INDENTURE - SECURITY FOR BONDS; FLOW OF FUNDS; INVESTMENTS - Application of Net Proceeds and Rental Interruption Insurance.”

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 due on 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 improvements constituting the Leased Property in the event of damage or destruction to or title defect affecting the Leased Property and to maintain rental interruption insurance in an amount equal to maximum annual Base Rental Payments in any 24 month period (see “APPENDIX A - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - LEASE AGREEMENT - INSURANCE” herein). The Lease Agreement does not require earthquake or flood insurance. See “Natural Hazards” below. The City makes no representation as to the ability or willingness of any insurer to fulfill its obligations under any insurance policy provided for in the Lease Agreement. In addition, certain risks are not covered by such property insurance (see “SOURCES OF PAYMENT FOR THE BONDS - Insurance Relating to the Leased 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. Further, with respect to an insured event, if any Leased Property so damaged or destroyed is not repaired or replaced within the period during which the proceeds of rental interruption insurance are available, abatement could prevent the City from timely paying Base Rental Payments and the Authority from paying the principal of and interest on the Bonds when due. The rental interruption insurance will only be payable following an insured loss and in the event of an uninsured loss such as earthquake or flood, no amounts will be available under the rental interruption insurance policy.

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.

Natural Hazards

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 the City 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. 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. The City carries no earthquake insurance on City facilities, including the Leased Property.

Flooding and Tsunamis. Portions of the City are located in a 100-year flood plain. Portions of the City are also located along the Pacific Ocean and the City could be subject to impacts from tsunamis in the event of an earthquake occurring off-shore. If either a flood or a tsunami 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. The City carries no flood insurance on City facilities including the Leased Property.

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.

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. Six of the parcels of Leased Property when granted to the City were limited to public park or open space purposes only (the Salt Creek Recreation Center, Mountain Hawk Park, Sunset View Park, Santa Venita Park, Veterans Park and Heritage Park) and seventh parcel, the Norman Senior Center, is limited to park use unless the City Council determines that a park use for the property is no longer in the public interest. The Parking Garage component of the Leased Property is subject to a reciprocal easement agreement that grants to the owner of the adjacent commercial development the right to set rules and regulations for the public parking spaces. Given these provisions, the re-letting of these parcels may not be feasible or practicable. 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" 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 public agencies in the State. See "Bankruptcy" below.

Bankruptcy

In addition to the limitations on remedies contained in the Indenture and the Lease Agreement, the rights and remedies in the Lease Agreement may be limited and are subject to the provisions of federal bankruptcy laws, as now or hereafter enacted, and to other laws or equitable principles that may affect the enforcement of creditors' rights.

Under Chapter 9 of the Bankruptcy Code (Title 11, United States Code) (the "Bankruptcy Code"), which governs bankruptcy proceedings of public entities such as the City, no involuntary bankruptcy petition may be filed against a public entity. However, upon satisfaction of certain prerequisite conditions, a voluntary bankruptcy petition may be filed by the City. The filing of a bankruptcy petition results in a stay against enforcement of certain remedies under agreements to which the bankrupt entity is a party. A bankruptcy filing by the City could thus limit remedies under the Lease Agreement. A bankruptcy debtor may choose to assume or reject executory contracts and leases, such as the Lease Agreement. However, a debtor may not assume or reject executory contracts to loan money or to make a financial accommodation, such as the Indenture. In the event of rejection of a lease by debtor lessee, the leased property is returned to the lessor and the lessor has a claim for a limited amount of the resulting damages.

Under the Indenture, the Trustee holds a security interest in the revenues in the funds pledged thereunder, including Base Rental Payments, for the benefit of the Owners of the Bonds, but such security interest arises only when the Base Rental Payments are actually received by the Trustee following payment by the City. The Leased Property itself is not subject to a security interest, mortgage or any other lien in favor of the Trustee for the benefit of the Owners of the Bonds. In the event of a bankruptcy filed by the City and the subsequent rejection of the Lease Agreement by the City, the Trustee would recover possession of the Leased Property and would have a claim for damages against the City. The Trustee's claim would constitute a secured claim only to the extent of revenues in the possession of the Trustee; the balance of such claim would be unsecured.

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 City or the commencement of any judicial or other action for the purpose of recovering or collecting a claim against the City and could prevent the Trustee from making payments from funds in its possession; (ii) the avoidance of preferential transfers occurring during the relevant period prior to the filing of a bankruptcy petition; (iii) the existence of unsecured or secured debt which may have priority of payment superior to that of the Owners of the Bonds; and (iv) the

possibility of the adoption of a plan (the “Plan of Adjustment”) for the adjustment of the City’s debt without the consent of the Trustee or all of the Owners of the Bonds, which Plan of Adjustment may restructure, delay, compromise or reduce the amount of any claim of the Owners of the Bonds if the Bankruptcy Court finds that the Plan of Adjustment is fair and equitable and in the best interests of creditors.

In a bankruptcy of the City, if a material unpaid liability is owed to CalPERS or any other pension system (collectively the “Pension Systems”) on the filing date, or accrues thereafter, such circumstances could create additional uncertainty as to the City’s ability to make Base Rental Payments. Given that municipal pension systems in California are usually administered pursuant to state constitutional provisions and, as applicable, other state and/or city law, the Pension Systems may take the position, among other possible arguments, that their claims enjoy a higher priority than all other claims, that Pension Systems have the right to enforce payment by injunction or other proceedings outside of a City bankruptcy case, and that Pension System claims cannot be the subject of adjustment or other impairment under the Bankruptcy Code because that would purportedly constitute a violation of state statutory, constitutional and/or municipal law. It is uncertain how a bankruptcy judge in a City bankruptcy would rule on these matters. In addition, this area of law is presently very unsettled as issues of pension underfunding claim priority, pension contribution enforcement, and related bankruptcy plan treatment of such claims (among other pension-related matters) have been the subject of litigation in the Chapter 9 cases of several California municipalities, including the Cities of Stockton and San Bernardino.

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 of the Bonds if the Bankruptcy Court finds that the Plan is fair and equitable. In a bankruptcy the Authority could challenge the assignment of the Site Lease and the Lease Agreement, and the Trustee and/or the Owners of the Bonds could be required to litigate these issues to protect their interests.

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 on 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. During the most recent recession, the State faced a structural deficit that resulted in substantial annual deficits and reductions in expenditures. Although the State has had a budget surplus in the more recent fiscal years, according to the State there remain a number of major risks and pressures that threaten the State’s financial condition, including the threat of recession, potential changes to federal fiscal policies and unfunded long-term liabilities of more than \$200 billion related to pensions and other post-retirement benefits. These risks and financial pressures 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 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.

State Legislative Shifts of Property Tax Allocation. From time to time, the State has realigned certain property tax revenue to deal with its budget problems. 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 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 first (and to date, only) shift occurred in Fiscal Year 2009-10. The City’s share of the withholding was \$4,488,610. Fiscal Year 2012-13 was the first year that another shift was allowable, but the State has not implemented another borrowing yet.

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.” Under the “Triple Flip,” one-quarter of local governments’ 1% share of the sales tax imposed on taxable transactions within their jurisdiction were redirected to the State. In an effort to eliminate the adverse impact of the sales tax revenue redirection on local government, the legislation provided for property taxes in the ERAF to be redirected to local government. Because the ERAF moneys were previously earmarked for schools, the legislation provided 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 as of 2011-12 all of the VLF is now received through an in lieu payment from State property tax revenues.

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)%
1996-96	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. Proposition 8 adjustments could happen again in future years, and are more likely to occur during a recession.

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 2017-18 is \$851,310,266. The City's appropriations subject to the limit for 2017-18 are \$117,555,471. Based on the foregoing, 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 XIIC and XIID 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 XIID. 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.

Voter-Approved Taxes. On November 8, 2016, voters approved Measure P, by majority vote, authorizing an additional one-half cent sales tax to be levied and collected on behalf of the City. The tax is authorized to be levied and collected for 10 years commencing April 1, 2017.

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 XIII C of the State Constitution to expand the definition of “tax” to include “any levy, charge, or exaction of any kind imposed by a local government” except the following: (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 XIII D. 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.

Federal Legislation

The Congress and the Executive Branch are considering a number of actions that could adversely affect funding for state and local governments. The potential impact of future changes in federal legislation and policies on the City’s finances is unknown at the present time. See “TAX MATTERS” herein.

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, affected by title defect or taken by eminent domain (see “THE BONDS - Redemption - Special Mandatory Redemption From Net Proceeds”). Early redemption of Series 2017A Bonds also occur in part, without premium on certain dates from unexpended proceeds of the Series 2017A Bonds or if the Subsidy Payments are substantially reduced (see “THE BONDS – Redemption – Extraordinary Redemption from Unexpended Series 2017A Bond Proceeds” and “-Special Optional Redemption Following Loss of Subsidy Payments” herein).

Loss of Tax Exemption on the Series 2017B Bonds

As discussed under the caption “TAX MATTERS” herein, interest on the Series 2017B Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date the Series 2017B 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 Series 2017B Bonds are not subject to special redemption or any increase in interest rate and will remain outstanding until maturity or otherwise redeemed pursuant to the extraordinary redemption provisions contained in the Indenture.

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 Series 2017B Bonds. Prospective purchasers of the Series 2017B 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 Series 2017B Bonds are outstanding or that any such changes will not adversely affect the exclusion of the interest on the Series 2017B Bonds from gross income for federal income tax purposes. If the exclusion of the interest on the Series 2017B Bonds from gross income for federal income tax purposes were amended or eliminated, it is likely that the market price for the Series 2017B 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 Series 2017B Bonds will be selected for audit by the Internal Revenue Service. It is also possible that the market value of the Series 2017B Bonds might be affected as a result of such an audit of the Series 2017B 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

Series 2017A Bonds

The Authority has elected to issue the Series 2017A Bonds as New Clean Renewable Energy Bonds for purposes of Section 54C of the Code for which the Authority is allowed a refundable credit and which, with respect to any Interest Payment Date with respect to the Series 2017A Bonds, is equal to the lesser of (a) the interest payable on such Series 2017A Bonds on such Interest Payment Date or (b) 70% of the amount of interest that would have been payable on such Interest Payment Date under such Series 2017A Bonds if such interest were determined at the applicable credit rate determined under Section 54A(b)(3) of the Code. The Authority will elect to receive a Subsidy Payment from the United States Treasury equal to the lesser of (a) the interest payable on such Series 2017A Bonds on such Interest Payment Date or (b) 70% of the amount of interest that would have been payable on such Interest Payment Date under such Series 2017A Bonds if such interest were determined at the applicable credit rate determined under Section 54A(b)(3) of the Code, which will be deposited in the Series 2017A Account of the Interest Fund established for the Series 2017A Bonds under the Indenture and used to offset future debt service on the Series 2017A Bonds. UNDER NO CIRCUMSTANCES WILL THE SERIES 2017A BONDOWNERS RECEIVE OR BE ENTITLED AT ANY TIME TO A CREDIT AGAINST THE TAX IMPOSED BY THE CODE WITH RESPECT TO THE OWNERSHIP OF THE SERIES 2017A BONDS. The Authority cannot ensure that it will receive such a refundable credit at any time and in any given amount.

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation (“Bond Counsel”), under existing statutes, regulations, rulings and judicial decisions, interest on the Series 2017A Bonds is exempt from State personal income tax.

Except for certain exceptions, the difference between the issue price of a Series 2017A Bond (the first price at which a substantial amount of the Series 2017A Bonds of the same series and maturity is to be sold to the public) and the stated redemption price at maturity with respect to such Series 2017A Bond (to the extent the redemption price at maturity is bigger than the issue price) constitutes original issue discount. Original issue discount accrues under a constant yield method. The amount of original issue discount

deemed received by the Series 2017A Bond Owner will increase the Series 2017A Bond Owner's basis in the Series 2017A Bond. Series 2017A Bond Owners should consult their own tax advisor with respect to taking into account any original issue discount on the Series 2017A Bond.

The amount by which a Series 2017A Bond Owner's original basis for determining loss on sale or exchange in the applicable Series 2017A Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable bond premium, which the Series 2017A Bond Owner may elect to amortize under Section 171 of the Code; such amortizable bond premium reduces the Series 2017A Bond Owner's basis in the applicable Series 2017A Bond (and the amount of taxable interest received) and is deductible for federal income tax purposes. The basis reduction as a result of the amortization of bond premium may result in a Series 2017A Bond Owner realizing a taxable gain when a Series 2017A Bond is sold by the Series 2017A Bond Owner for an amount equal to or less (under certain circumstances) than the original cost of the Series 2017A Bond to the Series 2017A Bond Owner. The Series 2017A Bond Owners that have a basis in the Series 2017A Bonds that is greater than the principal amount of the Series 2017A Bonds should consult their own tax advisors with respect to whether or not they should elect to amortize such premium under Section 171 of the Code.

The qualification of the Series 2017A Bonds and receipt of the refundable credit for purposes of Section 54C of the Code is subject to the condition that the Authority and the City, and others comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Series 2017A Bonds to assure that the Series 2017A Bonds qualify as New Clean Renewable Energy Bonds under Section 54C of the Code for which the Authority, on behalf of the City, has made an irrevocable election to receive a refundable credit. Failure to comply with such requirements of the Code might result in the Authority not receiving such a refundable credit, possibly retroactive to the date of issue of the Series 2017A Bonds.

The IRS has initiated an expanded program for the auditing of bond issues, including both random and targeted audits. It is possible that the Series 2017A Bonds will be selected for audit by the IRS. It is also possible that the market value of the Series 2017A Bonds might be affected as a result of such an audit of the Series 2017A Bonds (or by an audit of similar bonds). No assurance can be given that in the course of an audit, as a result of an audit, or otherwise, that Congress or the IRS might change the Code (or interpretation thereof) subsequent to the issuance of the Series 2017A Bonds to the extent that it adversely affects the status of the Series 2017A Bonds as New Clean Renewable Energy Bonds for purposes of Section 54C of the Code for which the Authority is entitled to a refundable credit or the market value of a Series 2017A Bond.

SUBSEQUENT TO THE ISSUANCE OF THE Series 2017A BONDS THERE MIGHT BE FEDERAL, STATE, OR LOCAL STATUTORY CHANGES (OR JUDICIAL OR REGULATORY INTERPRETATIONS OF FEDERAL, STATE, OR LOCAL LAW) THAT AFFECT THE FEDERAL, STATE, OR LOCAL TAX TREATMENT OF THE Series 2017A BONDS OR THE MARKET VALUE OF THE Series 2017A BONDS. TAX REFORM PROPOSALS ARE BEING CONSIDERED BY CONGRESS. IT IS POSSIBLE THAT LEGISLATIVE CHANGES MIGHT BE INTRODUCED IN CONGRESS, WHICH, IF ENACTED, WOULD RESULT IN ADDITIONAL FEDERAL INCOME OR STATE TAX BEING IMPOSED ON OWNERS OF OBLIGATIONS, SUCH AS THE Series 2017A BONDS. THE INTRODUCTION OR ENACTMENT OF ANY OF SUCH CHANGES COULD ADVERSELY AFFECT THE MARKET VALUE OR LIQUIDITY OF THE Series 2017A BONDS. NO ASSURANCE CAN BE GIVEN THAT SUBSEQUENT TO THE ISSUANCE OF THE Series 2017A BONDS SUCH CHANGES (OR OTHER CHANGES) WILL NOT BE INTRODUCED OR ENACTED OR INTERPRETATIONS WILL NOT OCCUR. BEFORE PURCHASING ANY OF THE Series 2017A BONDS, ALL POTENTIAL PURCHASERS SHOULD CONSULT THEIR TAX ADVISORS REGARDING POSSIBLE STATUTORY CHANGES OR JUDICIAL OR REGULATORY CHANGES OR INTERPRETATIONS, AND THEIR COLLATERAL TAX CONSEQUENCES RELATING TO THE Series 2017A BONDS.

The federal tax and State personal income tax discussion set forth above is included for general information only and may not be applicable depending upon a Series 2017A Bond Owner's particular situation. The ownership and disposal of the Series 2017A Bonds and the accrual or receipt of interest on the Series 2017A Bonds may otherwise affect the tax liability of certain persons. Bond Counsel expresses no opinion regarding any such tax consequences.

A copy of the proposed form of opinion of Bond Counsel with respect to the Series 2017A Bonds is attached hereto as Appendix D.

Series 2017B Bonds

In the opinion of Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, interest on the Series 2017B Bonds is excluded from gross income for federal income tax purposes, and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest on the Series 2017B Bonds is exempt from State personal income tax. Bond Counsel notes that, with respect to corporations, interest on the Series 2017B Bonds may be included as an adjustment in the calculation of alternative minimum taxable income.

The difference between the issue price of a Series 2017B Bond (the first price at which a substantial amount of the Series 2017B Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity with respect to the Series 2017B Bond (to the extent the redemption price at maturity is greater than the issue price) constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Beneficial Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Beneficial Owner will increase the Beneficial Owner's basis in the applicable Series 2017B Bond. In the opinion of Bond Counsel, the amount of original issue discount that accrues to the Beneficial Owner of the Series 2017B Bond is excluded from gross income of such Beneficial Owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and is exempt from State of California personal income tax.

Bond Counsel's opinion as to the exclusion from gross income for federal income tax purposes of interest (and original issue discount) on the Series 2017B Bonds is based upon certain representations of fact and certifications made by the Authority and the City and others and is subject to the condition that the Authority and the City comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Series 2017B Bonds to assure that interest (and original issue discount) on the Series 2017B Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause the interest (and original issue discount) on the Series 2017B Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2017B Bonds. The Authority and the City will covenant to comply with all such requirements.

The amount by which a Beneficial Owner's original basis for determining loss on sale or exchange in the applicable Series 2017B Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable bond premium, which must be amortized under Section 171 of the Code; such amortizable bond premium reduces the Beneficial Owner's basis in the applicable Series 2017B Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of bond premium may result in a Beneficial Owner realizing a taxable gain when a Series 2017B Bond is sold by the Beneficial Owner for an amount equal to or less (under certain circumstances) than the original cost of the Series 2017B Bond to the Beneficial Owner. Purchasers of the Series 2017B Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.

Bond Counsel's opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Bond Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Indenture, the Lease and the Tax Certificate relating to the Series 2017B Bonds permit certain actions to be taken or to be omitted if a favorable opinion of a bond counsel is provided with respect thereto. Bond Counsel expresses no opinion as to the effect on the exclusion from gross income for federal income tax purposes of interest (or original issue discount) on any Series 2017B Bond if any such action is taken or omitted based upon the advice of counsel other than Bond Counsel.

The Internal Revenue Service (the "IRS") has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the Series 2017B Bonds will be selected for audit by the IRS. It is also possible that the market value of the Series 2017B Bonds might be affected as a result of such an audit of the Series 2017B Bonds (or by an audit of similar securities).

SUBSEQUENT TO THE ISSUANCE OF THE Series 2017B BONDS THERE MIGHT BE FEDERAL, STATE, OR LOCAL STATUTORY CHANGES (OR JUDICIAL OR REGULATORY INTERPRETATIONS OF FEDERAL, STATE, OR LOCAL LAW) THAT AFFECT THE FEDERAL, STATE, OR LOCAL TAX TREATMENT OF THE Series 2017B BONDS OR THE MARKET VALUE OF THE Series 2017B BONDS. LEGISLATIVE CHANGES HAVE BEEN INTRODUCED IN CONGRESS, WHICH, IF ENACTED, WOULD RESULT IN ADDITIONAL FEDERAL INCOME OR STATE TAX BEING IMPOSED ON OWNERS OF TAX-EXEMPT STATE OR LOCAL OBLIGATIONS, SUCH AS THE Series 2017B BONDS. THE INTRODUCTION OR ENACTMENT OF ANY OF SUCH CHANGES COULD ADVERSELY AFFECT THE MARKET VALUE OR LIQUIDITY OF THE Series 2017B BONDS. NO ASSURANCE CAN BE GIVEN THAT SUBSEQUENT TO THE ISSUANCE OF THE Series 2017B BONDS SUCH CHANGES (OR OTHER CHANGES) WILL NOT BE INTRODUCED OR ENACTED OR INTERPRETATIONS WILL NOT OCCUR. BEFORE PURCHASING ANY OF THE Series 2017B BONDS, ALL POTENTIAL PURCHASERS SHOULD CONSULT THEIR TAX ADVISORS REGARDING POSSIBLE STATUTORY CHANGES OR JUDICIAL OR REGULATORY CHANGES OR INTERPRETATIONS, AND THEIR COLLATERAL TAX CONSEQUENCES RELATING TO THE Series 2017B BONDS.

Although Bond Counsel will render an opinion that the interest due on the Series 2017B Bonds is excluded from gross income for federal income tax purposes provided that the Authority and the City continue to comply with certain requirements of the Code, the ownership of the Series 2017B Bond and the accrual or receipt of interest with respect to the Series 2017B Bonds may otherwise affect the tax liability of certain persons. Bond Counsel expresses no opinion regarding any such tax consequences. Accordingly, before purchasing any of the Series 2017B Bonds, all potential purchasers should consult their tax advisors with respect to collateral tax consequences with respect to the Series 2017B Bonds.

Should interest on the Series 2017B Bonds (including any original issue discount) become includable in gross income for federal income tax purposes, the Series 2017B Bonds are not subject to early redemption and will remain outstanding until maturity or until redeemed in accordance with the Indenture.

A copy of the proposed form of opinion of Bond Counsel with respect to the Series 2017B Bonds is attached hereto in Appendix D.

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 or the Authority, the rights of the Owners of the Bonds 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, Newport Beach, California, as Bond Counsel, will render an opinion with respect to the validity and enforceability of the Indenture, the Lease Agreement, the Site Lease and the Assignment 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, the Assignment Agreement or the Bonds are not 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, Nixon Peabody LLP, Los Angeles, California. Fees payable to Bond Counsel, Disclosure Counsel and Underwriter's Counsel are contingent upon the sale and delivery of the Bonds.

Absence of Litigation

The City and the Authority will furnish a certificate dated as of the date of delivery of the Bonds that there is not now known to be litigation pending against the City or the Authority or threatened against the City or the Authority seeking to restrain or enjoin the execution or delivery of the Indenture, the Lease Agreement, the Site Lease or the Assignment Agreement or the sale or delivery of the Bonds, or, in any manner questioning the proceedings and authority under which the Bonds and Indenture, the Lease Agreement, the Site Lease and the Assignment Agreement are to be executed and delivered or affecting the validity thereof. There exists lawsuits and claims against the City that arise during the ordinary course of the City's operations. In the view of the City's management and City Attorney, there is no litigation, presently pending against the City, that will individually, or in the aggregate, impair the City's ability to make Base Rental Payments when due.

CONCLUDING INFORMATION

Rating on the Bonds

S&P Global Ratings has assigned its municipal bond 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 Agreement, 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 a 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 Series 2017A Bonds are being sold at an aggregate purchase price of \$_____ (representing the aggregate principal amount of the Series 2017A Bonds plus an original issue premium of \$_____ and less an underwriting discount of \$_____), pursuant to a bond purchase contract (“Bond Purchase Contract”) entered into between the Authority, the City and Brandis Tallman LLC (the “Underwriter”). The Series 2017B Bonds are being sold to the Underwriter at an aggregate purchase price of \$_____ (representing the aggregate principal amount of the Series 2017B Bonds plus an original issue premium of \$_____ and less an underwriting discount of \$_____), pursuant to the Bond Purchase Contract

The expenses associated with the issuance of the Bonds are being paid by the Authority and the City from proceeds of the Bonds. The right of the Underwriter to receive compensation in connection with the Bonds is contingent upon the issuance and delivery by the Authority, and the purchase by the Underwriter, of the Bonds. The bond purchase contract provides that the Underwriter will purchase all of the Bonds if any are purchased and that the obligation of the Underwriter to accept and pay for the Bonds is subject to certain terms and conditions set forth therein, including the approval by counsel of certain legal matters.

The Underwriter will initially offer the Bonds for sale at the prices and yields set forth on the inside cover page of this Official Statement. Such prices or yields may subsequently change. The Underwriter reserves the right to join with dealers and other investment banking firms in offering the Bonds for sale and may offer to sell Bonds to dealers at prices lower than the initial offering prices.

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 by not later than March 31 in each year (the “Annual Reports”) and notices of the occurrence of certain listed events in accordance with Rule 15c2-12 of the Securities Exchange Act of 1934 as amended (the “Rule”). Willdan Financial Services will act as Dissemination Agent. The specific nature of the information to be contained in the Annual Reports or the notices of listed events and certain other terms of the continuing disclosure obligation are found in the form of the City’s Continuing Disclosure Agreement attached in “APPENDIX C - FORM OF CONTINUING DISCLOSURE AGREEMENT.”

The City and certain other entities related to the City, including the former Redevelopment Agency of the City of Chula Vista (“Former 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: (i) 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; (ii) pursuant to the undertakings for three series of the Former Agency’s bonds, the Former Agency’s Fiscal Year 2011 annual reports due in February and March 2012 were not filed until July 2012, 142 and 97 days late, respectively, and pursuant to the undertaking for one series of the Former Agency’s bonds, the Former Agency’s Fiscal Year 2012 annual report due in February 2013 was not filed until March 2013, 27 days late; (iii) notice of certain ratings changes relating to several issues 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 (iv) 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 Chief Financial Officer of the Authority and the City Director of Finance/Treasurer has been duly authorized by the Authority and by the City, respectively.

CHULA VISTA MUNICIPAL FINANCING AUTHORITY

By: _____
Chief Financial Officer

CITY OF CHULA VISTA

By: _____
Director of Finance/Treasurer

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 AGREEMENT

APPENDIX D
PROPOSED FORM OF BOND COUNSEL OPINIONS

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.