

NEW ISSUE
BOOK-ENTRY

RATINGS

S&P: ___

Moody's: ___

See "CONCLUDING INFORMATION - Ratings on the Certificates" herein).

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Special Counsel, under existing statutes, regulations, rulings and judicial decisions, and assuming certain representations and compliance with certain covenants and requirements described herein, the interest (and original issue discount) with respect to the Certificates 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 Special Counsel, such interest (and original issue discount) is exempt from State of California personal income tax. Special Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest with respect to, the Certificates. See "LEGAL MATTERS - Tax Matters" herein.

SAN DIEGO COUNTY

STATE OF CALIFORNIA

\$32,000,000*

**2015 REFUNDING CERTIFICATES OF PARTICIPATION
(CIVIC CENTER PROJECT)
Evidencing Undivided Proportionate Interests
in Lease Payments to be Made by the
CITY OF CHULA VISTA, CALIFORNIA
Pursuant to a Lease with the
CHULA VISTA PUBLIC FINANCING AUTHORITY**

Dated: Date of Delivery

Due: March 1, as Shown on the Inside Front Cover Page.

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

The City of Chula Vista 2015 Refunding Certificates of Participation (Civic Center Project) (the "Certificates") are being executed and delivered to (i) provide funds to refinance certain obligations of the City of Chula Vista (the "City") described herein, and (ii) pay the costs incurred in connection with the execution and delivery of the Certificates. The Certificates evidence undivided proportionate interests of the Owners in lease payments ("Lease Payments") to be made by the City to the Chula Vista Public Financing Authority (the "Authority") as rental for certain real property and the improvements thereon (referred to herein as the "Leased Premises") consisting of the City's Civic Center complex, the City's Fire Station No. 7 and two City parks pursuant to a Lease/Purchase Agreement, dated September 1, 2004, as amended by a First Amendment to Lease/Purchase Agreement dated as of March 1, 2006 and a Second Amendment to Lease/Purchase Agreement dated as of July 1, 2015, each by and between the City and the Authority (as amended, the "Lease"), as described herein. See "THE LEASED PREMISES" herein. The City is required under the Lease to make Lease Payments in each fiscal year in consideration of the use and possession of the Leased Premises from any source of legally available funds, including certain funds held under a trust agreement, as described herein, and insurance or condemnation awards, in an amount sufficient to pay the annual principal and interest due with respect to the Certificates, subject to abatement, as described herein. See "SOURCES OF PAYMENT FOR THE CERTIFICATES" and "RISK FACTORS" herein.

Interest represented by the Certificates is payable on March 1, 2016, and semiannually thereafter on September 1 and March 1 of each year until maturity or earlier prepayment. See "THE CERTIFICATES - General" and "THE CERTIFICATES - Prepayment" herein.

THE CERTIFICATES DO NOT CONSTITUTE AN OBLIGATION OF THE CITY 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 MAKE LEASE PAYMENTS UNDER THE LEASE DOES NOT CONSTITUTE AN OBLIGATION OF THE CITY 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. NEITHER THE CERTIFICATES NOR THE OBLIGATION OF THE CITY TO MAKE LEASE PAYMENTS CONSTITUTES AN INDEBTEDNESS OF THE AUTHORITY, THE CITY, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

The Certificates are offered, when, as and if executed and delivered, subject to the approval as to their legality by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Special Counsel. Certain legal matters will be passed on for the City 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, Nossaman LLP, Irvine, California. It is anticipated that the Certificates, in book-entry form, will be available for delivery on or about July 21, 2015 through the facilities of The Depository Trust Company (see "APPENDIX E - THE BOOK-ENTRY SYSTEM" herein).

The date of the Official Statement is _____, 2015.

STIFEL

* Preliminary, subject to change.

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

\$32,000,000*
2015 REFUNDING CERTIFICATES OF PARTICIPATION
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MATURITY SCHEDULE

(Base CUSIP®† 171294)

Maturity Date	Principal	Interest	Reoffering	CUSIP®†
<u>March 1</u>	<u>Amount</u>	<u>Rate</u>	<u>Yield</u>	
2016				
2017				
2018				
2019				
2020				
2021				
2022				
2023				
2024				
2025				
2026				
2027				
2028				
2029				
2030				
2031				
2032				
2033				
2034				

* Preliminary, subject to change.

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GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

Use of Official Statement. This Official Statement is submitted in connection with the offer and sale of the Certificates 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 Certificates.

Estimates and Forecasts. When used in this Official Statement and in any continuing disclosure by the Authority or the City in any press release and in 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 Certificates 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 Certificates by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

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

Information Subject to Change. The information and expressions of opinions herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or any other entity described or referenced herein since the date hereof. All summaries of the documents referred to in this Official Statement are made subject to the provisions of such documents, respectively, and do not purport to be complete statements of any or all of such provisions.

Stabilization of Prices. In connection with this offering, the Underwriter may overallocate or effect transactions which stabilize or maintain the market price of the Certificates 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 Certificates to certain dealers and others at prices lower than the public offering prices set forth on the inside front cover page hereof and said public offering prices may be changed from time to time by the Underwriter.

THE CERTIFICATES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXCEPTION FROM THE REGISTRATION REQUIREMENTS CONTAINED IN SUCH ACT. THE CERTIFICATES HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

CITY OF CHULA VISTA, CALIFORNIA

CITY COUNCIL

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

CITY STAFF

Gary Halbert, *City Manager*
Maria Kachadoorian, *Deputy City Manager and Director of Finance/Treasurer*
Kelley Bacon, *Deputy City Manager*
Phillip Davis, *Assistant Director of Finance*
Glen R. Googins, *City Attorney*
Donna Norris, CMC, *City Clerk*

PROFESSIONAL SERVICES

Special Counsel and Disclosure Counsel

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

Municipal Advisor

Harrell & Company Advisors, LLC
Orange, California

Trustee and Escrow Bank

U.S. Bank National Association
Los Angeles, California

Verifications

Grant Thornton LLP
Minneapolis, Minnesota

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OFFICIAL STATEMENT

\$32,000,000*

2015 REFUNDING CERTIFICATES OF PARTICIPATION (CIVIC CENTER PROJECT)

Evidencing Undivided Proportionate Interests

in Lease Payments to Be Made by the

CITY OF CHULA VISTA, CALIFORNIA

Pursuant to a Lease with the

CHULA VISTA PUBLIC FINANCING AUTHORITY

This Official Statement which includes the cover page and appendices (the “Official Statement”), is provided to furnish certain information concerning the sale, execution and delivery of 2015 Refunding Certificates of Participation (Civic Center Project) (the “Certificates”), in the aggregate principal amount of \$32,000,000*, representing the undivided proportionate interests of Owners thereof in Lease Payments (defined below) to be made by the City of Chula Vista, California (the “City” or “Chula Vista”), as rental for certain property pursuant to a Lease/Purchase Agreement as more fully described herein with the Chula Vista Public Financing Authority (the “Authority”).

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 Certificates 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 (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

The City of Chula Vista is located on San Diego Bay in Southern California, 8 miles south 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 “THE CITY OF CHULA VISTA” herein).

The Authority

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 Redevelopment Agency of the City of Chula Vista (the “Redevelopment Agency”) formed the Authority by the execution of a joint exercise of powers agreement dated as of April 4, 1995 (the “Joint Powers Agreement”). Pursuant to the Marks-Roos Local Bond Pooling Act of 1985, as amended, constituting Article 4 (commencing with Section 6584), of Chapter 5, Division 7, Title 1 of the Government Code of the State (the “Bond Law”), the Authority is authorized, among other things, to issue revenue bonds to provide funds to finance and refinance public capital facilities and to otherwise assist the City in financing and refinancing such facilities.

* Preliminary, subject to change.

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

The State Legislature approved a bill, AB X1 26, pursuant to which all California redevelopment agencies, including the Redevelopment Agency, were dissolved as of February 1, 2012. The primary provisions enacted by AB X1 26 relating to the dissolution and wind down of former redevelopment agency affairs are Parts 1.8 (commencing with Section 34161) and 1.85 (commencing with Section 34170) of Division 24 of the Health and Safety Code of the State, as amended on June 27, 2012 by Assembly Bill No. 1484 (“AB 1484”), enacted as Chapter 26, Statutes of 2012 (as further amended from time to time, the “Dissolution Act”).

In accordance with the provisions of the Dissolution Act, the City elected to serve as the successor agency to the Redevelopment Agency (the “Successor Agency”). The Dissolution Act provides that the Successor Agency is a separate public entity from the City and none of the liabilities or assets of the Redevelopment Agency become liabilities or assets of the City. The Dissolution Act resulted in the assignment of the Redevelopment Agency’s rights, duties and performance obligations under the Joint Powers Agreement to the Successor Agency.

Purpose

The Certificates are being executed and delivered to refinance a portion of the existing Lease and to current refund all of the City’s outstanding 2004 Certificates of Participation (Civic Center Project – Phase 1) (the “2004 Certificates”) and to advance refund a portion of the City’s outstanding 2006 Certificates of Participation (Civic Center Project – Phase 2) (the “Refunded 2006 Certificates”), and to pay the costs of issuance of the Certificates. See “THE FINANCING PLAN” herein. After the delivery of the Certificates, \$_____ of the 2006 Certificates will remain outstanding (the “Outstanding 2006 Certificates”).

Security and Sources of Repayment

The Certificates are being executed and delivered pursuant to an Amended and Restated Trust Agreement dated as of March 1, 2006 as amended by a First Supplement to Amended and Restated Trust Agreement dated as of July 1, 2015 (as amended, the “Trust Agreement”), by and among the City, the Authority and U.S. Bank National Association, successor to The Bank of New York Mellon Trust Company, N.A, as trustee (the “Trustee”).

Pursuant to a Site Lease, dated as of September 1, 2004 as amended pursuant to a First Amendment to Site Lease dated as of March 1, 2006 (as amended, the “Site Lease”), each by and between the Authority and the City, the City has leased the Leased Premises, as described herein under the caption “THE LEASED PREMISES,” to the Authority. The Authority has subleased the Leased Premises to the City under the Lease/Purchase Agreement, dated as of September 1, 2004 as amended by a First Amendment to Lease/Purchase Agreement dated as of March 1, 2006 and a Second Amendment to Lease/Purchase Agreement dated as of July 1, 2015, each by and between the City and the Authority (as amended, the “Lease”). Lease payments (the “Lease Payments”) are to be made pursuant to the Lease.

The Certificates, together with the Outstanding 2006 Certificates, represent undivided proportionate interests in the Lease Payments to be made by the City to the Authority as the rental for the Leased Premises pursuant to the Lease. The Lease Payments are payable by the City from any source of legally available funds of the City, including certain funds held under the Trust Agreement and investment earnings thereon, and the net proceeds of insurance or condemnation awards (see “SOURCES OF PAYMENT FOR THE CERTIFICATES,” “FINANCIAL INFORMATION” and “APPENDIX A - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - THE LEASE” herein).

The City has covenanted in the Lease to take such actions as may be necessary to include all Lease Payments in its annual budgets and to make the necessary annual appropriations for all such Lease Payments subject to complete or partial abatement of such Lease Payments resulting from a taking of the Leased Premises (either in whole or in part) under the powers of eminent domain or resulting from damage or loss of all or any portion of the Leased Premises. All of the Authority's right, title and interest in and to the Lease (apart from certain rights to receive Additional Payments to the extent payable to the Authority and to indemnification), including the right to receive Lease Payments under the Lease, are assigned to the Trustee for the benefit of the Owners of the Certificates and any Additional Certificates when and if issued, under an Assignment Agreement by and between the Authority and the Trustee dated as of September 1, 2004 as amended by a First Amendment to Assignment Agreement dated March 1, 2006 and a Second Amendment to Assignment Agreement dated as of July 1, 2015 (as amended, the "Assignment Agreement").

For a summary of the Trust Agreement, the Site Lease and the Lease, see "APPENDIX A - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS" herein.

The City is also required to pay any taxes and assessments levied on the Leased Premises and all costs of maintenance and repair of the Leased Premises. Except for the Authority's right, title and interest in and to the Lease Payments and otherwise to the Lease which have been assigned to the Trustee, no funds or properties of the Authority or the City are pledged to or otherwise liable for the obligations of the Authority (see "RISK FACTORS" herein).

The Lease is, in the opinion of Special Counsel, a valid and binding obligation of the City enforceable against the City in accordance with its terms, except to the extent enforceability thereof may be limited by bankruptcy, insolvency, moratorium and other similar laws affecting creditors' rights heretofore or hereinafter enacted and may be subject to the exercise of judicial discretion in accordance with general principles of equity or otherwise in appropriate cases (see "RISK FACTORS - Limited Recourse on Default; No Acceleration" herein). The form of Special Counsel's opinion is attached hereto as "APPENDIX D."

The obligation of the City to pay Lease Payments does not constitute an obligation for which the City is obligated to levy or pledge any form of taxation or for which the City has pledged any form of taxation. The obligation of the City to pay Lease Payments does not constitute a debt or liability of the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory debt limitation or restriction.

Tax Exemption

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California ("Special Counsel"), under existing statutes, regulations, rulings and judicial decisions, and assuming certain representations and compliance with certain covenants and requirements described herein, the interest (and original issue discount) due with respect to the Certificates 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 Special Counsel, the interest (and original issue discount) due with respect to the Certificates is exempt from State of California personal income tax. See "LEGAL MATTERS - Tax Matters" herein.

Professional Services

The legal proceedings relating to the execution and delivery of the Certificates are subject to the approving opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Special Counsel. Certain legal matters will be passed on for the City 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, Nossaman LLP, Irvine, California.

U.S. Bank National Association will serve as the trustee, paying agent, registrar, authentication and transfer agent for the Certificates and perform the functions required of it under the Trust Agreement for the payment of principal of and interest with respect to the Certificates.

Harrell & Company Advisors, LLC (the "Municipal Advisor") advised the City as to the financial structure and certain other financial matters relating to the Certificates.

The City's audited general purpose financial statements for the fiscal year ended June 30, 2014, attached hereto as "APPENDIX B" have been audited by Lance, Soll & Lunghard, LLP, Certified Public Accountants, Brea, California. The City's audited financial statements are public documents and are included within this Official Statement without the prior approval of the auditor. Accordingly, the auditor has not performed any post-audit of the financial condition of the City.

Grant Thornton LLP, Minneapolis, Minnesota will verify the mathematical accuracy of certain computations relating to the refunding of the 2004 Certificates and 2006 Certificates.

Offering of the Certificates

Authority for Execution and Delivery. The Certificates are to be executed and delivered July 21, 2015. The Lease has been entered into in accordance with the laws of the State of California (the "State"), and particularly Section 37350 of the Government Code of the State applicable to the City and the Authority.

Offering and Delivery of the Certificates. The Certificates are offered, when, as and if executed and delivered, subject to the approval as to their legality by Stradling Yocca Carlson & Rauth, Newport Beach, California, Special Counsel. It is anticipated that the Certificates, in book-entry form, will be available for delivery in New York, New York on July 21, 2015 through the facilities of The Depository Trust Company. See "APPENDIX E - THE BOOK-ENTRY SYSTEM."

Information Concerning this Official Statement

This Official Statement speaks only as of its date. The information set forth herein has been obtained by the City with the assistance of the Municipal Advisor, from sources which are believed to be reliable and such information is believed to be accurate and complete, but such information is not guaranteed as to accuracy or completeness, nor has it been independently verified and is not to be construed as a representation by the Municipal Advisor or the Disclosure Counsel. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended as such and are not to be construed as representations of fact. The information and expressions of opinion herein are subject to change without notice and the delivery of this Official Statement shall not, under any circumstances, create any implication that there has been no change in the information or opinions set forth herein or in the affairs of the City since the date hereof.

The summaries and references contained herein with respect to the Trust Agreement, the Lease, the Site Lease, the Assignment Agreement, the Certificates 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 Certificates are qualified in their entirety by reference to the form thereof included in the Trust Agreement. Copies of the documents described herein are available for inspection during the period of initial offering of the Certificates at the offices of the Municipal Advisor. Copies of these documents may be obtained after delivery of the Certificates at the trust office of the Trustee, U.S. Bank National Association, Los Angeles, California or from the City at 276 Fourth Avenue, Chula Vista, California 91910, telephone (619) 691-5250.

THE CERTIFICATES

General

The Certificates will be executed and delivered in the form of fully registered Certificates in principal amounts of \$5,000 each or any integral multiple thereof. The Certificates will be dated their date of delivery and mature on March 1 in the years set forth on the inside front cover page hereof. Each Certificate will be payable with respect to interest on March 1 and September 1 of each year, commencing on March 1, 2016 at the respective rates of interest set forth on the inside front cover page hereof.

The Certificates will be executed and delivered in book-entry form only and, when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”), which will act as securities depository for the Certificates. Individual purchases of the Certificates will be made in book-entry form only. Purchasers of the Certificates will not receive certificates representing their ownership interests in the Certificates purchased. Principal, premium, if any, and interest payments due with respect to the Certificates are payable directly to DTC by the Trustee. Upon receipt of payments of principal, premium, if any, and interest, DTC will in turn distribute such payments to the beneficial owners of the Certificates. See “APPENDIX E - THE BOOK-ENTRY SYSTEM” herein.

Prepayment

Optional Prepayment. The 2015 Certificates maturing on or after March 1, 20__ are subject to prepayment prior to maturity in whole or in part on any date on or after March 1, 20__, at the option of the City, at a prepayment price equal to the principal component to be prepaid, plus accrued interest to the date fixed for prepayment, without premium.

Extraordinary Prepayment. The Certificates and the Outstanding 2006 Certificates are subject to prepayment prior to their respective maturity dates on any date, in whole or in part, pro-rata among maturities, from Net Proceeds which the Trustee transfers to the Prepayment Fund as provided in the Lease at least 45 days prior to the date fixed for prepayment, at a prepayment price equal to the principal amount thereof together with the accrued interest to the date fixed for prepayment, without premium. There can be no assurance that such Net Proceeds will be adequate to prepay all of the Certificates and the Outstanding 2006 Certificates (see “SOURCES OF PAYMENT FOR THE CERTIFICATES - Insurance Relating to the Leased Premises” and “RISK FACTORS - The Lease Payments - Insurance” herein). In the event that Net Proceeds are to be applied to the prepayment of Certificates, or the Outstanding 2006 Certificates and Additional Certificates, if any, are outstanding, the Net Proceeds will be applied to prepay a proportionate amount of Certificates, the Outstanding 2006 Certificates and Additional Certificates based on the outstanding principal amount.

Mandatory Sinking Account Payment. The Certificates maturing March 1, 2034 (the “2034 Term Certificates”) are subject to prepayment in part by lot, on March 1 in each of the following years from sinking account payments as set forth below at a prepayment price equal to the principal amount thereof to be prepaid, without premium; provided, however, that if some but not all of the 2034 Term Certificates have been prepaid pursuant to an optional or extraordinary prepayment, the total amount of all future sinking account payments will be reduced pro rata by the aggregate principal amount of the 2034 Term Certificates so prepaid. In addition, in lieu of prepayment thereof, the 2034 Term Certificates may be purchased by the City and tendered to the Trustee pursuant to the provisions of the Trust Agreement.

**Mandatory
Prepayment Date
(March 1)**

**Sinking Account
Prepayment**

2034 (maturity)

Selection of Certificates for Prepayment. Whenever provision is made in the Trust Agreement for the optional prepayment of the Certificates and less than all Outstanding Certificates are called for optional prepayment, the Trustee shall select Certificates for optional prepayment from among maturities selected by the City and by lot within any maturity. For extraordinary prepayment of Certificates, the Trustee shall select Certificates for prepayment as nearly as practicable on a pro rata basis between the Certificates, the Outstanding 2006 Certificates and any Additional Certificates and among maturities and by lot within any maturity.

Notice of Prepayment. When prepayment is authorized or required pursuant to the Trust Agreement, the Trustee shall give notice of the prepayment of the Certificates. Such notice shall specify: (a) the prepayment date, (b) the prepayment price, (c) if less than all of the Outstanding Certificates of a maturity are to be prepaid, the Certificate numbers (and in the case of partial prepayment, the respective principal amounts), (d) the series and CUSIP numbers of the Certificates to be prepaid, (e) the place or places where the prepayment will be made, (f) the original date of execution and delivery of the Certificates, and (g) any other descriptive information regarding the Certificates needed to identify accurately the Certificates being prepaid. Such notice shall further state that on the specified date there shall become due and payable upon each Certificate to be prepaid, the portion of the principal amount of such Certificate to be prepaid, together with interest accrued to said date, and that from and after such date, provided that moneys therefor have been deposited with the Trustee, interest with respect thereto shall cease to accrue and be payable.

Notice of such prepayment shall be given to the respective Owners of any Certificates designated for prepayment by first class mail, postage prepaid at their addresses appearing on the Certificate registration books, at least thirty (30) days, but not more than sixty (60) days, prior to the prepayment date; provided that with respect to any Certificates held in book-entry form by the DTC, notice shall be provided in accordance with the procedures of the DTC. Neither failure to receive such notice nor any defect in any notice so given shall affect the sufficiency of the proceedings for the prepayment of such Certificates. Notice shall also be given to the municipal Securities Depository and to the Information Services on the date notice is given to the Owners, which notice shall be given by electronic or other means permitted under the procedures of each of such recipients.

Conditional Notice of Prepayment. The City has the right to make any notice of the optional prepayment of the Certificates a conditional notice which may be rescinded by written notice to the Trustee on or prior to the date fixed for prepayment. Any notice of optional prepayment will be cancelled and annulled if for any reason funds will not be or are not available on the date fixed for prepayment for the payment in full of the Certificates then called for prepayment, and such cancellation will not constitute an Event of Default. The City and the Trustee shall have no liability to the Owners or any other party related to or arising from such rescission of prepayment. The Trustee shall give notice of such rescission of prepayment in the same manner as the original notice of prepayment was sent.

Effect of Notice of Prepayment. Notice of prepayment having been given as aforesaid and the deposit of the prepayment price having been made by the City, the Certificates or portions of Certificates so to be prepaid shall, on the prepayment date, become due and payable at the prepayment price therein specified, and from and after such date interest with respect to such Certificates or portions of Certificates shall cease

to be payable. Upon surrender of such Certificates for prepayment in accordance with said notice, such Certificates shall be paid by the Trustee at the prepayment price.

Scheduled Lease Payments

The following is a schedule of annual payments of principal and interest represented by the Certificates, as well as annual payments of principal and interest represented by the Outstanding 2006 Certificates, which comprise the total of the annual Lease Payments.

Certificate				Outstanding	Total Lease
Year Ending	<u>Principal</u>	<u>Interest</u>	<u>Annual Total</u>	<u>2006 Certificates</u>	<u>Payments</u>
<u>March 1</u>					
2016					
2017					
2018					
2019					
2020					
2021					
2022					
2023					
2024					
2025					
2026					
2027					
2028					
2029					
2030					
2031					
2032					
2033					
2034					
2035					
2036					
Total					

THE FINANCING PLAN

The Refunding Program

On the Delivery Date, the City will irrevocably deposit a portion of the proceeds from the Certificates with the Trustee as escrow bank (the “Escrow Bank”), pursuant to an Escrow Agreement, dated as of July 1, 2015 (the “Escrow Agreement”) by and between the City and the Escrow Bank. The deposit will be in an amount sufficient to (1) pay the prepayment price with respect to all of the \$29,445,000 2004 Certificates outstanding pursuant to an optional prepayment thereof on August 21, 2015, (2) pay interest and principal with respect to the Refunded 2006 Certificates through and including March 1, 2016, and (3) pay the prepayment price with respect to the Refunded 2006 Certificates outstanding pursuant to an optional prepayment thereof on March 1, 2016.

After the delivery of the Certificates, \$_____ of the 2006 Certificates will remain outstanding.

Special Counsel will deliver an opinion at closing to the effect that, assuming the sufficiency of the amounts deposited under the Escrow Agreement, the 2004 Certificates and the Refunded 2006 Certificates will be discharged and no longer be Outstanding under the Trust Agreement and will not be secured by the Lease or the Lease Payments due thereunder (see “CONCLUDING INFORMATION - Verifications of Mathematical Computations.”) Amounts on deposit with the Escrow Bank are not available to pay debt service with respect to the Certificates.

Estimated Sources and Uses of Funds

Under the provisions of the Trust Agreement, the Trustee will receive the proceeds from the sale of the Certificates, together with other available funds, and will apply them as follows:

Sources of Funds

Par Amount of Certificates
Funds Held by Trustee for 2004 Certificates
and Refunded 2006 Certificates
Net Original Issue Premium
Available Funds

Uses of Funds

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

⁽¹⁾ Expenses include fees and expenses of Special Counsel, the Municipal Advisor, Disclosure Counsel and Trustee, rating fees, costs of printing the Official Statement, and other costs of delivery of the Certificates.

THE LEASED PREMISES

Description of the Leased Premises. Pursuant to the terms of the Site Lease, the City leases the 7.9 acre Civic Center complex, Fire Station No. 7, Monteville Park and Salt Creek Park and the existing improvements thereon (collectively the “Property”) to the Authority. Pursuant to the terms of the Lease, the Authority leases the Property, together with all improvements thereon, which together comprise the Leased Premises, back to the City.

The Civic Center complex consists of three buildings on approximately 7.9 acres located in the City’s downtown, constructed between 2004 and 2007. The 42,000 square foot City Hall building houses the City Council chambers with fixed seating for 156 people, an overflow conference room, a press room and audio visual equipment area. The City Hall also contains offices for the City Council and Mayor, the City Manager, the City Attorney, the Finance Department, the Office of Communications and the City Clerk.

The Public Services Building is approximately 31,500 square feet and contains the offices of the Engineering, Planning and Building/Code Enforcement Divisions of the Development Services Department.

The Community Services Building is approximately 50,000 square feet. Departments and Divisions located in this building are Housing, Conservation, Economic Development, Environmental Services, Recreation Administration and Fire Administration.

The City Fire Station No. 7 was constructed in 2003 at a total land and construction cost of \$5.5 million.

Monteville Park is a 29-acre park located within the Rolling Hills Ranch community. A 21,000 square foot community center was constructed in 2006. The community center contains a gymnasium, annex/multi-purpose room, game room, dance room, craft room and court, offices, lobby and restrooms. Park amenities include three lighted multi-purpose fields, one lighted softball field, lighted tennis courts and basketball courts, skate area, off-leash dog area, tot lots and picnic shelters.

Pursuant to the Lease, the City and the Authority have agreed and determined that the Lease Payments required to be made under the Lease represent fair rental value of the Leased Premises.

Substitution or Release of Property. Under the terms of the Lease, the City may substitute other property for the Leased Premises, or any portion thereof, and may release portions of the Leased Premises provided that certain conditions set forth in the Lease are met. See “APPENDIX A - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - COVENANTS WITH RESPECT TO THE PROPERTY - Substitution or Release of the Leased Premises” and “RISK FACTORS - Release or Substitution of Property” herein.

SOURCES OF PAYMENT FOR THE CERTIFICATES

General

Each Certificate and each Outstanding 2006 Certificate represents a direct, undivided proportionate interest in the Lease Payments to be made by the City to the Authority under the Lease. Under the Assignment Agreement, the Authority has assigned all of its rights under the Lease, including its rights to receive Lease Payments from the City and its remedies under the Lease (except certain rights to indemnification) to the Trustee for the benefit of the Owners of the Certificates and the Outstanding 2006 Certificates. The Lease Payments are calculated to be sufficient to pay, when due, the annual principal of and interest due with respect to the Certificates and the Outstanding 2006 Certificates.

Principal and interest with respect to the Certificates and the Outstanding 2006 Certificates will be paid from the Lease Payments payable by the City for the use and possession of the Leased Premises, insurance or condemnation Net Proceeds received with respect to the Leased Premises to the extent that such Net Proceeds are not used for repair or replacement, interest or other income derived from the investment of the funds held by the Trustee under the Trust Agreement, or, in certain instances, from the Reserve Fund established by the Trust Agreement.

The City is obligated to pay Lease Payments from any source of legally available funds, and has covenanted in the Lease to include all Lease Payments coming due in its annual budgets and to make the necessary annual appropriations therefor. The Authority, pursuant to the Assignment Agreement, has assigned all of its rights under the Lease (excepting certain rights as specified therein), including the right to receive Lease Payments and prepayments, to the Trustee for the benefit of the Owners of the Certificates and the Outstanding 2006 Certificates. By the fifteenth day of each February and August (if such day is not a Business Day, the next succeeding Business Day), the City must pay to the Trustee a Lease Payment (to the extent required under the Lease) which is expected to equal the amount necessary to pay the principal and interest with respect to the Certificates and the Outstanding 2006 Certificates on the next succeeding Interest Payment Date.

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

Under the Lease, the City has agreed to pay certain taxes, assessments, utility charges, and insurance premiums charged with respect to the Leased Premises and expenses related to the Certificates and the Outstanding 2006 Certificates, including the fees and expenses of the Trustee. The City is responsible for repair and maintenance of the Leased Premises during the term of the Lease. The City may at its own expense in good faith contest such taxes, assessments and utility and other charges if certain requirements set forth in the Lease are satisfied including obtaining an opinion of counsel that the Leased Premises will not be subjected to loss or forfeiture.

Should the City default under the Lease, the Trustee, as assignee of the Authority, may terminate the Lease and re-lease the Leased Premises or may retain the Lease and hold the City liable for all Lease Payments thereunder on an annual basis. Under no circumstances will the Trustee have the right to accelerate Lease 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" herein.

See also "RISK FACTORS - The Lease Payments - Lease Payments are Limited Obligations of the City" herein.

Lease Payments

Subject to the provisions of the Lease regarding complete or partial abatement in the event of loss of use and possession of any portion of the Leased Premises (see “RISK FACTORS - The Lease Payments - Abatement” herein) and prepayment of Lease Payments (see the provisions relating to prepayment under the caption “THE CERTIFICATES” above), the City agrees to pay to the Authority, its successors and assigns, the Lease Payments as annual rental for the use and possession of the Leased Premises. The Lease Payments are due and payable on February 15 and August 15 of each year (each, a “Lease Payment Date”).

Any moneys held in the Lease Payment Fund on any Lease Payment Date (other than amounts resulting from the prepayment of the Lease Payments in part pursuant to the Lease and other amounts required for payment of past due principal or interest with respect to any Certificates not presented for payment) shall be credited to the payment of Lease Payments due and payable on such Lease Payment Date.

The Trust Agreement requires that Lease Payments be deposited in the Lease Payment Fund maintained by the Trustee. Pursuant to the Trust Agreement, on March 1 and September 1 of each year, the Trustee will apply such amounts in the Lease Payment Fund as are necessary to make interest and principal payments (including sinking account payments), respectively, with respect to the Certificates and the Outstanding 2006 Certificates, as the same shall become due and payable, in the amounts specified in the Lease.

Reserve Fund

A Reserve Fund was established by the Trust Agreement and a 2015 Certificates Account and a 2006 Certificates Account are established therein. The Reserve Fund is required to be maintained in an amount equal to the least of (i) maximum aggregate annual Lease Payments payable under the Lease in any Certificate Year (exclusive of Lease Payments attributable to Certificates and Additional Certificates that have been defeased), (ii) 125% of the average annual aggregate Lease Payments (in any Certificate Year) then payable under the Lease (exclusive of Lease Payments attributable to Certificates and Additional Certificates, if any, that have been defeased), or (iii) 10% of the face amount of the Certificates and any Additional Certificates, if any, (less original issue discount if in excess of two percent of the stated payment amount at maturity) (the “Reserve Requirement”). The full amount available in the Reserve Fund may be used by the Trustee to make payments due with respect to the Certificates, the Outstanding 2006 Certificates and Additional Certificates, if any, in the event of abatement or a failure by the City to make Lease Payments when due.

Currently, there is \$1,272,458.75 on deposit in the Reserve Fund from proceeds of the 2006 Certificates which will be held in the 2006 Certificates Account. The Trustee will deposit an additional \$_____ in the 2015 Certificates Account of the Reserve Fund from proceeds of the Certificates.

The Reserve Requirement, or any portion thereof, may also be satisfied by the City by crediting to the Reserve Fund a letter of credit, a surety bond insurance policy, or any other comparable credit facility or any combination thereof which in the aggregate make funds available in the Reserve Fund in an amount equal to the Reserve Requirement. See “APPENDIX A - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – DEFINITIONS” and “SUMMARY OF CERTAIN PROVISIONS OF THE TRUST AGREEMENT - DEFINITIONS.”

Insurance Relating to the Leased Premises

Fire and Extended Coverage Insurance. The City will procure and maintain, or cause to be procured and maintained, throughout the Term of the Lease, insurance against loss or damage to any portion of the Leased Premises caused by fire and lightning, with extended coverage and theft, vandalism and malicious mischief insurance. Said extended coverage insurance will, as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke and such other hazards as are normally covered

by such insurance, excluding flood and earthquake; provided, however, that a flood and earthquake rider shall be purchased if the City, in its reasonable discretion, determines that such coverage is available from reputable insurers at commercially reasonable rates. The City does not currently maintain earthquake insurance on the Lease Premises. The insurance shall be in an amount equal to the full replacement value of the Leased Premises, subject to a “deductible clause” not to exceed two hundred fifty thousand dollars (\$250,000) for any one loss, or in the case of a flood and earthquake rider, ten percent (10%) of the coverage obtained. The term “full replacement value” as used in this paragraph shall mean the actual replacement cost of the improvements constituting the Leased Premises. Such insurance may be maintained as part of or in conjunction with any other insurance carried or required to be carried by the City, and, subject to compliance with the Lease, may be maintained in the form of self-insurance by the City or through a California joint powers authority of which the City is a member.

See “RISK FACTORS.” The net proceeds of such insurance will be applied as provided under the caption “Insurance and Condemnation Awards” below.

Rental Interruption Insurance. The City will maintain or cause to be maintained rental income or use and occupancy insurance in an amount not less than the maximum remaining scheduled Lease Payments in any future 24-month period, to insure against loss of rental income from the Leased Premises caused by perils covered by the fire and extended coverage insurance. Such insurance may be maintained as part of or in conjunction with any other rental income or use and occupancy of insurance carried by the City, but may not be maintained in the form of self-insurance by the City.

The Net Proceeds of such rental interruption insurance will be paid to the Trustee and deposited (1) in the Reserve Fund to make up any deficiencies therein, and (2) deposited in the Lease Payment Fund, to be credited towards the payment of the Lease Payments in the order in which such Lease Payments come due and payable.

Title Insurance. The City will obtain and maintain throughout the Term of the Lease title insurance on the Leased Premises, in the form of an ALTA title policy (with western regional exceptions), in an amount equal to the aggregate principal amount of the Certificates, the Outstanding 2006 Certificates and any Additional Certificates outstanding issued by a company of recognized standing, duly authorized to issue the same, payable to the Trustee for the benefit of the Owners, subject only to Permitted Encumbrances.

Said policy or policies will insure the City’s leasehold estate under the Lease in the Leased Premises, subject only to Permitted Encumbrances. All Net Proceeds received under said policy or policies will be deposited with the Trustee and applied as provided in the Trust Agreement and the Lease.

If there are not sufficient insurance proceeds to complete repair of the Leased Premises, the Lease Payment schedule will be proportionally reduced in accordance with the Lease. Such reduced Lease Payments may not be sufficient to pay principal and interest with respect to the Certificates and the Outstanding 2006 Certificates. Such reduction would not constitute a default under either the Trust Agreement or the Lease.

Insurance and Condemnation Awards

Upon receipt of Net Proceeds of casualty and theft insurance or title insurance, the City shall deposit such amounts with the Trustee into the Net Proceeds Fund established under the Trust Agreement. Further, the City and/or the Authority will transfer to the Trustee any other Net Proceeds received by the City and/or Authority in the event of any accident, destruction, theft or taking by eminent domain or condemnation with respect to the Project, for deposit in the Net Proceeds Fund.

The Trustee shall disburse moneys in the Net Proceeds Fund to repair and reconstruct the Leased Premises provided that it has received the written consent of Ambac Assurance Corporation (as insurer of the 2006 Certificates, so long as any 2006 Certificates are outstanding) and a certificate from the City to the effect that: (i) the Net Proceeds available for such purpose, together with any other funds supplied by the City to the Trustee in a subaccount of the Net Proceeds Fund for such purpose, are expected to equal at least 110% of the projected costs of replacement or repair, and (ii), in the event that the damage, destruction or taking is expected to result in abatement of Lease Payments, such replacement or repair can be fully completed within a period not in excess of the period in which rental interruption insurance proceeds together with other identified available moneys will be available to pay in full all Lease Payments coming due during such period.

If the City notifies the Trustee that the foregoing certification cannot be made or that replacement or repair of any portion of the Leased Premises is not economically feasible or in the best interest of the City, then the Trustee shall promptly transfer the Net Proceeds to the Prepayment Fund as provided in the Trust Agreement and apply them to prepayment of the Certificates as provided in the Trust Agreement and prepayment of Lease Payments as provided in the Lease; provided that in the event of damage or destruction in whole of the Leased Premises and in the event such Net Proceeds, together with funds then on hand in the Lease Payment Fund and Reserve Fund are not sufficient to prepay all the Certificates, the Outstanding 2006 Certificates and any Additional Certificates then Outstanding, then the City shall not be permitted to certify that repair, replacement or improvement of all of the Leased Premises is not economically feasible or in the best interest of the City. In such event, the City shall proceed to repair, replace or improve the Leased Premises from legally available funds in the then-current Fiscal Year and amounts in the Net Proceeds Fund will be applied to repair and replace the Leased Premises.

No assurance can be given that the proceeds of any insurance or condemnation award will be sufficient under all circumstances to repair or replace any damaged or taken Leased Premises or to prepay all Lease Payments with respect to the Leased Premises. Also, the City makes no representation as to the sufficiency of any insurance awards or the adequacy of any self-insurance to pay, when and as due, amounts payable under the Lease or the Certificates and the Outstanding 2006 Certificates.

Remedies on Default

If the City defaults in performance of its obligations under the Lease, the Trustee, as assignee of the Authority, may elect not to terminate the Lease and may re-enter and relet the Leased Premises and may enforce the Lease and hold the City liable for all Lease Payments on an annual basis while re-entering and reletting the Leased Premises. Such re-entering and reletting shall not effect a surrender of the Lease. The City, in the event of default, will have no right to any rentals received by the Trustee through reletting of the Leased Premises except amounts in excess of the Lease Payments and other amounts due under the Lease. Alternatively, the Trustee may elect to terminate the Lease and may re-enter and relet the Leased Premises and seek to recover all costs, losses or damages caused by the City's default. The City agrees to pay all costs, loss or damage howsoever occurring. See "APPENDIX A - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - SUMMARY OF CERTAIN PROVISIONS OF THE LEASE - EVENTS OF DEFAULT AND REMEDIES."

Encumbrances

The City and the Authority may not create any mortgage, pledge, lien, charge or encumbrance upon the Leased Premises other than "Permitted Encumbrances." See "APPENDIX A - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - DEFINITIONS" and "SUMMARY OF CERTAIN PROVISIONS OF THE TRUST AGREEMENT - DEFINITIONS."

THE CITY OF CHULA VISTA

General Information

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

The City maintains an internet website (www.ci.chula-vista.ca.us) for various purposes, however, none of the information on that website is intended to assist investors in making any investment decision or to provide any continuing information with respect to the Certificates or any other bonds or obligations of the City.

Government Organization

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

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

CITY COUNCIL

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

CHIEF ADMINISTRATIVE PERSONNEL

Gary Halbert, *City Manager*
Maria Kachadoorian, *Deputy City Manager and Director of Finance/Treasurer*
Kelley Bacon, *Deputy City Manager*
Phillip Davis, *Assistant Director of Finance*
Glen R. Googins, *City Attorney*
Donna Norris, CMC, *City Clerk*

Governmental Services

Public Safety and Welfare

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

Community Services

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

Public Services

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

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

Culture and Leisure

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

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

Community Facilities and Services

Public educational instruction for kindergarten through high school is provided by the Chula Vista Elementary School District and Sweetwater Union High School District. These districts administer 42 elementary schools, one junior high school, ten middle schools, 11 senior high schools, one continuation high school, one alternative program school and one charter school. There are also four adult education schools and 16 private schools. In addition to Southwestern College, a two year Community College, there are seven universities or colleges within 30 minutes commuting distance from Chula Vista in the San Diego metropolitan area.

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

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

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

Transportation

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

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

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

Population

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

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

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

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

Per Capita Personal Income

Per capita personal income information for the City of 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 ⁽¹⁾
2009 – 2013

<u>Year</u>	<u>Chula Vista</u>	<u>San Diego County</u>	<u>State of California</u>	<u>United States</u>
2009	\$41,170	\$44,864	\$41,587	\$39,379
2010	41,840	45,501	42,282	40,144
2011	43,000	48,260	44,749	42,332
2012	43,720	50,664	47,505	44,200
2013	43,240	51,384	48,434	44,765

⁽¹⁾ For San Diego County, State of California and United States, per capita personal income was computed using Census Bureau midyear population estimates. Estimates for 2010-2013 reflect county population estimates available as of March 2014.

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

Last updated: November 21, 2014 - new estimates for 2013; revised estimates for 2001-2012.

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

Employment

As of March 2015 the civilian labor force for the City was approximately 118,700 of whom 111,100 were employed. The unadjusted unemployment rate as of March 2015 was 6.4% for the City as compared to 5.1% for the County. Civilian labor force, employment and unemployment statistics for the City, County, the State and the United States, for the years 2010 through 2014 are shown in the following table:

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

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

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

Industry

The City is located in the San Diego-Carlsbad-San Marcos Metropolitan Statistical Area. Six major job categories constitute 81.6% of the work force. They are professional and business services (17.2%), government (17.1%), educational and health services (13.9%), service producing (13.5%), leisure and hospitality (12.9%), and manufacturing (7.0%).

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

<u>Industry</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Government	233.8	230.9	232.4	234.4	237.6
Other Services	46.9	48.7	48.2	51.0	53.7
Leisure and Hospitality	152.0	155.1	162.4	171.7	179.0
Educational and Health Services	163.5	167.1	181.6	185.8	193.2
Professional and Business Services	210.2	211.8	222.1	227.9	237.8
Financial Activities	66.9	68.9	71.3	70.1	70.3
Information	24.3	24.3	24.1	24.5	24.9
Transportation, Warehousing and Utilities	25.8	26.6	27.2	26.4	27.0
Service Producing					
Retail Trade	129.1	133.0	137.0	140.9	143.2
Wholesale Trade	41.0	42.3	44.4	43.7	44.6
Manufacturing					
Nondurable Goods	22.1	22.5	23.8	24.8	24.7
Durable Goods	71.0	70.5	71.3	71.1	72.6
Goods Producing					
Construction	54.3	55.1	58.9	61.8	66.4
Mining and Logging	<u>0.4</u>	<u>0.4</u>	<u>0.4</u>	<u>0.4</u>	<u>0.4</u>
Total Nonfarm	1,241.3	1,257.2	1,305.1	1,334.5	1,375.4
Farm	<u>11.0</u>	<u>9.9</u>	<u>9.7</u>	<u>9.6</u>	<u>10.4</u>
Total (all industries)	<u>1,252.3</u>	<u>1,267.1</u>	<u>1,314.8</u>	<u>1,344.1</u>	<u>1,385.8</u>

⁽¹⁾ Annually, as of March.

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

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

Largest Employers

The largest employers operating within the City and their respective number of employees as of June 30, 2014 are as follows:

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

<u>Name of Company</u>	<u>Number of Employees</u>	<u>Product/Service</u>
Sweetwater Union High School District	4,096	Education
Chula Vista Elementary School District	2,803	Education
Rohr Inc./Goodrich Aerospace	2,468	Aerospace Manufacturing
Sharp Chula Vista Medical Center	1,823	Hospital
Southwestern Community College	1,699	Education
Wal-Mart	1,239	General Merchandise
City of Chula Vista	1,154	Government
Scripps Mercy Hospital Chula Vista	1,132	Hospital
Target	659	General Merchandise
24 Hour Fitness	568	Health Club

Source: City of Chula Vista Comprehensive Annual Financial Report.

Commercial Activity

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

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

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

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

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

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

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

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

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

Building Activity

The following table summarizes building activity valuations for the City of Chula Vista for the Fiscal Years 2010/11 through 2013/14.

**TABLE NO. 8
CITY OF CHULA VISTA
BUILDING ACTIVITY AND VALUATION
(in \$ Thousands)
2010/11 – 2013/14**

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

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 fifteen percent 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 3% Catastrophic Event Reserve of 3% of operating budget to fund unanticipated expenses related to a major natural disaster in the City. However, the City's Operating Reserve is currently ___% and the Economic Contingency Reserve and Catastrophic Event Reserve are currently not funded. See "FINANCIAL INFORMATION - Fiscal Year 2015/16 Budget" below.

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 specific purpose or program.
- The City has established user fees to best ensure that those who use a proprietary service pay for that service in proportion to the benefits received. With few exceptions, such as those services provided for low-income residents, fees have been set to enable the City to recover the full cost of providing those services.
- User fees will be reviewed and updated on an ongoing basis to ensure that program costs continue to be recovered and that the fees reflect changes in levels of service delivery.
- The City will recover the cost of new facilities and infrastructure necessitated by new development consistent with State law and the City's Growth Management Program. Development Impact Fees will be closely monitored and updated to ensure that they are maintained at a level adequate to recover costs.
- When considering new development alternatives, the City will attempt to determine the fiscal impact of proposed projects, annexations, etc. and ensure that mechanisms are put in place to provide funding for any projected negative impacts on City operations.

Expenditures

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

Capital

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

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

Capital Financing and Debt Management

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

Planning Documents

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

Budgetary Process and Administration

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

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

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

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

Appropriations Limit

Section 7910 of the Government Code of the State of California requires the City to adopt a formal appropriations limit for each fiscal year. The City's appropriations limit for Fiscal Year 2015/16 is \$_____. The City's appropriations subject to the limit for 2015/16 are \$_____. Based on this, the appropriations limit is not expected to have any impact on the ability of the City to budget and appropriate the Lease Payments as required by the Lease.

Economic Conditions and Outlook

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

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

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

Transient Occupancy Tax. The trend for City transient occupancy tax ("TOT") revenues has been improving since 2010 and actual TOT revenue has increased on a yearly basis since that time. Continuing with this improving trend fiscal year 2015/16 TOT revenues have been budgeted to increase 3% over fiscal year 2014/15 estimates.

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

Pension Costs. The increase in retirement cost driven by rising CalPERS rates is a significant budgetary challenge facing the City. The payments made to the retirement system equals 15.3% of the City’s General Fund in the fiscal year 20 15/16 proposed budget. Over the last several years CalPERS has made a series of changes that have resulted in higher contribution rates. The impact of these cost increases have been partially offset through negotiations with the City’s bargaining groups, and have resulted in the implementation of pension reform. Under the negotiated pension reform, employees have agreed to pay their share of pension costs, thereby reducing the impact of pension cost increases to the City’s budget.

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

Revenues and Expenditures

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

A comparison of the results for Fiscal Year 2013/14, the Fiscal Year 2014/15 budget and expected results for Fiscal Year 2014/15 and the budget for Fiscal Year 2015/16 is shown in Table No. 9. For Fiscal Year 2014/15, actual revenues and transfers are expected to exceed the budget by \$___ million and actual expenditures and transfers out are expected to exceed the original budget by \$___ million.

Revenues

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

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

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

- Other Revenue, which includes charges to other funds for overhead and administration, and reimbursements for costs relating to staffing for open space and assessment district maintenance and capital improvements, and
- Transfers In from the Gas Tax Fund, Traffic Safety Fund, Asset Seizure Fund, Proposition 42 Fund, Sewer Service Fund and other funds to reimburse for qualifying expenditures or overhead.

Expenditures

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

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

Operating Transfers Out are primarily transfers to the debt service funds for the General Fund share of payments on outstanding debt not paid for by the PFDIF.

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

As noted, Table No. 9 provides a comparison of results for Fiscal Year 2013/14, the Fiscal Year 2014/15 budget, the estimated results for Fiscal Year 2014/15 and the budget for Fiscal Year 2015/16. Historical financial information is shown in Table No. 26.

Fiscal Year 2015/16 Budget

[to be completed]

The budgeted Fiscal Year 2015/16 increases or decreases from Fiscal Year 2014/15 (budget or actual) by expenditure category are summarized as follows:

[to be completed]

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

	2013/14	2014/15	2014/15	2015/16
	<u>Actual</u>	<u>Budget</u> ⁽¹⁾	<u>Estimated</u>	<u>Budget</u> ⁽¹⁾
Revenues:				
Property Tax	\$ 28,492,215	\$ 28,032,214	\$ 28,930,278	\$ 29,896,924
Property Tax in Lieu of MVLF	16,773,957	17,450,125	17,883,946	18,597,204
Sales Tax	29,171,174	30,455,693	31,120,026	31,830,591
Other Taxes ⁽²⁾	31,281,292	20,774,802	21,778,138	23,079,601
Licenses and Permits	1,315,445	1,309,447	1,231,977	1,309,447
Intergovernmental Revenue	2,477,214	3,440,490	2,481,700	2,789,541
Fines, Forfeitures and Penalties	1,009,736	1,110,800	1,403,312	1,133,800
Use of Money & Property	2,522,915	2,439,246	2,582,701	2,676,807
Charges for Services	9,257,946	9,183,961	8,897,013	9,177,083
Other Revenue	1,381,502	868,212	881,319	940,970
Reimbursements from Other Funds	10,199,020	10,297,404	11,561,400	9,759,977
Transfers In	<u>9,571,300</u>	<u>10,066,308</u>	<u>9,950,142</u>	<u>9,154,811</u>
Total Revenues	143,453,716	135,428,702	138,701,952	140,346,756
Expenditures:				
General Government	18,316,773	20,376,234	20,809,230	20,253,270
Public Safety - Police	43,683,206	46,044,342	46,022,506	48,608,964
Public Safety - Fire	25,093,218	24,878,821	25,013,098	25,942,134
Public Works	27,092,607	27,939,619	28,712,571	29,404,880
Recreation and Library	6,925,073	7,476,017	7,312,526	7,982,168
Planning and Building	2,269,389	2,609,039	2,502,411	2,476,400
Capital Outlay	849,234	1,724,067	2,249,743	1,019,016
Transfers Out ⁽²⁾	<u>14,234,482</u>	<u>5,091,002</u>	<u>4,948,916</u>	<u>5,579,247</u>
Total Expenditures	138,463,982	136,139,141	137,571,000	141,266,079
Net Change in Fund Balances	4,989,734	(710,439)	1,130,952	(919,323)
Beginning Unassigned Fund Balance	10,790,135	14,417,422	14,511,252	16,571,952
Change in Reserves	<u>(1,268,617)</u>	-	-	-
Ending Fund Balance	\$ 14,511,252	\$ 13,706,983	\$ 15,642,204	\$ 15,652,629

(1) Budget figures include fund 234 – Advanced Life Support Fund and fund 341 – Public Liability Trust Fund for consistent presentation with audited/actual figures.

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

Source: City of Chula Vista.

Ad Valorem Property Taxes

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

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

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

The Board of Supervisors of the County has approved the implementation of the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (known as the “Teeter Plan”), as provided for in Section 4701 et seq. of the Revenue and Taxation Code of the State. Under the Teeter Plan, the County apportions secured property taxes and assessments on an accrual basis when due (irrespective of actual collections) to participating local political subdivisions for which the County acts as the levying or collecting agency. The City does not participate in the Teeter Plan. As a result, the County apportions to the City only the secured property taxes actually collected, including penalties and interest paid on delinquent installments of property taxes.

Taxable Property and Assessed Valuation

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

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

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

<u>Fiscal Year</u>	<u>Secured</u>	<u>Unsecured</u>	<u>Total</u>
2009/10	\$21,556,536,548	\$540,453,455	\$22,096,990,003
2010/11	20,727,034,672	508,410,557	21,235,445,229
2011/12	20,622,452,438	531,510,997	21,153,963,435
2012/13	20,459,110,877	483,686,031	20,942,796,908
2013/14	20,933,842,922	466,090,057	21,399,932,979
2014/15	22,642,031,835	448,408,518	23,090,440,353

Source: County of San Diego Auditor-Controller.

Property tax levies and collections for the City are set forth in Table No. 11.

**TABLE NO. 11
CITY OF CHULA VISTA
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>
2009/10	\$26,246,478	\$25,313,706	96.45%	\$538,429	\$25,852,135	98.50%
2010/11	25,325,126	24,773,002	97.82%	134,325	24,907,328	98.35%
2011/12	25,373,780	24,669,632	97.22%	(35,474)	24,634,158	97.09%
2012/13	25,352,454	24,982,072	98.54%	117,973	25,100,045	99.00%
2013/14	26,063,753	25,758,225	98.83%	39,776	25,798,001	98.98%

⁽¹⁾ Levy amounts do not include supplemental taxes.

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

Source: City of Chula Vista.

Redevelopment Agencies

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

The State Legislature approved a bill, AB X1 26, during the 2011/12 State budget process. AB X1 26 eliminated redevelopment agencies State-wide. The California Redevelopment Association and the League of California Cities filed a petition with the California Supreme Court (the “Court”), requesting the Court to review the constitutionality of AB X1 26. On December 29, 2011, the Court issued its opinion and upheld AB X1 26. As a result of the decision, all California redevelopment agencies, including the City’s Redevelopment Agency, were dissolved as of February 1, 2012. Certain tax revenues allocable to the former Redevelopment Agency will continue to be available to the City, as successor agency to the Redevelopment Agency, to pay certain obligations, and some of those revenues may be redirected to other taxing agencies, such as the County, school districts and the City. The City’s General Fund was impacted by the implementation of AB X1 26 (and subsequent legislation AB 1484) and those impacts were incorporated into the City’s budget beginning in 2012/13. See “RISK FACTORS - State Budget; Redevelopment Agency Legislation.”

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

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

Source: County of San Diego Auditor-Controller.

Largest Taxpayers

The principal property taxpayers as of June 30, 2014 are as shown in Table No. 13.

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

<u>Taxpayer</u>	<u>Assessed Valuation</u>	<u>Percent of Total</u>
Rohr Inc.	\$ 252,188,020	1.17%
JPB Development	226,747,987	1.05%
EQR Teresina LP	137,976,588	0.64%
Regulo Place Apartments Invest	92,415,852	0.43%
Chula Vista Center LLC	70,554,229	0.33%
Camden USA Inc.	65,411,407	0.30%
Wal-Mart Stores Inc.	51,681,393	0.24%
B R E Properties Inc.	51,652,307	0.24%
S S B T L C R E V L L C	51,485,601	0.24%
CostCo Wholesale Corp	<u>44,653,537</u>	<u>0.21%</u>
Total	\$1,044,766,921	4.85%

Source: City of Chula Vista.

State Legislative Shifts of Property Tax Allocation

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

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

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

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

Under the "Triple Flip," one-quarter of local governments' 1% share of the sales tax imposed on taxable transactions within their jurisdiction will be redirected to the State. In an effort to eliminate the adverse

impact of the sales tax revenue redirection on local government, the legislation provides for property taxes in the ERAF to be redirected to local government. Because the ERAF moneys were previously earmarked for schools, the legislation provides for schools to receive other state general fund revenues. It is expected that the swap of sales taxes for property taxes would terminate once the deficit financing bonds were repaid, which is currently expected by the State to occur by September 30, 2015 based on its estimated early repayment of the deficit financing bonds. The City treats the Triple Flip property tax revenue as sales tax in its financial statements.

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

Local Taxes

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

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

Utility Users Tax. A utility users tax (“UUT”) is levied on gas and electric customers based on usage (.01103 per therm for gas; .00300 per kilo watt for electricity) and telephone services based on gross receipts. The UUT was first levied in 1970 and the last increase in tax rates was in 1979. A class action lawsuit was filed against the City contending that a tax on wireless phone use was not covered in the implementing UUT ordinance. A preliminary settlement agreement was entered into in April 2013 for rebates to affected wireless phone users who paid the UUT of their wireless phone bills from April 2010 to April 2013. The court approved the final settlement on December 12, 2013.

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

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

There is no time limit established for the collection of the utility users tax or the transient occupancy tax. See “RISK FACTORS - The Lease Payments” and “Constitutional Limitation on Taxes and Expenditures - Proposition 218” herein.

Franchise Fees. The City levies a franchise fee on its cable television, trash collection and utility franchises.

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

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

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

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

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>Estimate 2015</u>	<u>Budget 2016</u>
Property Tax	\$24,518,260	\$27,876,534	\$ 28,492,215	\$ 28,930,278	\$ 29,896,924
Property Tax In Lieu of VLF ⁽¹⁾	16,288,377	16,253,826	16,733,957	17,883,946	18,597,204
Sales Tax	27,275,753	28,627,785	29,171,174	31,120,026	31,830,591
Franchise Fees	8,400,178	9,266,768	8,845,067	10,341,587	11,426,283
Utility Users Tax ⁽²⁾	3,465,136	4,428,794	17,525,294	6,500,000	6,500,000
Transient Occupancy Tax	2,295,675	2,471,252	2,632,774	2,806,654	2,890,853
Business License Tax	1,169,307	1,260,622	1,328,554	1,313,405	1,429,643
Property Transfer Tax	<u>779,981</u>	<u>1,125,252</u>	<u>949,603</u>	<u>816,492</u>	<u>832,822</u>
Total	<u>\$84,192,667</u>	<u>\$91,310,833</u>	<u>\$105,678,638</u>	<u>\$99,712,388</u>	<u>\$103,404,320</u>

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

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

Source: City of Chula Vista.

Motor Vehicle License Fees

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

Public Facilities Development Impact Fees

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

The receipt of the PFDIF is dependent upon building activity in the City and such revenues have been 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 \$695,000 in Fiscal Year 2008/09. Such amounts have not always been adequate in recent years to pay lease payments as expected and such amounts have been funded with the PFDIF fund balance or interfund loans made to the PFDIF fund instead. The accumulated balance of PFDIF revenues at June 30, 2014 was \$9,270,409 and the interfund loans due to other funds from the PFDIF was \$__ million.

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

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

The City’s budget for Fiscal Year 2015/16 includes \$2.85 million in PFDIF fee revenues as compared to a total of approximately \$5.9 million in lease payments on all City financings which could be paid from such revenues (see “Outstanding Indebtedness of the City”). While the City has projected that future development will stabilize and believes that annual PFDIF revenues, or accumulated PFDIF revenues, will be available to pay a portion of the lease payments referenced above, there can be no guarantee that building activity will occur as anticipated, and as a result, the City General Fund may be required to pay a greater share of lease payments than currently anticipated by the City. However, to mitigate future fluctuations in PFDIF revenues again impacting the General Fund, the City has reserved \$5.9 million (one year’s share of debt service on PFDIF – eligible projects) of the current \$6.6 million fund balance.

Personnel

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

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

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

Source: City of Chula Vista.

Employee Relations and Collective Bargaining

City employees are represented by five labor unions and associations: the Chula Vista Employees' Association ("CVEA"), the Chula Vista Police Officers' Association ("POA"), the International Association of Fire Fighters ("IAFF"), the Western Council of Engineers ("WCE") and Mid Managers and Professional Association ("MMPA"). CVEA is the largest association, representing approximately 45.5% of all City employees. Currently 95% of all City employees are covered by negotiated agreements. Current negotiated agreements of CVEA, WCE and MMPA expire June 30, 2015 and the City is currently negotiating new contracts. The agreements with POA and IAFF expire June 30, 2017.

Retirement Programs

The City contributes to the California Public Employees Retirement System ("PERS"), an agent multiple-employer public employee defined benefit pension plan. The City's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Copies of PERS' annual financial report may be obtained from its executive office at 400 "P" Street, Sacramento, California 95814.

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

reduce the City’s long-term pension obligation as existing employees retire and new employees are hired to replace them.

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

Under Governmental Accounting Standards Board (“GASB”) Statement No. 27, an employer reports an annual pension cost (“APC”) equal to the annual required contribution (“ARC”) plus an adjustment for the cumulative difference between the APC and the employer’s actual plan contributions for the year. The cumulative difference is called the net pension obligation. The ARC for the period July 1, 2013 to June 30, 2014 was determined by an actuarial valuation of the plan as of June 30, 2012. The contribution rate indicated for that period is 29.437% of payroll for the Miscellaneous Plan and 27.316% of payroll for the Safety Plan. In order to calculate the dollar value of the ARC for inclusion in financial statements prepared as of June 30, 2014, the contribution rate is multiplied by the payroll of covered employees that were paid during the period from July 1, 2013 to June 30, 2014.

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

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

PERS set contribution rates for 2010/11 based on a negative return on investments which occurred in 2007/08. For the Fiscal Year 2008/09, the PERS portfolio had lost more than 23% of its value. This loss began affecting PERS contribution rates in 2011/12. A history of the PERS annual portfolio rate of return is shown below. The PERS portfolio rate of return for the most recent fiscal year ending June 30, 2014 was 18.4%, but for the most recent calendar year 2014, a lower rate of return of 6.5% was achieved. Future earnings performance and adjustments of assumptions may increase or decrease future contribution rates for plan participants, including the City.

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

Year Ending <u>June 30</u>	Rate of <u>Return</u>
2005	12.2%
2006	11.9
2007	18.8
2008	(2.9)
2009	(23.6)
2010	11.1
2011	20.7
2012	1.0
2013	12.5
2014	18.4

Source: California Public Employees’ Retirement System.

The City's percentage of payroll for PERS payments for 2005/06 through 2015/16 and estimates for 2016/17 and for 2017/18 are shown in the table below. These rates do not include the employees' contribution rates.

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

<u>Fiscal Year</u>	<u>Miscellaneous</u>	<u>Safety</u>
2008/09	18.317%	23.936%
2009/10	18.152%	23.228%
2010/11	19.599%	22.654%
2011/12	22.702%	26.134%
2012/13	23.668%	26.492%
2013/14	25.437%	27.316%
2014/15	26.235%	28.857%
2015/16	28.119%	30.431%
2016/17*	30.300%	33.000%
2017/18*	31.800%	34.700%

* Projected by PERS at October 2013.

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

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

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

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

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

Annual Pension Costs. A ten-year history of the City's required annual pension cost and actual contribution is shown in the table below. The required contribution was determined as part of annual actuarial valuation using the entry age normal actuarial cost method. The current actuarial assumptions include (a) 7.50% investment rate of return (net of administrative expenses), (b) projected salary increases of 3.3% to 14.2%, and (c) 3.00% annual payroll growth. Both (a) and (b) included an inflation component of 2.75%. The actuarial value of PERS assets was determined using techniques that smooth the effects of

short-term volatility in the market value of investments. PERS unfunded actuarial accrued liabilities (or surplus) is being amortized as a level percentage of projected payroll on a closed basis over 20 years.

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

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

Source: California Public Employees' Retirement System.

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

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

Actuarial Valuation June 30 Date	Actuarial Valuation of Assets	Entry Age Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Annual Covered Payroll	Unfunded Liability as a Percent of Covered Payroll
2004	\$315,752	\$382,623	\$ 66,871	82.5%	\$70,333	95.1%
2005	348,894	428,428	79,534	81.4%	79,012	100.7%
2006	387,191	479,523	92,332	80.7%	88,655	104.1%
2007	431,716	521,653	89,937	82.8%	92,984	96.7%
2008	472,661	564,011	91,350	83.8%	83,391	109.5%
2009	499,169	617,013	117,844	80.9%	79,361	148.5%
2010	526,974	651,284	124,311	80.9%	77,797	159.8%
2011	561,694	701,421	139,727	80.1%	75,110	186.0%
2012	588,917	733,341	144,424	80.3%	74,422	194.1%
2013	551,852	776,710	224,858	71.0%	75,838	296.5%

Source: California Public Employees' Retirement System.

A historical comparison of actuarial value of assets to the market value of assets in the plans is shown below. For the June 30, 2013 valuation date, PERS began using market value as the actuarial value of plan assets.

TABLE NO. 20
CITY OF CHULA VISTA
TREND INFORMATION FOR ASSET VALUES
(ALL PLANS COMBINED)
(in \$ Thousands)

Actuarial Valuation Date <u>June 30</u>	Actuarial Valuation of <u>Assets</u>	Market Value <u>of Assets</u>	% of Actuarial Value to <u>Market Value</u>	Entry Age Actuarial Accrued <u>Liability</u>	Funded Ratio <u>(Actuarial)</u>	Funded Ratio <u>(Market)</u>
2004	\$315,752	\$311,170	101.5%	\$382,623	82.5%	81.3%
2005	348,894	359,233	97.1%	428,428	81.4%	83.8%
2006	387,191	410,175	94.4%	479,523	80.7%	85.5%
2007	431,716	498,631	86.6%	521,653	82.8%	95.6%
2008	472,661	479,849	98.5%	564,011	83.8%	85.1%
2009	499,169	362,945	137.5%	617,013	80.9%	58.8%
2010	526,974	412,394	127.8%	651,284	80.9%	63.3%
2011	561,694	499,961	112.3%	701,421	80.1%	71.3%
2012	588,917	492,528	119.6%	733,341	80.3%	67.2%
2013	551,852	551,851	100.0%	776,710	71.0%	71.0%

Source: California Public Employees' Retirement System.

Defined Contribution Pension Plan

The City provides pension plan benefits for all of its part-time employees through a defined contribution plan (Public Agency Retirement Plan). In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The plan is administered by Phase II Systems. 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, 2014, the City's total payroll and covered payroll for the Public Agency Retirement Plan was \$2,165,218. The City made employer contributions of \$81,196 (3.75% of current covered payroll), and employees contributed \$81,196 (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 2010/11, the City entered into an agreement with various bargaining groups eliminating the subsidized retiree health care rates for employees hired under the Second or Third Tier PERS Retirement Plan. The postemployment 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, 2014:

	<u>Police</u>	<u>Fire</u>	<u>Miscellaneous</u>	<u>Total</u>
Eligible active employee	164	108	477	749
Enrolled eligible retirees	30	12	177	219

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

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

Annual OPEB Cost and Net OPEB Obligation. The City’s annual other post employment benefit (“OPEB”) cost (expense) is calculated based on the ARC of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City’s annual OPEB cost for Fiscal Years commencing 2009/10, the amount actually contributed to the plan, and changes in the City’s net OPEB obligation for these benefits.

TABLE NO. 21
CITY OF CHULA VISTA
ANNUAL OPEB COST AND NET OPEB OBLIGATION

	<u>2009/10</u>	<u>2010/11</u>	<u>2011/12</u>	<u>2012/13</u>	<u>2013/14</u>
Annual required contribution	\$1,423,000	\$1,470,000	\$1,803,000	\$1,974,000	\$2,100,000
Interest on net OPEB obligation	74,790	108,000	151,000	187,000	241,000
Adjustment to the annual required contribution	<u>-</u>	<u>-</u>	<u>(285,000)</u>	<u>(460,000)</u>	<u>(607,000)</u>
Net OPEB cost	1,497,790	1,578,000	1,669,000	1,701,000	1,734,000
Contribution made	<u>(702,598)</u>	<u>(574,000)</u>	<u>(537,000)</u>	<u>(359,000)</u>	<u>(392,000)</u>
Increase in net OPEB liability	795,192	1,004,000	1,132,000	1,342,000	1,342,000
Net OPEB liability, beginning of the year	<u>1,753,808</u>	<u>2,549,000</u>	<u>3,553,000</u>	<u>4,685,000</u>	<u>6,027,000</u>
Net OPEB liability, end of year	\$2,549,000	\$3,553,000	\$4,685,000	\$6,027,000	\$7,369,000

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 2009/10 through 2013/14, and the net OPEB obligation as of June 30 of each Fiscal Year were as follows:

TABLE NO. 22
CITY OF CHULA VISTA
OPEB COSTS AND NET OPEB OBLIGATION

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2009/10	\$1,497,790	47%	\$2,549,000
2010/11	1,578,000	36%	3,553,000
2011/12	1,669,000	32%	4,685,000
2012/13	1,701,000	21%	6,027,000
2013/14	1,734,000	23%	7,369,000

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
CITY OF CHULA VISTA
SCHEDULE OF FUNDING PROGRESS**

Actuarial Valuation Date <u>June 30</u>	Entry Age Actuarial Accrued Liability	Actuarial Value of Assets	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
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%
2013	13,081,000	-	13,081,000	0.0%	62,923,000	20.8%

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 8.5% (the increase in 2014 premiums over 2013) and grades down to 5.0% (2021 premiums over 2020) and remains at 5.0% into the future. This assumption means healthcare is assumed to increase, on the average, 6.75% a year for HMOs and 6.95% a year for PPOs a year for the next seven years after 2013. The general inflation assumption rate is 3% and is assumed that healthcare will level off at 1.5% over general inflation. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll over 30 years.

Risk Management

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

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

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

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

the cost to purchase excess liability insurance and other coverage and a proportionate share of administrative expenses.

The City is self-insured for the first \$1,000,000 per occurrence for workers' compensation liabilities. Excess workers' compensation coverage is obtained through participation in the CSAC Excess Insurance Authority's Excess Workers' Compensation Program. As of June 30, 2013, there are 160 member entities participating in the program that offers per occurrence coverage up to \$5,000,000 through pooled resources and from \$5,000,000 to statutory limits via group purchased excess insurance policies.

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

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

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

Source: City of Chula Vista Comprehensive Annual Financial Report.

City Investment Policy and Portfolio

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

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

As of June 30, 2015, the market value of the City Treasurer's investment portfolio (excluding funds held under bond indentures) was \$_____. The diversification of the City Treasurer's investment portfolio assets as of such date is shown in the following table.

<u>Type of Investment</u>	<u>Market Value</u>	<u>Book Value</u>	<u>% of Combined Portfolio</u>
Federal Securities			
Pooled Investments			
Cash/Time Deposits			

The weighted average maturity of the investment portfolio was ___ years. The current yield of the investment portfolio at June 30, 2015 was ___%.

Outstanding Indebtedness of the City

The City had the following outstanding indebtedness as of June 1, 2015, exclusive of obligations to be paid from specifically pledged revenues, such as revenue bonds, tax allocation bonds and assessment district or special tax bonds or Section 108 Loans. The City has never defaulted in the payment of any of its obligations.

<u>Category of Indebtedness</u>	<u>Original Obligation</u>	<u>Amount Outstanding</u>	<u>Final Maturity</u>
(1) 2004 Certificates of Participation, Civic Center I	\$37,240,000	\$29,445,000	2034
(2) 2006 Certificates of Participation, Civic Center II	20,325,000	16,410,000	2036
(3) 2010 Certificates of Participation (Capital Facilities Refunding)	29,355,000	27,285,000	2033
(4) 2014 Refunding Certificates of Participation (Civic Center Project)	45,920,000	44,450,000	2032
(5) Notes Payable		7,425,813	2026
(6) Capital Leases	2,121,500	1,893,561	2031
(7) Compensated Absences		6,625,460	N/A

- (1) In September 2004, the City delivered its 2004 Certificates of Participation to provide funding for the first phase of the reconstruction, renovation, and equipping of the City's Civic Center Complex as well as approximately \$9 million in infrastructure improvements throughout the City. The Certificates are to be repaid from lease payments to be made by the City to the Authority. Annual lease payments are approximately \$2.4 million. The City expects that approximately 58.5%, of the annual lease payments will be funded from the PFDIF, subject to the availability of funds and an additional \$680,000 will be funded from residential construction taxes.
- (2) In March 2006, the City delivered its 2006 Certificates of Participation to provide funding for the construction and equipping of certain improvements to the Civic Center Complex of the City of Chula Vista and other existing City facilities. Annual lease payments commence in Fiscal Year 2009-10 and begin at approximately \$1,270,000 annually to \$6,350,000 annually beginning in Fiscal Year 2014-15. Currently, 77.8% of the annual lease payments will be funded from the PFDIF, subject to the availability of funds.
- (3) In February 2010, the City delivered its 2010 Certificates of Participation to refinance its outstanding 2000 Certificates of Participation, Series A and to finance the final phase of certain improvements to the Civic Center Complex. The Certificates are to be repaid from lease payments to be made by the City to the Authority. Annual lease payments are approximately \$2.5 million through 2031, with payments of approximately \$1.1 million in the final two years. The City expects that approximately 71.5% of the annual lease payments will be funded from the PFDIF, subject to the availability of funds.
- (4) In February 2012, the City delivered the 2014 Certificates to provide funds to refinance its outstanding 2002 Certificates. The 2002 Certificates were delivered to provide funds to construct the City's Police Headquarters. The 2012 Certificates are to be repaid from Lease Payments to be made by the City to the Authority. The Lease Payments are approximately \$3.6 million annually. The City expects that approximately 44.4%, of the annual lease payments will be funded from the PFDIF, subject to the availability of funds.

- (5) (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. The debt service payment will be computed after the projects have been completed. As of June 30, 2014, the outstanding balance is \$3,711,895. (b) In December 2012, the City entered into a lease purchase agreement to purchase energy conservation equipment relating to the Municipal Street Lighting Retrofit Project. As of June 30, 2015, the outstanding balance is \$1,820,357. (d) In August 2013, the City entered into a lease purchase agreement to purchase energy conservation equipment relating to the Municipal Solar Project. As of June 30, 2015, the outstanding balance is \$1,893,561. Annual payments for these obligations total approximately \$829,000.
- (7) The City has capitalized a lease for energy efficiency equipment. The annual payments are approximately \$235,000.
- (8) Represents that portion of compensated absences not expected to be paid during the current year.

Direct and Overlapping Debt

Set forth below is a direct and overlapping debt report (the “Debt Report”) prepared by California Municipal Statistics, Inc. as of May 31, 2015. The Debt Report is included for general information purposes only. The City has not reviewed the Debt report for completeness or accuracy and makes no representations in connection therewith. Any inquiries concerning the scope and methodology of procedures carried out to compile the information presented should be directed to California Municipal Statistics, Inc.

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

**TABLE NO. 24
CITY OF CHULA VISTA
DIRECT AND OVERLAPPING DEBT
AS OF MAY 30, 2015**

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

<u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 5/31/15</u>
Metropolitan Water District	0.995%	\$ 1,098,679
Otay Municipal Water District, I.D. No. 27	99.995	5,149,743
Southwestern Community College District	51.340	114,000,134
Sweetwater Union High School District	61.306	206,061,369
Chula Vista City School District	87.125	49,517,494
Chula Vista City School District Schools Facilities Improvement District No. 1	77.890	33,488,806
National School District	4.046	728,280
City of Chula Vista Community Facilities Districts	100.	177,350,000
Sweetwater Union High School District Community Facilities Districts	15.729-100.	124,205,699
Chula Vista City School District Community Facilities Districts	99.695	3,818,319
City of Chula Vista 1915 Act Bonds	100.	16,360,944
California Statewide Communities Development Authority 1915 Act Bonds	100.	<u>502,677</u>
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT		\$ 732,282,144

Continued on next page.

Continued from previous page.

<u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u>		
San Diego County General Fund Obligations	5.510%	\$ 19,377,017
San Diego County Pension Obligation Bonds	5.510	37,612,096
San Diego County Superintendent of Schools Obligations	5.510	811,761
Southwestern Community College District Certificates of Participation	51.340	549,338
Sweetwater Union High School District General Fund Obligations	61.306	25,849,675
Chula Vista City School District Certificates of Participation	87.125	117,396,581
City of Chula Vista Certificates of Participation	100.	117,590,000 ⁽¹⁾
Otay Municipal Water District Certificates of Participation	64.660	<u>29,223,087</u>
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT		\$ 348,409,555
Less: Otay Municipal Water District Certificates of Participation		<u>29,223,087</u>
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT		\$ 319,186,468
 <u>OVERLAPPING TAX INCREMENT DEBT (Successor Agency):</u>		
	99.159-100. %	\$ 39,052,970
 GROSS COMBINED TOTAL DEBT		
		\$1,119,744,669 ⁽²⁾
NET COMBINED TOTAL DEBT		
		\$1,090,521,582

⁽¹⁾ Excludes issue to be sold.

⁽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 2014/15 Assessed Valuation:

Total Overlapping Tax and Assessment Debt	3.17%
Total Direct Debt (\$117,590,000)	0.51%
Gross Combined Total Debt	4.85%
Net Combined Total Debt	4.72%

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

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

Financial Statements

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

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

Governmental fund financial statements are reported using the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

The City retained the firm of Lance, Soll & Lunghard, LLP, Certified Public Accountants, Brea, California, to examine the general purpose financial statements of the City as of and for the year ended June 30, 2014. 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, 2014. The City has not requested, and the auditor has not provided, any review or update of such statements in connection with the inclusion in this Official Statement.

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

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

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

provided through the pension plan. Because the accounting standards do not require changes in funding policies, the full extent of the effect of the new standards on the City is not known at this time. The reporting requirements for pension plans took effect for the fiscal year beginning July 1, 2013 and the reporting requirements for government employers, including the City, took effect for the fiscal year beginning July 1, 2014.

Set forth in Table No. 25 below is the General Fund balance sheet for the last five fiscal years and Table No. 26 below presents a five year history of General Fund revenues, expenditures and changes in fund balances.

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

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
ASSETS					
Pooled cash and investments	\$ 9,949,021	\$19,641,248	\$17,403,991	\$24,347,238	\$20,276,201
Receivables:					
Accounts	592,391	790,544	2,397,608	1,673,960	792,147
Taxes	9,284,601	9,379,494	9,560,463	7,911,510	7,378,291
Accrued interest	-	21,885	26,988	25,816	27,374
Deferred loans	106,250	106,531	92,874	79,182	65,454
Other	373,601	123,705	34,641	-	-
Due from other funds	259,666	3,717,477	3,006,662	4,073,822	2,937,494
Due from other governments	770,676	672,822	505,049	188,542	844,196
Due from Successor Agency	-	-	10,207,797	9,002,419	9,297,040
Due from agency fund	-	-	-	94,016	-
Advances to other funds	25,805,005	14,150,004	1,581,814	1,621,446	1,661,076
Inventories and prepaid costs	<u>6,192</u>	<u>72,852</u>	<u>49,595</u>	<u>104,344</u>	<u>61,805</u>
Total assets	<u>\$47,147,403</u>	<u>\$48,676,562</u>	<u>\$44,867,482</u>	<u>\$44,122,295</u>	<u>\$43,374,078</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities	\$ 5,751,419	\$ 5,964,280	\$ 5,549,046	\$ 6,154,223	\$ 6,712,402
Retention payable	4,069	3351	-	212,667	-
Settlement payable	-	-	-	8,000,000	-
Deferred revenue	<u>8,210,115</u>	<u>6,968,532</u>	<u>11,279,378</u>	<u>6,786,230</u>	<u>-</u>
Total liabilities	<u>\$13,965,603</u>	<u>\$12,936,163</u>	<u>\$16,828,424</u>	<u>\$21,153,120</u>	<u>\$ 6,712,402</u>
DEFERRED INFLOWS OF RESOURCES:					
Unavailable revenues	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,669,767</u>
Total Deferred inflows of resources	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,669,767</u>
Fund Balances ⁽¹⁾:					
Reserved:					
Encumbrances	\$ 733,798	\$ -	\$ -	\$ -	\$ -
Long-term receivables and advances	18,738,506	-	-	-	-
Inventories and prepaid items	<u>6,192</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total reserved	<u>\$19,478,496</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Unreserved:					
Designated for:					
General Fund	\$ 3,269,899	\$ -	\$ -	\$ -	\$ -
Contingency	-	-	-	-	-
Capital projects	-	-	-	-	-
Undesignated:					
General fund	<u>10,433,405</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total unreserved	<u>\$13,703,304</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Nonspendable	\$ -	\$11,258,150	\$ 8,799,026	\$ 7,481,079	\$ 7,424,812
Restricted	-	127,883	-	750,951	-
Committed	-	7,178,838	4,375,207	2,298,088	6,215,601
Assigned	-	5,298,536	2,895,545	6,648,922	4,807,244
Unassigned	<u>-</u>	<u>11,876,992</u>	<u>11,969,280</u>	<u>10,790,135</u>	<u>14,511,252</u>
Total fund balances	<u>\$33,181,800</u>	<u>\$35,740,399</u>	<u>\$28,039,058</u>	<u>\$27,969,175</u>	<u>\$32,958,909</u>
Total liabilities, fund balances	<u>\$47,147,403</u>	<u>\$48,676,562</u>	<u>\$44,867,482</u>	<u>\$49,122,295</u>	<u>\$43,341,078</u>

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

Source: City of Chula Vista Comprehensive Annual Financial Reports.

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

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
REVENUES:					
Taxes	\$ 71,911,179	\$ 69,441,761	\$ 85,167,221 ⁽²⁾	\$ 75,841,123	\$105,718,638
Intergovernmental ⁽¹⁾	20,092,610	18,748,469	2,029,529	19,542,065	2,477,213
Licenses and permits	2,193,524	2,777,946	1,222,769	1,395,519	1,315,445
Charges for services	9,928,213	9,721,746	7,794,981	8,357,509	9,257,946
Fines and forfeitures	2,311,527	1,708,846	1,355,769	1,002,946	1,009,736
Use of money and property	3,079,142	6,923,963	2,916,631	2,201,490	2,522,893
Miscellaneous	<u>19,903,642</u>	<u>16,689,172</u>	<u>11,587,469</u>	<u>13,023,676</u>	<u>11,580,545</u>
Total revenues	<u>\$129,419,837</u>	<u>\$126,011,903</u>	<u>\$112,074,369</u>	<u>\$121,364,328</u>	<u>\$133,882,416</u>
EXPENDITURES:					
Current:					
General government	\$ 30,663,963	\$ 28,568,063	\$ 19,615,371	\$ 22,742,279	\$ 20,586,160
Public safety	65,793,509	64,872,225	64,440,238	66,359,410	68,776,426
Public works	26,706,211	26,071,616	25,219,618	26,014,418	27,092,607
Parks and recreation	5,255,812	4,030,767	3,244,286	3,362,558	3,588,693
Library	4,563,849	3,870,646	3,435,325	3,182,483	3,336,380
Capital outlay	<u>454,786</u>	<u>428,936</u>	<u>280,627</u>	<u>1,172,734</u>	<u>849,234</u>
Total expenditures	<u>\$133,438,130</u>	<u>\$127,842,253</u>	<u>\$116,235,465</u>	<u>\$122,833,882</u>	<u>\$124,229,500</u>
REVENUES OVER (UNDER) EXPENDITURES	\$ (4,018,293)	\$ (1,830,350)	\$ (4,161,096)	\$ (1,469,554)	\$ 9,652,916
OTHER FINANCING SOURCES (USES):					
Transfers in	\$ 10,403,068	\$ 11,304,257	\$ 9,850,345	\$ 9,661,447	\$ 9,571,300
Transfers out	<u>(6,352,496)</u>	<u>(6,915,308)</u>	<u>(13,390,590)⁽²⁾</u>	<u>(4,910,795)</u>	<u>(14,234,482)</u>
Total other financing sources	<u>\$ 4,050,572</u>	<u>\$ 4,388,949</u>	<u>\$ (3,540,245)</u>	<u>\$ 4,750,652</u>	<u>\$ (4,663,182)</u>
NET CHANGE IN FUND BALANCES	\$ 32,279	\$ 2,558,599	\$ (7,701,341)	\$ 3,281,098	\$ 4,989,734
FUND BALANCE					
Beginning of year, as restated	<u>\$ 33,149,521</u>	<u>\$ 33,181,800</u>	<u>\$ 35,740,399</u>	<u>\$ 24,688,077</u>	<u>\$ 27,969,174</u>
End of year	<u>\$ 33,181,800</u>	<u>\$ 35,740,399</u>	<u>\$ 28,039,058</u>	<u>\$ 27,969,175</u>	<u>\$ 32,958,909</u>

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

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

Source: City of Chula Vista Comprehensive Annual Financial Reports.

RISK FACTORS

The purchase of the Certificates 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 Certificates. Such risk factors include, but are not limited to, the following matters and should be considered, along with other information in this Official Statement, by potential investors.

The Lease Payments

Lease Payments are Limited Obligations of the City. The Lease Payments and other payments due under the Lease (including a proportionate share of the costs of improvement, repair and maintenance of the Leased Premises and taxes, other governmental charges and assessments levied against the Leased Premises) 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 Lease Payments and other payments due under the Lease. The same result could occur if, because of State Constitutional limits on expenditures, the City is not permitted to appropriate and spend all of its available revenues (see "Constitutional Limitations 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 Lease 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 Lease Payments may be decreased (see "FINANCIAL INFORMATION - Outstanding Indebtedness of the City" herein).

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

In the event that such funds are insufficient to make all payments with respect to the Certificates during the period that the Leased Premises, 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 or Trust Agreement for nonpayment under such circumstances. Failure to pay principal, premium, if any, or interest on to the Certificates as a result of abatement of the City's obligation to make Lease Payments under the Lease is not an event of default under the Trust Agreement or the Lease. In the event that Lease Payments are abated due to damage caused by earthquake or flood, such abatement may continue indefinitely, as no insurance for such damages is required under the Lease and the City cannot be compelled to repair or replace the damaged Leased Premises or to prepay the Certificates but has covenanted in the Lease to use its best efforts to repair or replace the Leased Premises from other lawfully available funds to the extent that the Net Proceeds are insufficient. See "APPENDIX A - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - Lease Agreement - Abatement."

Notwithstanding the provisions of the Lease and the Indenture specifying the extent of abatement of Lease 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 Lease Payments of the City may not be sufficient to pay all of the remaining principal and interest represented by the Certificates.

Earthquake Risk. 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. The City is traversed by two potentially active faults, the Sweetwater Fault and La Nacion Fault and three inferred faults, the Otay River Fault, the Telegraph Canyon Fault and the San Diego Bay-Tijuana Fault. Seismic hazards encompass potential surface rupture, ground shaking, liquefaction and landslides.

The City has adopted a Natural Hazards Mitigation Plan. This plan includes a hazard analysis for earthquake, flood, landslide and fire risk and is required to comply with FEMA requirements for disaster relief funding.

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 Lease Payments would be likely to occur. Seismic activity may also reduce or eliminate the use and occupancy of the Leased Property by the City. There is no assurance that, in the event of a natural disaster, sufficient City reserves or Federal Emergency Management Agency assistance would be available for the repair or replacement of any Leased Premises.

Insurance. The Lease obligates the City to obtain and keep in force various forms of insurance, to assure repair or replacement of the Leased Premises in the event of damage or destruction to the Leased Premises (see "APPENDIX A - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - SUMMARY OF CERTAIN PROVISIONS OF THE LEASE - INSURANCE" herein). The Lease does not require earthquake or flood insurance unless the City, in its reasonable discretion, determines that such coverage is available from reputable insurers at commercially reasonable rates. The City currently does not maintain earthquake or flood insurance on the Leased Premises or other City facilities. The City makes no representation as to the ability of any insurer to fulfill its obligations under any insurance policy provided for in the Lease. In addition, certain risks may not be covered by such property insurance (see "SOURCES OF PAYMENT FOR THE CERTIFICATES - Insurance Relating to the Leased Premises" herein).

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

Discovery of a Hazardous Substance That Would Limit the Beneficial Use of the Leased Premises. In general, the owners and lessees of a parcel may be required by law to remedy conditions of the property relating to the 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 Premises be affected by a hazardous substance, might be to limit the beneficial use of the Leased Premises upon discovery and during remediation. The City is not aware of any such condition on the properties.

State Budget; Redevelopment Agency Legislation

The following information concerning the State's budgets has been obtained from publicly available information which the City believes to be reliable; however, the City does not guaranty 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. For several fiscal years during the recent recession the State faced a structural deficit that resulted in substantial annual deficits and reductions in expenditures. Although the State is projecting a budget surplus in the current fiscal year, the State is still facing continuing financial challenges and unfunded long-term liabilities of more than \$200 billion, which could result in future reductions or deferrals in amounts payable to the City. The State's financial condition and budget policies affect local public agencies throughout California. To the extent that the State budget process results in reduced revenues to the City, the City will be required to make adjustments to its budget. State budget policies can also impact conditions in the local economy and could have an adverse effect on the local economy and the City's major revenue sources.

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

Limited Recourse on Default; No Acceleration

If an event of default occurs and is continuing under the Lease, there is no remedy of acceleration of any Lease Payments which have not come due and payable in accordance with the Lease. The City will continue to be liable for Lease Payments as they become due and payable in accordance with the Lease if the Trustee does not terminate the Lease, and the Trustee would be required to seek a separate judgment each year for that year's defaulted Lease 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 and the Trust Agreement could prove both expensive and time-consuming.

The Lease permits the Trustee to take possession of and re-lease the Leased Premises in the event of a default by the City under the Lease. Even if the Trustee could readily re-lease the Leased Premises, the rents may not be sufficient to enable it to pay principal of and interest with respect to the Certificates in full when due.

Enforcement of Remedies

The enforcement of any remedies provided in the Lease and the Trust Agreement could prove both expensive and time consuming. The rights and remedies provided in the Lease and the Trust Agreement may be limited by and are subject to the limitations on legal remedies against cities, including State constitutional limits on expenditures, and limitations on the enforcement of judgments against funds needed to serve the public welfare and interest; by federal bankruptcy laws, as now or hereafter enacted; applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect (see "- Bankruptcy of the City" below); equity principles which may limit the specific enforcement under State law of certain remedies; the exercise by the United States of America of the powers delegated to it by the Constitution; the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose; and the limitations on remedies against municipal entities in the State. Bankruptcy proceedings or the exercise of powers by the federal or State government, if initiated, could subject the Owners of the Certificates 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 Certificates (including Bond Counsel's legal opinion) will be qualified, as to the enforceability of the Certificates, the Trust Agreement, the Site Lease, the Lease, the Assignment Agreement and other related documents, by bankruptcy, insolvency, reorganization, moratorium, arrangement, fraudulent conveyance and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitation on legal remedies against charter cities and counties in the State. See "- Bankruptcy of the City" below.

Bankruptcy of the City

In addition to the limitations on remedies contained in the Trust Agreement and the Lease, the rights and remedies in the Lease 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. A bankruptcy debtor may choose to assume or reject executory contracts and leases, such as the Lease. However, a debtor may not assume or reject executory contracts to loan money or to make a financial accommodation, such as the Trust Agreement. 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 Trust Agreement, the Trustee holds a security interest in the revenues in the funds pledged thereunder, including Lease Payments, for the benefit of the Owners of the Certificates, but such security interest arises only when the Lease Payments are actually received by the Trustee following payment by the City. The Leased Premises itself is not subject to a security interest, mortgage or any other lien in favor of the Trustee for the benefit of Owners. In the event of a bankruptcy filed by the City and the subsequent rejection of the Lease by the City, the Trustee would recover possession of the Leased Premises 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.

In a bankruptcy of the City, if a material unpaid liability is owed to PERS 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 Lease 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 because issues of pension underfunding claim priority, pension contribution enforcement, and related bankruptcy plan treatment of such claims (among other pension-related matters) are presently the subject of litigation in the Chapter 9 cases of several California municipalities, including the Cities of Stockton and San Bernardino.

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, the most recent of which were approved as Propositions 22 and 26 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 eight fiscal years (including for the future Fiscal Year 2014/15) as shown below:

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

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 - Taxable Property and Assessed Valuation” herein.

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

Appropriations subject to Article XIII B include generally the proceeds of taxes levied by or for the entity and the proceeds of certain State subventions, refunds of taxes, benefit payments from retirement, unemployment insurance and disability insurance funds. “Proceeds of taxes” include, but are not limited

to, all tax revenues, certain State subventions, and the proceeds to an entity of government, from (1) regulatory licenses, user charges and user fees, to the extent that such charges and fees exceed the costs reasonably borne in providing the regulation, product or service, and (2) the investment of tax revenues. Article XIII B includes a requirement that if an entity's revenues in any year exceed the amounts permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules within the next two subsequent fiscal years.

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

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

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

Proposition 218. On November 5, 1996, California voters approved Proposition 218 – Voter Approval for Local Government Taxes – Limitation on Fees, Assessments, and Charges – Initiative Constitutional Amendment. Proposition 218 added Articles XIII C and XIII D to the California Constitution, imposing certain vote requirements and other limitations on the imposition of new or increased taxes, assessments and property-related fees and charges. Proposition 218 states that all taxes imposed by local governments shall be deemed to be either general taxes or special taxes. Special purpose districts, including school districts, have no power to levy general taxes. No local government may impose, extend or increase any general tax unless and until such tax is submitted to the electorate and approved by a majority vote. No local government may impose, extend or increase any special tax unless and until such tax is submitted to the electorate and approved by a two-thirds vote.

Proposition 218 also provides that no tax, assessment, fee or charge shall be assessed by any agency upon any parcel of property or upon any person as an incident of property ownership except: (i) the ad valorem property tax imposed pursuant to Article XIII and Article XIII A of the California Constitution, (ii) any special tax receiving a two-thirds vote pursuant to Section 4 of Article XIII A the California Constitution, and (iii) assessments, fees, and charges for property related services as provided in Article XIII D. Proposition 218 added voter requirements for assessments and fees and charges imposed as an incident of property ownership, other than fees and charges for sewer, water, and refuse collection services. In addition, all assessments and fees and charges imposed as an incident of property ownership, including sewer, water,

and refuse collection services, are subjected to various additional procedures, such as hearings and stricter and more individualized benefit requirements and findings. The effect of such provisions will presumably be to increase the difficulty a local agency will have in imposing, increasing or extending such assessments, fees and charges.

Proposition 218 also extended the initiative power to reducing or repealing any local taxes, assessments, fees and charges. This extension of the initiative power is not limited to taxes imposed on or after November 6, 1996, the effective date of Proposition 218, and could result in retroactive repeal or reduction in any existing taxes, assessments, fees and charges, subject to overriding federal constitutional principles relating to the impairment of contracts.

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

The City levies a utility users tax (“UUT”) on gas and electric customers based on usage (.01103 per therm for gas; .00300 per kilo watt for electricity) and telephone services based on gross receipts. The UUT was first levied in 1970 and the last increase in tax rates was in 1979. A class action lawsuit was filed against the City contending that a tax on wireless phone use was not covered in the implementing UUT ordinance. A 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. 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%.

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, \$4,488,610 of the City’s property tax revenues were diverted to the State as a result of a Proposition 1A suspension. The City participated in a Proposition 1A Securitization Program (the “Program”) sponsored by the California Statewide Communities Development Authority. The Program allowed the City to exchange its anticipated State property tax receivable for cash.

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 Lease Payments when due.

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

Early Prepayment Risk

Early payment of the Lease Payments and early prepayment of the Certificates may occur in whole or in part without premium, on any date if the Leased Premises or a portion thereof is lost, destroyed or damaged beyond repair or taken by eminent domain and from the proceeds of title insurance (see “THE CERTIFICATES - Prepayment - Extraordinary Prepayment”), or if the City exercises its right to prepay Lease Payments in whole or in part pursuant to the provisions of the Lease and the Trust Agreement. See “THE CERTIFICATES - Prepayment - Optional Prepayment.”

Loss of Tax Exemption

As discussed under the caption “LEGAL MATTERS - Tax Matters” herein, the interest component of the Lease Payments could become includable in gross income for purposes of federal income taxation retroactive to the date the Certificates were executed and delivered as a result of future acts or omissions of the City in violation of its covenants contained in the Trust Agreement and the Lease. Should such an event of taxability occur, the Certificates are not subject to special prepayment or any increase in interest rate and will remain outstanding until maturity or until prepaid under one of the prepayment provisions contained in the Trust Agreement.

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 Certificates. Prospective purchasers of the Certificates should consult their own tax advisors regarding any pending or proposed federal tax legislation. The City can provide no assurance that federal tax law will not change while the Certificates are outstanding or that any such changes will not adversely affect the exclusion of the interest component of the Lease Payments from gross income for federal income tax purposes. If the exclusion of the interest component of Lease Payments from gross income for federal income tax purposes were amended or eliminated, it is likely that the market price for the Certificates 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 Certificates will be selected for audit by the Internal Revenue Service. It is also possible that the market value of the Certificates might be affected as a result of such an audit of the Certificates (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 Certificates, 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.

LEGAL MATTERS

Enforceability of Remedies

The remedies available to the Trustee and the Owners of the Certificates upon an event of default under the Trust Agreement, the Lease, the Site Lease, the Assignment Agreement 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. The various legal opinions to be delivered concurrently with the delivery of the Certificates will be qualified to the extent that the enforceability of certain legal rights related to the Trust Agreement, the Lease, the Site and Facility Lease, the Assignment Agreement 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 Special Counsel, will render an opinion which states that the Lease represents valid and binding obligations of the City and is enforceable against the City in accordance with its terms. The legal opinion of Special Counsel will be subject to the effect of bankruptcy, insolvency, moratorium and other similar laws affecting creditors' rights and to the exercise of judicial discretion in accordance with general principles of equity. See "APPENDIX D" hereto for the proposed form of Special Counsel's opinion.

The City has no knowledge of any fact or other information which would indicate that the Trust Agreement, the Lease or the Certificates are not so enforceable against the City, except to the extent such enforcement is limited by principles of equity and by state and federal laws relating to bankruptcy, reorganization, moratorium or creditors' rights generally.

Certain legal matters will be passed on for the City by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, as Disclosure Counsel and by Glen R. Googins, as City Attorney and for the Underwriter by Nossaman LLP, Irvine, California, as Underwriters Counsel. Fees payable to Special Counsel, Disclosure Counsel, the Underwriter and Underwriter's Counsel are contingent upon the sale and delivery of the Certificates.

Tax Matters

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Special Counsel, under existing statutes, regulations, rulings and judicial decisions, interest (and original issue discount) with respect to the Certificates 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 Special Counsel, interest (and original issue discount) with respect to the Certificates is exempt from State of California personal income tax. Special Counsel notes that, with respect to corporations, interest (and original issue discount) with respect to the Certificates may be included as an adjustment in the calculation of alternative minimum taxable income which may affect the alternative minimum tax liability of such corporations.

The difference between the issue price of a Certificate (the first price at which a substantial amount of the Certificates of the same series and maturity is to be sold to the public) and the stated payment price at maturity with respect to the Certificate constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to an owner of a Certificate (the "Certificate Owner") before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Certificate Owner will increase the Certificate Owner's basis in the

applicable Certificate. In the opinion of Special Counsel, original issue discount that accrues to a Certificate Owner is excluded from gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and is exempt from State of California personal income tax.

Special Counsel's opinion as to the exclusion from gross income of interest (and original issue discount) with respect to the Certificates is based upon certain representations of fact and certifications made by the City and others and is subject to the condition that the City complies with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the execution and delivery of the Certificates to assure that the interest (and original issue discount) with respect to the Certificates will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest (and original issue discount) with respect to the Certificates to be included in gross income for federal income tax purposes retroactive to the date of execution and delivery of the Certificates. The City has covenanted to comply with all such requirements.

The amount by which a Certificate Owner's original basis for determining loss on sale or exchange in the applicable Certificate (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable Certificate premium, which must be amortized under Section 171 of the Code; such amortizable Certificate premium reduces the Certificate Owner's basis in the applicable Certificate (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 Certificate premium may result in a Certificate Owner realizing a taxable gain when a Certificate is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the Certificate to the Owner. Purchasers of the Certificates should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable Certificate premium.

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 Certificates will be selected for audit by the IRS. It is also possible that the market value of the Certificates might be affected as a result of such an audit of the Certificates (or by an audit of similar certificates). No assurance can be given that in the course of an audit, as a result of an audit, or otherwise, Congress or the IRS might not change the Code (or interpretation thereof) subsequent to the execution delivery of the Certificates to the extent that it adversely affects the exclusion from gross income for federal income tax purposes of interest (and original issue discount) with respect to the Certificates or their market value.

SUBSEQUENT TO THE EXECUTION AND DELIVERY OF THE CERTIFICATES, 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 INTEREST WITH RESPECT TO THE CERTIFICATES OR THE MARKET VALUE OF THE CERTIFICATES. LEGISLATIVE CHANGES HAVE BEEN PROPOSED IN CONGRESS, WHICH, IF ENACTED, WOULD RESULT IN ADDITIONAL FEDERAL INCOME TAX BEING IMPOSED ON CERTAIN OWNERS OF TAX-EXEMPT STATE OR LOCAL OBLIGATIONS, SUCH AS THE CERTIFICATES. THE INTRODUCTION OR ENACTMENT OF ANY OF SUCH CHANGES COULD ADVERSELY AFFECT THE MARKET VALUE OR LIQUIDITY OF THE CERTIFICATES. NO ASSURANCE CAN BE GIVEN THAT, SUBSEQUENT TO THE EXECUTION AND DELIVERY OF THE CERTIFICATES, SUCH CHANGES (OR OTHER CHANGES) WILL NOT BE INTRODUCED OR ENACTED OR INTERPRETATIONS WILL NOT OCCUR. BEFORE PURCHASING ANY OF THE CERTIFICATES, 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 CERTIFICATES.

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

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

Should interest (and original issue discount) with respect to the Certificates become includable in gross income for federal income tax purposes, the Certificates are not subject to early prepayment and will remain outstanding until maturity or until prepaid in accordance with the Trust Agreement.

The complete text of the final opinion that Special Counsel expects to deliver upon the issuance of the Certificates is set forth in "APPENDIX D - PROPOSED FORM OF OPINION OF SPECIAL COUNSEL."

Absence of Litigation

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

CONCLUDING INFORMATION

Ratings on the Certificates

Standard & Poor's and Moody's Investors Service have assigned their municipal bond ratings of "___" and "___", respectively to the Certificates. Such ratings reflects only the views of the rating agencies and any desired explanation of the significance of such ratings should be obtained from the rating agencies. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance such ratings will continue for any given period of time or that the ratings will not be revised downward or withdrawn entirely by the rating agencies, if in the judgment of the rating agencies, circumstances so warrant. Any such downward revision or withdrawal of a rating may have an adverse effect on the market price of the Certificates. 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 Certificates were sold to Stifel, Nicolaus & Company, Incorporated, Inc. (the "Underwriter"). The Underwriter is offering the Certificates at the prices set forth on the inside front cover page hereof. The initial offering prices may be changed from time to time and concessions from the offering prices may be allowed to dealers, banks and others. The Underwriter will purchase the Certificates at a price equal to \$_____, which amount represents the principal amount of the Certificates, plus a net original issue premium of \$_____, and less an Underwriter's discount of \$_____. The Underwriter will pay certain of its expenses relating to the offering.

The Municipal Advisor

The material contained in this Official Statement was prepared by the City with the assistance of the Harrell & Company Advisors, LLC, Orange, California, the City's Municipal Advisor, who advised the City as to the financial structure and certain other financial matters relating to the Certificates. The information set forth herein has been obtained by the City from sources which are believed to be reliable, but such information is not guaranteed by the 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 Certificates.

Continuing Disclosure

The City will covenant to provide certain annual financial information (the "Annual Reports") and notices of the occurrence of certain enumerated events in accordance with Rule 15c2-12 of the Securities Exchange Act of 1934 as amended (the "Rule"). The Annual Reports and the notices will be filed by the City on the Electronic Municipal Market Access Website ("EMMA") operated by the Municipal Securities Rulemaking Board (www.emma.msrb.org). The required content of the Annual Reports and the specific nature of the notices of enumerated events and certain other terms of the continuing disclosure obligation are included in "APPENDIX C - FORM OF CONTINUING DISCLOSURE AGREEMENT." These covenants will be made in order to assist the Underwriter in complying with the Rule. Except as described in the following paragraph, in the past five years the City has complied, in all material respects, with its undertakings to provide continuing disclosure under the Rule.

During the last five years, the City has timely filed its annual reports with EMMA as required by its previous undertakings under the Rule, however, the audited financial statements for Fiscal Year 2009/10 were not filed until 2014 for three series of certificates of participation of the City and were filed four months late with respect to two other series of certificates of participation. When filed, the annual reports for all these certificates of participation did contain certain unaudited General Fund information. The City believes that it is now in compliance in all material respects with its previous undertakings under the Rule. The City has

adopted policies and procedures to monitor its compliance with its undertakings under the Rule and has retained an outside consultant to assist in the filing process. The City's Finance Department has assigned a specific person to coordinate with the outside consultant and to monitor compliance.

Verifications of Mathematical Computations

Grant Thornton LLP will verify from the information provided to it the mathematical accuracy as of the date of the closing on the Certificates of (1) the computations contained in the provided schedules to determine that the cash deposits listed in the schedules prepared by the Underwriter, to be held in escrow, will be sufficient to pay, when due, the principal, prepayment premium and interest requirements of the Prior Certificates, and (2) the computation of yield on the Certificates contained in the provided schedules used by Special Counsel in its determination that the interest with respect to the Certificates is exempt from federal taxation. Grant Thornton LLP will express no opinion on the assumptions provided to it, nor as to the exemption from taxation of the interest with respect to the Certificates.

Additional Information

The summaries and references contained herein with respect to the Trust Agreement, the Lease, the Site Lease, the Assignment Agreement, the Certificates, statutes and other documents, do not purport to be comprehensive or definitive and are qualified by reference to each such document or statute and references to the Certificates are qualified in their entirety by reference to the form hereof included in the Trust Agreement. Copies of the Trust Agreement and the Lease are available for inspection during the period of initial offering on the Certificates at the offices of the Municipal Advisor. Copies of these documents may be obtained after delivery of the Certificates from the City at 276 Fourth Avenue, Chula Vista, California 91910, telephone (619) 691-5250.

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 City and the purchasers or Owners of any of the Certificates.

Execution

The execution of this Official Statement by the Deputy City Manager and Director of Finance/Treasurer has been duly authorized by the City of Chula Vista.

CITY OF CHULA VISTA

By: _____
Deputy City Manager and Director of Finance/Treasurer

APPENDIX A
SUMMARY OF PRINCIPAL LEGAL DOCUMENTS
[to be provided by Special Counsel]

APPENDIX B
CITY AUDITED FINANCIAL STATEMENTS

APPENDIX C
FORM OF CONTINUING DISCLOSURE AGREEMENT
[to be provided by Special Counsel]

APPENDIX D
PROPOSED FORM OF OPINION OF SPECIAL COUNSEL
[to be provided by Special Counsel]

APPENDIX E

THE BOOK-ENTRY SYSTEM

The following description of the Depository Trust Company (“DTC”), the procedures and record keeping with respect to beneficial ownership interests in the Certificates, payment of principal, interest and other payments on the Certificates to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in the Certificates 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 Certificates (the “Issuer”) nor the trustee, fiscal agent or paying agent appointed with respect to the Certificates (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 Certificates, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Certificates, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Certificates, 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 Certificates (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 this 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.